

The University of Alabama in Huntsville

**Report on Federal Awards in Accordance
with OMB Circular A-133
Year Ended September 30, 2006**

The University of Alabama in Huntsville
Report on Federal Awards in Accordance with OMB Circular A-133
Year Ended September 30, 2006

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PART I
FEDERAL AWARD PROGRAMS

**Report of Independent Auditors on Internal Control over Financial Reporting
and on Compliance and Other Matters Based on an Audit of Financial
Statements Performed in Accordance with *Government Auditing Standards***

The Board of Trustees of The University of Alabama and
the President of The University of Alabama in Huntsville:

We have audited the financial statements of The University of Alabama in Huntsville (the "University"), a campus of The University of Alabama System, which is a component unit of the State of Alabama, and its discretely presented component unit as of and for the year ended September 30, 2006, and have issued our report thereon dated March 14, 2007. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. The financial statements of University of Alabama Huntsville Foundation, which is a component unit of the University, were not audited in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the University's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the University's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

We noted other matters involving the internal control over financial reporting, which we have reported to management of the University in a separate letter.



This report is intended solely for the information of the Board of Trustees, the President, the Audit Committee, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

PriceWaterhouseCoopers LLP

March 14, 2007

**Report of Independent Auditors on Compliance with Requirements
Applicable to each Major Program and on Internal Control Over
Compliance in Accordance with OMB Circular A-133**

To the Board of Trustees of The University of Alabama and
the President of The University of Alabama:

Compliance

We have audited the compliance of The University of Alabama in Huntsville (the "University"), a campus of The University of Alabama System, which is a component unit of the State of Alabama, with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended September 30, 2006, except as described in the second paragraph of this report. The University's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the University's management. Our responsibility is to express an opinion on the University's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States of America; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the University's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the University's compliance with those requirements.

As described in item 06-2 in the accompanying schedule of findings and questioned costs, the University did not comply with requirements regarding reporting that are applicable to its research and development programs. Compliance with such requirements is necessary, in our opinion, for the University to comply with the requirements applicable to that program.

In our opinion, because of the effects of the noncompliance described in the preceding paragraph, the University did not comply in all material respects, with the requirements referred to above that are applicable to research and development programs. Also, in our opinion, the University complied, in all material respects, with the requirements referred to above that are applicable to each of its other major federal programs for the year ended September 30, 2006. However, the results of our auditing procedures also disclosed other instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items 06-1 and 06-3 through 06-6.

Internal Control Over Compliance

The management of the University is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the University's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

We noted a certain matter involving the internal control over compliance and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the University's ability to administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts, and grants. A reportable condition is described in the accompanying schedule of findings and questioned costs as item 06-2.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with the applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions, and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we consider the reportable condition described above as item 06-2 to be a material weakness.

Schedules of Expenditures of Federal Awards

We have audited the basic financial statements of the University and its discretely presented component unit as of and for the year ended September 30, 2006, and have issued our report thereon dated March 14, 2007. Our audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying Schedules of Expenditures of Federal Awards are presented for purposes of additional analysis as required by OMB Circular A-133 and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information of the Board of Trustees, the President, the Audit Committee, management, federal awarding agencies, and pass-through entities and is not intended to and should not be used by anyone other than these specified parties.

PriceWaterhouseCoopers LLP

March 14, 2007, except for Compliance and Internal Control over Compliance as to which the date is August 27, 2007

The University of Alabama in Huntsville
Schedule of Expenditures of Federal Awards
Year Ended September 30, 2006

