

The University of Alabama in Huntsville

**Report on Federal Awards in Accordance
with OMB Circular A-133**

Year Ended September 30, 2007

EIN: 63-6520830

The University of Alabama in Huntsville
Report on Federal Awards in Accordance with OMB Circular A-133
Year Ended September 30, 2007

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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, 2007, and have issued our report thereon dated January 22, 2008. The financial statements of the University are intended to present the financial position and changes in net assets and the cash flows of only that portion of the business-type activities of the financial reporting entity of The University of Alabama System that is attributable to the transactions of the University. They do not purport to, and do not, present fairly the net assets of The University of Alabama System as of September 30, 2007 and its changes in net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America. We conducted our audit 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 as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the University's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

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 grant agreements, 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 or other matters 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 dated February 7, 2008.

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

January 22, 2008

**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 Huntsville:

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, 2007. 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.

In our opinion, the University complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended September 30, 2007. However, the results of our auditing procedures disclosed 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 07-01 through 07-04.

Internal Control Over Compliance

The management of the University is responsible for establishing and maintaining effective internal control over compliance with the 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 the 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, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly we do not express an opinion on the effectiveness of the University's internal control over compliance.

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

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, 2007, and have issued our report thereon dated January 22, 2008. The financial statements of the University are intended to present the net assets, changes in financial position and the cash flows of only that portion of the business-type activities of the financial reporting entity of The University of Alabama System that is attributable to the transactions of the University. They do not purport to, and do not, present fairly the net assets of The University of Alabama System as of September 30, 2007 and its changes in net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying Schedule of Expenditures of Federal Awards and Schedule of Expenditures of Federal Awards by Agency 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.

The University's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the University's responses and, accordingly, we express no opinion on them.

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

January 22, 2008, except for Compliance and Internal Control
over Compliance as to which the date is June 27, 2008

The University of Alabama in Huntsville
Schedule of Expenditures of Federal Awards
Year Ended September 30, 2007

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Pass-Through Entity Identifying Number	Federal CFDA Number	Federal Expenditures
Research and Development Cluster:			
U.S. Department of Defense:			
Department of Army		12.RD	\$ 22,147,268
			<u>22,147,268</u>
Pass-Through Funds:			
Department of Navy:			
SURA/The SURA Coastal Ocean	SURA2006301MOD01	12.RD	57,220
Clemson/Laboratory for Advanced Photonics	AGR#6577558203200325		(1,325)
Other Department of Defense:			
SBDC/PROCUREMENT	AGR DTD	12.RD	(517)
3D RESEARCH CORP/ADVANCE GEL PROPELLANTS	3DRC-05-0003	12.RD	9,910
			<u>65,288</u>
Total U.S. Department of Defense			<u>22,212,556</u>
U.S. Department of Health & Human Services:			
Department of Health & Human Services		93.RD	694,457
			<u>694,457</u>
Pass-Through Funds:			
U.S. Department of Health & Human Services:			
UAB/STRUCTURAL GEN	RR166-544/7513307	93.RD	(117)
MIT/ENGINEERING DEVELOPMENT OF CR	NIHR01EY01667401	93.RD	126,074
UGA/SPECIALIZED CENTERS FOR PROTE	RR1665559820097	93.RD	7,639
			<u>133,596</u>
Total U.S. Department of Health & Human Services			<u>828,053</u>
National Science Foundation:			
		47.RD	<u>2,006,563</u>
Pass-Through Funds:			
National Science Foundation:			
L3COMM-EER SYSTEMS	POR323LARGO	47.RD	(91)
BYU/Photonic Microcantilever	60153	47.RD	47,141
TU/Alabama Center for Nanostructu	392153004966122	47.RD	46,796
UAB/AMP PHASE III	HRD0110595	47.RD	5,000
UAB/Center for Optical Sensors	242873	47.RD	12,674
UNIVERSITYOFALASKA	50036	47.RD	9,568
MSU/DREYFUS FOUNDA	CH33469615	47.RD	951
UT AT KNOXVILLE RA	5399001001	47.RD	98
AURA/TUNABLE IMAGI	C10458A	47.RD	570
			<u>122,707</u>
Total National Science Foundation			<u>2,129,270</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, 2007

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Pass-Through Entity Identifying Number	Federal CFDA Number	Federal Expenditures
National Aeronautics & Space Administration:		43.RD	20,444,763
			<u>20,444,763</u>
Pass Through Funds:			
National Aeronautics & Space Administration:			
University of FL/Combustion Instability: E	NCC3994	43.RD	101,625
University of FL/Verification and Validati	NCC3-994	43.RD	84,583
SAO/PROBE THE RELA	GO45053X	43.RD	(180)
University of UTAH/VALIDATI	2212040	43.RD	1,417
University of Wisconsin	G071982	43.RD	27,772
MSU/Use of remotely sensed land	19100036160301	43.RD	73,659
UCAR/Desicion Support for Thund	S0657992	43.RD	93,209
UCB/A Comprehensive Study of Auro	NNG06GG65G	43.RD	8,315
USRA/Active Compensation/Fil	SUBGRANT0349140	43.RD	4,068
U Estimates	SUBGRANT HSV 2002-02	43.RD	43,015
USRA/ESS DIRECTORS	SUBGRANT0349101	43.RD	43,375
USRA/UNIV RES FELL	34881COOPAGRNC5612	43.RD	(91)
Luna Innovations Incorporated	1278-NAS-2S	43.RD	48,970
Sverdrup Technology/Advanced Soli	SVT0029	43.RD	85,123
Will Technology/Halt Training Pro	PO070008	43.RD	1,905
SAO/X-RAYS & GALAC	G05-6089B	43.RD	823
USRA/IMPLEMENT VI	SUBGRANTNO0348501	43.RD	16,799
			<u>634,387</u>
Total National Aeronautics & Space Administration			<u>21,079,150</u>
Department of Education:		84.RD	75,191
			<u>75,191</u>
Pass-Through Funds:			
Department of Education:			
CAL/STATE CHICO/US EUROPE	05-030	84.RD	5,292
			<u>5,292</u>
Total Department of Education			<u>80,483</u>
Department of Transportation:		20.RD	494,083
			<u>494,083</u>
Pass Through Funds:			
Department of Transportation:			
UA/UTCA/Alabama MPO Freight	