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Pass-Through Entity Identifying Number	Federal CFDA Number	Federal Expenditures
MAJOR PROGRAMS:			
Research and Development:			
U.S. Department of Defense:			
Department of Army		12.RD	\$ 18,158,609
			<u>18,158,609</u>
Pass-Through Funds:			
Department of Airforce:			
NCSU/PHOTONIC MEMS		12.RD	10,157
			<u>10,157</u>
Department of Navy:			
Clemson/Laboratory for Advanced Photonics	AGR#6577558203200325	12.RD	56,567
AAMU/Physics-Based	AGR 91802	12.RD	52,536
UA/UTCA/Transportation	UA Task No 27	12.RD	32,336
SURA/The SURA Coastal Ocean	SURA2006301MOD01	12.RD	510,913
UAB/Intelligent Control for Future Deployment	N000140319751	12.RD	39,789
			<u>692,141</u>
Total U.S. Department of Defense			<u>18,860,907</u>
U.S. Department of Health & Human Services:			
Department of Health & Human Services			
		93.RD	294,887
			<u>294,887</u>
Pass-Through Funds:			
National Institute of Health:			
UAB/Center for Translational Research on Aging	UABAGRDTD83004	93.RD	7,948
UGA/Specialized Centers for Protein Structure	RR1665559820097	93.RD	230,513
UAB/Sociodemographic and Lifest	UABAGRDTD122208	93.RD	15,632
			<u>254,093</u>
Total U.S. Department of Health & Human Services			<u>548,980</u>
National Science Foundation:			
		47.RD	<u>2,667,072</u>

See accompanying notes to schedules of expenditures of federal awards and expenditures of federal awards by agency.

The University of Alabama in Huntsville
Schedule of Expenditures of Federal Awards
Year Ended September 30, 2006

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Pass-Through Entity Identifying Number	Federal CFDA Number	Federal Expenditures
Pass-Through Funds:			
National Science Foundation:			
FSU/Decision Support System for Reducing Agricultural Risks	R00268	47.076	134,719
UCAR/NCAR/Undergraduate Field	PO 659142	47.076	2,329
UAB/AMP Phase III, Participant Support	HRD0110595	47.076	23,177
UAB/Center for Optical Sensors	PO 242873	47.RD	41,483
University Alaska	50036	47.RD	18,858
BYU/Photonic Microcantilever	60153	47.RD	44,139
Morgan State University/Dreyfus Foundation	CH33469615	47.RD	1,834
UT at Knoxville RA	5399001001	47.RD	23,027
Ohio State University	PORF01001390	47.RD	(843)
			<u>288,723</u>
Total National Science Foundation			<u>2,955,795</u>
National Aeronautics & Space Administration:		43.RD	<u>19,077,288</u>
			<u>19,077,288</u>
Pass Through Funds:			
National Aeronautics & Space Administration:			
GSA/MSIC/Analysis of Distributed	GS23F0062P	43.RD	708,028
GSA/REDC/Quality	GS23F0062P	43.RD	9,408
TU/Alabama Center for Nanostructure	392153	43.RD	27,639
SURA/UAH Scoop	SURA2005201	43.RD	123,063
MSU/Use of remotely sensed land	PO190301	43.RD	11,969
MIT/Engineering Development of CR	R01EY01667401	43.RD	107,490
Cal/State Chico/US Europe	05-030	43.RD	12,411
USRA/Active Compensation/Fil	SUBGRANT0349140	43.RD	50,515
U of Utah/Validation & Transferability of Satellite Precipitation Estimates	2212040	43.RD	24,625
USRA/ESS/Director's Account	SUBGRANT03491-01	43.RD	36,206
USRA/Collaborative Research Education and Outreach	SUBGRANT HSV 2002-02	43.RD	36,300
Univ of il/Interoperabil	2003025021	43.RD	18,384
Univ of Wisconsin	G071982	43.RD	20,934
UCAR/Decision Support for Thrud	S0657992	43.RD	43,131
USRA/Implement Visiting Researcher Exchange & Outreach	SUBGRANTNO0348501	43.RD	20,464
			<u>1,250,567</u>
Total National Aeronautics & Space Administration			<u>20,327,855</u>

See accompanying notes to schedules of expenditures of federal awards and expenditures of federal awards by agency.

The University of Alabama in Huntsville
Schedule of Expenditures of Federal Awards
Year Ended September 30, 2006

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Pass-Through Entity Identifying Number	Federal CFDA Number	Federal Expenditures
Department of Education:		84.RD	58,426
			<u>58,426</u>
Pass-Through Funds:			
Department of Education:			
JCDH/Assessment	MOUDTD10/21/04	84.RD	92,860
			<u>92,860</u>
Total Department of Education			<u>151,286</u>
Department of Transportation:		20.RD	444,842
Department of Commerce:		11.RD	612,970
Department of Energy:		81.RD	576,136
Pass-Through Funds:			
Small Business Administration:			
S/ALSDE	U500365	59.RD	176,848
UAB/SBDC/Small Business Development Center	SBA20032004	59.RD	70,557
			<u>247,404</u>
Department of Agriculture:		10.RD	2,247
Veteran Affairs:		64.RD	16,284
Department of Interior:		15.RD	187,224
Department of Labor:		17.RD	97,971
			<u>45,029,901</u>
Total Research and Development			45,029,901
Construction Grants:			
Department of Transportation:			
DOT/FHWA/Construction Transportation Building		20.205	28,642,330
			<u>28,642,330</u>
Total Construction Grant			28,642,330
Student Financial Aid:			
U.S. Department of Education:			
SEOG		84.007	153,899
PELL Grants		84.063	3,852,144
Work Study		84.033	154,606
Total U.S. Department of Education			<u>4,160,649</u>
Total Student Financial Aid			4,160,649
Total Major Programs			77,832,880

See accompanying notes to schedules of expenditures of federal awards and expenditures of federal awards by agency.

The University of Alabama in Huntsville
Schedule of Expenditures of Federal Awards
Year Ended September 30, 2006

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Pass-Through Entity Identifying Number	Federal CFDA Number	Federal Expenditures
NON-MAJOR PROGRAMS:			
Instruction and Training:			
Department of Health & Human Services:		93.358	19,540
National Science Foundation:		47.076	42,495
Pass-Through Funds:			
National Science Foundation:			
UAB/Alabama EPSCOR	UABEPCOR2005200	47.075	9,064
UAB/Alabama Minority Graduate Education (MGE)	UABAGRDTD61599	47.076	33,568
UAB/Bridge to Doctorate Program	AGRDTD8304	47.076	432,654
			<u>475,286</u>
Total National Science Foundation			<u>517,781</u>
Department of Education:			<u>16,582</u>
State Department:			<u>82,764</u>
Department of Defense:			<u>273,464</u>
Total Instruction and Training			<u>910,131</u>
Other Federal Awards:			
National Science Foundation:		47.076	<u>71,912</u>
Pass-Through Funds:			
Department of Commerce:			
NIST Program Fund for MEP Center	AGRDTD1/16/97	11.610	163,574
			<u>163,574</u>
National Aeronautics & Space Administration:			
S/ASDE/UAH AMSTI MASTER SITE	U200548	43.001	149,693
UA Systems Office AMSTEC	UASYSLETTERAGRDTD123	43.001	42,567
			<u>192,260</u>
Total Other Federal Awards			<u>427,746</u>
Total Non-Major Programs			<u>1,337,877</u>
Total Expenditures of Federal Awards			<u>\$ 79,170,757</u>

See accompanying notes to schedules of expenditures of federal awards and expenditures of federal awards by agency.

The University of Alabama in Huntsville
Schedule of Expenditures of Federal Awards by Agency
Year Ended September 30, 2006

FEDERAL GRANTOR/PROGRAM TITLE	Department of Defense	Department of Health & Human Services	National Science Foundation	National Aeronautics and Space Administration	Department of Education	Department of Transportation	Department of Commerce	Other	Total
MAJOR PROGRAMS									
Research and Development	\$ 18,158,609	\$ 294,887	\$ 2,667,072	\$ 19,077,288	\$ 58,426	\$ 444,842	\$ 612,970	\$ 879,862	\$ 42,193,956
Federally Funded Construction	-	-	-	-	-	28,642,330	-	-	28,642,330
Student Financial Aid	-	-	-	-	4,160,649	-	-	-	4,160,649
Federal Pass-Throughs	702,298	254,093	288,723	1,250,567	92,860	-	-	247,404	2,835,945
Total Major Programs	18,860,907	548,980	2,955,795	20,327,855	4,311,935	29,087,172	612,970	1,127,266	77,832,880
Non-major Programs	273,464	19,540	114,407	-	16,582	-	-	82,764	506,757
Non-major Pass-Throughs	-	-	475,286	192,260	-	-	163,574	-	831,120
Total Non-major Programs	273,464	19,540	589,693	192,260	16,582	-	163,574	82,764	1,337,877
Total Expenditures of Federal Awards	\$ 19,134,371	\$ 568,520	\$ 3,545,488	\$ 20,520,115	\$ 4,328,517	\$ 29,087,172	\$ 776,544	\$ 1,210,030	\$ 79,170,757

See accompanying notes to schedules of expenditures of federal awards and expenditures of federal awards by agency.

The University of Alabama in Huntsville

Notes to Schedules of Expenditures of Federal Awards

Year Ended September 30, 2006

1. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards and Schedule of Expenditures of Federal Awards by Agency (the "Schedules") summarize the federal expenditures of The University of Alabama in Huntsville (the "University") under programs of the federal government for the year ended September 30, 2006. The amounts reported as federal expenditures were obtained from the University's general ledger. Because the Schedules present only a selected portion of the operations of the University, they are not intended to and do not present the net assets, changes in net assets, and cash flows of the University.

For purposes of the Schedules, federal awards include all grants, contracts, and similar agreements entered into directly between the University and agencies and departments of the federal government and all subawards to the University by nonfederal organizations pursuant to federal grants, contracts, and similar agreements. The awards are classified into Type A and Type B in accordance with the provisions of Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Programs classified as Type A are as follows:

A. Research and Development

The research and development cluster includes awards for research and development work primarily under grants with agencies and divisions of the National Aeronautics and Space Administration, the Department of Defense, the Department of Commerce, the Department of Transportation, the Department of Energy, and the National Science Foundation.

B. Student Financial Aid

The student financial aid cluster includes certain awards to provide financial assistance to students, primarily under the Federal Work-Study (FWS), Federal Pell Grant (Pell), Federal Supplemental Educational Opportunity Grant (FSEOG) and Federal Direct Student Loan (FDSL) programs of the Department of Education. The University receives awards to make loans to eligible students under certain federal student loan programs. These loans are considered student financial aid; however, only expenses related to the administration and collection of these loans are included in federal award expenditures.

C. Other Program

The University expended amounts for construction under a grant from the Department of Transportation, which qualifies as a Type A program for the year ended September 30, 2006.

The University has obtained Catalog of Federal Domestic Assistance (CFDA) numbers to ensure that all Type A programs have been identified in the Schedule of Expenditures of Federal Awards. Due to the fact that not all CFDA numbers have been identified, individual awards not identified by CFDA number have been reviewed to ensure that similar awards, if grouped together, would not constitute a Type A program.

The University of Alabama in Huntsville
Notes to Schedules of Expenditures of Federal Awards
Year Ended September 30, 2006

Federal Pass-through Funds

Certain funds are passed through to subgrantee organizations by the University. Expenditures incurred by the subgrantees and reimbursed by the University are presented in the Schedules. The University provided approximately \$3,667,065 of federal awards to subrecipients during the year ended September 30, 2006.

The University is also the subrecipient of federal funds which have been subjected to testing and are reported as expenditures and listed as federal pass-through funds. Federal awards other than those indicated as pass-throughs are considered direct.

Schedule of Expenditures of Federal Awards by Agency

The Schedule of Expenditures of Federal Awards by Agency shows direct federal awards and pass-through awards by federal agency. A separate column shows a total from a variety of federal sponsors. These other federal sponsors include the following:

Department of Energy	\$ 576,136
Department of Agriculture	2,247
Department of Veteran Affairs	16,284
Department of Interior	187,224
Department of Labor	97,971
Small Business Administration	247,404
State Department	82,764
	<u>\$ 1,210,030</u>

2. Summary of Significant Accounting Policies

For purposes of the Schedules, expenditures for federal award programs are recognized on the accrual basis of accounting. Expenditures for federal student financial aid programs include Federal Pell program grants to students, the federal share of students' Federal Supplemental Educational Opportunity Grants, and Federal Work-Study Program earnings and administrative cost allowances where applicable.

3. Facilities and Administrative Costs (F&A Costs)

The University operates under predetermined fixed F&A cost rates which are effective from October 1, 2004 through September 30, 2008. The predetermined fixed rates were based on 2003 financial information. For fiscal year ending September 30, 2006, the base rate for on-campus research is 45.5%. Base rates for other F&A cost recoveries range from 26% to 48%.

4. Federal Student Loan Programs

Federal Direct Student Loans (CFDA Number 84.268) - The Federal Direct Student Loan Program (FDSLPL) was established under the Higher Education Act of 1965, as amended in the Student Loan Reform Act of 1993. The FDSLPL enables an eligible student or parent to obtain a loan to pay for the student's cost of attendance directly through the University rather than through private lenders. The University began participation in the FDSLPL on July 1, 1995. As a university qualified to originate loans, the University is responsible for handling the complete loan process, including funds management as well as promissory note functions. The University is not

The University of Alabama in Huntsville
Notes to Schedules of Expenditures of Federal Awards
Year Ended September 30, 2006

responsible for collection of these loans. During 2006, the University disbursed approximately \$15,945,357 under the FDSLPL.

PART II
FINDINGS AND QUESTIONED COSTS

The University of Alabama in Huntsville

Schedule of Findings and Questioned Costs

Year Ended September 30, 2006

Section I - Summary of Auditors' Results

Financial Statements

Type of auditors' report issued:

Unqualified

Internal control over financial reporting:

Material weakness(es) identified?

yes no

Reportable condition(s) identified not considered to be material weaknesses?

yes none reported

Noncompliance material to financial statements noted?

yes no

Federal Awards

Internal control over major programs:

Material weakness(es) identified?

yes no

Reportable condition(s) identified not considered to be material weaknesses?

yes none reported

Type of auditors' report issued on compliance for major programs:

Unqualified for all major programs
except Research and
Development, which was adverse.

Any audit findings disclosed that are required to be reported in accordance
with Circular A-133 (section .510{a})

yes no

Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster
Various	Research and Development
Various	Student Financial Aid
20.205	DOT/FHWA/Construction Transportation building

Threshold used to determine Type A and Type B Programs:

\$ 2,375,123

Auditee qualified as low-risk auditee?

yes no

Section II - Financial Statement Findings

No matters were reported.

Section III - Federal Award Findings and Questioned Costs

See reported findings 06-01 - 06-06.

**The University of Alabama in Huntsville
 Schedule of Findings and Questioned Costs
 Year Ended September 30, 2006**

REFERENCE	PROGRAM	QUESTIONED COSTS
06-1	Research and Development	\$2,894 \$66,319

CONDITION

In accordance with federal requirements, the University's policy is to perform physical inventory procedures for federally purchased equipment every two years. In our testing of the results of the fiscal 2005 physical inventory performed by the University, supporting documentation was inadequate regarding three federal equipment items out of a sample of twenty items selected for testing. For these items, the University could not evidence that physical inventory procedures, along with the related reconciliation to property records, had been performed. The University's control procedures to ensure that a complete physical inventory for federal equipment is performed, including the appropriate record retention, did not operate effectively during the two-year period ended September 30, 2006.

During our testing of federally purchased equipment we noted one instance out of a sample of six in which the asset was incorrectly recorded resulting in \$66,319 of unrecorded assets in the fixed asset system. It was determined by University staff that this is a system error within the Banner accounting software. When the University issues multiple invoices for any asset, a flaw in the software will not allow the University to convert the pending asset tag to permanent status. Additionally, if the purchase order line item quantity is greater than one, only the whole number total invoiced will convert, resulting in fractional quantities being improperly recorded.

REFERENCE

- OMB Circular A-110 (§___34(f)(1)) - Recordkeeping
- OMB Circular A-110 (§___34(f)(3)) - Inventory Requirements
- OMB Circular A-133 Compliance Supplement (Part 4(F))

CAUSE/EFFECT

The University is required, by A-110 and the University's policy, to conduct a physical inventory of fixed assets and subsequent reconciliation of the results with the property records at least once every two years. A control system is required to be in effect to help ensure adequate safeguards to prevent loss, damage, or theft of fixed assets. The property ledger should be maintained accurately and should include all necessary information to identify the fixed assets, the individuals assigned the responsibility to oversee the safekeeping of the fixed assets, and the physical location of the fixed assets. The University's control to ensure a complete inventory of federal equipment, including retention of the related documentation, did not operate effectively during the two-year period ended September 30, 2006.

Equipment records should be maintained for the life of the asset. Failure to maintain records can result in the inability to appropriately apply federal guidelines.

Due to the flaw within the Banner software program, some assets were not recorded at full value. Failure to properly recorded asset values could result in misreporting to federal agencies.

RECOMMENDATION

We recommend the University evaluate and formally enhance its existing physical inventory controls and procedures. The University should evaluate its process for tracking inventory results by department to help ensure inventory requests are timely received and appropriate documentation is maintained to

The University of Alabama in Huntsville
Schedule of Findings and Questioned Costs
Year Ended September 30, 2006

substantiate that all federally purchased equipment is inventoried at least every two years. Appropriate steps should also be taken to ensure that records are maintained for the full seven years stipulated by University policy.

We recommend that the University implement control procedures to ensure that adequate modifications are made to the Banner system to ensure that equipment is appropriately recorded.

MANAGEMENT RESPONSE

The University concurs with this finding. The University has evaluated its physical inventory procedures and will implement improvements to ensure that federally purchased equipment is inventoried and that all inventory records are maintained in accordance with University policy.

The University has implemented procedures to ensure that equipment purchases are properly recorded in the University's fixed assets records.

CORRECTIVE ACTION PLAN CONTACT

Robert C. Leonard, Controller & Acting Director, Contracts and Grants

**The University of Alabama in Huntsville
Schedule of Findings and Questioned Costs
Year Ended September 30, 2006**

REFERENCE	PROGRAM	QUESTIONED COSTS
06-2	Research and Development	N/A

Department of Health and Human Services - CFDA #93.RD

CONDITION

During our testing of reporting in the Research and Development Cluster we noted two out of two financial reports selected for testing were not submitted timely for the fiscal year ended September 30, 2006. These reports consisted of the third quarter Department of Health and Human Services SF 272 and the Department of Health and Human Services SF 269. Per discussion with management, we further noted that a significant number of its required federal report submissions were not made timely for the fiscal year ended September 30, 2006.

REFERENCE

OMB Circular A-110 (§____.71 (a)).

CAUSE/EFFECT

In regards to annual SF 269 reports, OMB Circular A-110 requires all recipients to submit, within ninety calendar days after the date of completion of the award, all financial, performance, and other reports as required by the terms and conditions of the award. Federal guidelines also stipulate that the quarterly SF 272 reports for the Department of Health and Human Services must be submitted within fifteen and thirty working days following the end of each quarter of the federal fiscal year.

RECOMMENDATION

We recommend the University implement procedures to monitor the timely submission of applicable financial reports subject to federal reporting standards.

MANAGEMENT RESPONSE

The University concurs with this finding. The University has developed procedures to monitor the timely submission of applicable financial reports subject to federal reporting standards. In fiscal year 2007, progress has been made in filing financial reports required by the terms and conditions of the related awards.

CORRECTIVE ACTION PLAN CONTACT

Robert C. Leonard, Controller & Acting Director, Contracts and Grants

**The University of Alabama in Huntsville
Schedule of Findings and Questioned Costs
Year Ended September 30, 2006**

REFERENCE	PROGRAM	QUESTIONED COSTS
06-3	Research and Development	\$6,654

Department of Army - CFDA #12.RD

CONDITION

During our review of personnel services, we noted one out of thirty employees selected for testing had compensation charged to a grant during a period in which no time or effort was provided. This resulted in unallowable charges of \$6,654.

REFERENCE

OMB Circular A-21, Part C

CAUSE/EFFECT

During the period selected for testing, no timesheet or after the fact effort report was submitted for this employee. University management explained that the Banner accounting system does not generate an error report if no timesheet is submitted by a salaried employee. Banner will charge the applicable grant the amount of the employee's existing pay rate based upon the last pay period for which documentation was received. Banner is designed to automatically default to the previous timesheet submitted, resulting in inappropriate expenditures of federal funds.

RECOMMENDATION

We recommend the University focus on improving after-the-fact effort reporting policies and procedures and enforce the existing time and effort procedures to ensure that compensation for employees working on federal grants accurately depicts actual time and effort. Additionally, the University should implement procedures to ensure that effort certified by individuals corresponds to the actual payroll distribution for the particular time period. This monitoring should be performed timely enough to ensure that any necessary corrections may be made prior to the close of the University's fiscal year.

MANAGEMENT RESPONSE

The University concurs with this finding. The University has reviewed its after-the-fact effort reporting policies and procedures and will monitor the existing time and effort procedures to ensure that compensation for employees working on federal grants accurately depicts actual time and effort.

CORRECTIVE ACTION PLAN CONTACT

Robert C. Leonard, Controller & Acting Director, Contracts and Grants

**The University of Alabama in Huntsville
Schedule of Findings and Questioned Costs
Year Ended September 30, 2006**

REFERENCE	PROGRAM	QUESTIONED COSTS
06-4	Student Financial Aid	N/A

Pell Grant - CFDA #84.063
FSEOG - CFDA #84.007

CONDITION

During testing of Student Financial Aid we noted two of fifty-five students selected for testing had not maintained satisfactory academic progress standards. The University's standing committee on financial aid has approved standards defining satisfactory academic progress in accordance with regulations issued by the U.S. Department of Education. University policy is that status will be determined at least once each year. An undergraduate student is considered to be making satisfactory progress if he or she:

- Is admitted and enrolled as a degree seeking student
- Meets the required qualitative measure for financial aid recipients
- Maintains measurable progress toward the completion of the degree
- Completes degree requirements within a reasonable length of time

REFERENCE

34 CFR section 668.34

CAUSE/EFFECT

Issues resulting from the implementation of the new Banner software program resulted in the program population selection for analysis of satisfactory academic progress failing to properly evaluate some of the Fall semester students. Failure to timely recognize students who fail to meet satisfactory academic progress standards can result in federal aid being awarded to ineligible students.

RECOMMENDATION

We recommend that the University implement controls that will help ensure that all student financial aid recipients are reviewed to ensure satisfactory academic progress.

MANAGEMENT RESPONSE

This condition was a result of a system implementation error. Students in question did not receive ineligible awards since they were eligible for probationary awarding status under current satisfactory academic progress policy guidelines. The issue was resolved by reviewing our system setup and processes with a software vendor functional consultant. The University has implemented controls that will ensure that student financial aid recipients are reviewed to ensure satisfactory academic progress.

CORRECTIVE ACTION PLAN CONTACT

Andrew M. Weaver, Director of Student Financial Services

**The University of Alabama in Huntsville
Schedule of Findings and Questioned Costs
Year Ended September 30, 2006**

REFERENCE	PROGRAM	QUESTIONED COSTS
06-5	Department of Education Exit Counseling	N/A

CONDITION

During our testing of Student Financial Aid we noted two instances out of a sample of fifty-two in which evidence of exit counseling and notification of exit counseling could not be provided by the University.

REFERENCE

34 CFR section 668.42, 34 CFR section 682.604(g), 34 CFR section 685.304(b), IFAP *Student Financial Aid Handbook*, Volume 6

CAUSE/EFFECT

Federal regulations stipulate that the University must ensure that exit counseling is conducted with each borrower either in person, by audiovisual presentation, or by interactive electronic means. This counseling must be conducted shortly before the borrower ceases enrollment of at least half time. If a student borrower withdraws from school without the University's prior knowledge or fails to complete an exit counseling session as required, the University must ensure that exit counseling is provided through either interactive electronic means or by mailing written counseling materials to the student borrower at the student borrower's last known address within thirty days after learning that the student borrower has withdrawn from school or failed to complete the exit counseling as required.

Loan counseling provides borrowers who oftentimes have little or no experience with important repayment and debt management strategies.

RECOMMENDATION

We recommend that the University, at a minimum, implement procedures to ensure that borrowers who cease enrollment at least half time are notified of the need to complete exit counseling.

MANAGEMENT RESPONSE

The University concurs with this finding. The University has automated processes to notify borrowers who cease enrollment at least half time are notified of the need to complete exit counseling.

CORRECTIVE ACTION PLAN CONTACT

Andrew M. Weaver, Director of Student Financial Services

**The University of Alabama in Huntsville
Schedule of Findings and Questioned Costs
Year Ended September 30, 2006**

REFERENCE	PROGRAM	QUESTIONED COSTS
06-6	Student Financial Aid	N/A

CONDITION

During our testing of the 2005-2006 Fiscal Operations Report and Application to Participate("FISAP"), we noted the following item that was incorrectly reported to the Department of Education by the Student Accounting office:

- Total tuition and fees for the award year October 1, 2005 to September 31, 2006 (overstated by \$158,488)

This error was a result of incorrect calculations, the use of incorrect reports, and lack of supporting documentation.

REFERENCE

ED Form 646-1, OMB No. 1845-0030

CAUSE/EFFECT

According to page 31 of the 2002 Stephen Collins Audit Guide, the Department of Education uses FISAP data (specifically "total tuition and fees" on page 5) to award campus-based funds. The failure to submit accurate information may result in inaccurate award amounts for the subsequent year or failure to comply with OMB Circular A-133.

RECOMMENDATION

We recommend that the University implement formal review procedures to ensure the accurate submission of FISAP data.

MANAGEMENT RESPONSE

The University concurs with this finding. The University will make the appropriate adjustment to the FISAP. We have implemented review procedures to ensure the accurate submission of FISAP data.

CORRECTIVE ACTION PLAN CONTACT

Andrew M. Weaver, Director of Student Financial Services

PART III
STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS

The University of Alabama in Huntsville

Status of Prior Year Findings and Questioned Costs

REFERENCE	PROGRAM	QUESTIONED COSTS
05-1	Student Financial Aid	\$2,700

CONDITION

According to regulations governing the return of Title IV funds, if a student has received more Title IV grant or loan assistance than the amount earned, the institution or the student or both, in that order, must return the unearned funds to the applicable Title IV programs. During our testing of refunds/repayments of unearned Title IV funds, we noted two instances in which amounts were not returned to the appropriate lending institution within the specified timeframe and at incorrect amounts.

REFERENCE

34 CFR 668.22

CAUSE/EFFECT

The University currently utilizes a manual process to calculate refunds/repayments of Title IV funds. Although amounts to be returned were calculated properly, the amounts ultimately returned did not correspond with amounts calculated due to keying errors.

RECOMMENDATION

We recommend that management implement formal review procedures to ensure that accurate submission of refunds/repayments of unearned Title IV funds occurs. The University may accomplish this verification through a more automated process.

VIEWS OF RESPONSIBLE OFFICIALS AND PLANNED CORRECTIVE ACTIONS

The error occurred as a result of a clerical omission when transferring data from the University's Department of Education P.C. based software to the University's mainframe data fields. While the error did not result in a Title IV recipient overaward or institutional financial liability, the University has since implemented administrative review processes to compare both sets of data. In addition, for award years 2005-2006 and beyond, the University has implemented the vendor provided functionality of our mainframe production system for the return to Title IV process. This automated process will eliminate the need for human intervention in transferring data from one system to the other resulting in a smaller margin of error.

CORRECTIVE ACTION PLAN CONTACT PERSON

Andrew M. Weaver, Director of Student Financial Services

STATUS

Issue resolved. Vendor provided automated functionality for calculation of Return to Title IV processes is in place and functioning as intended.

No similar findings found in the current year.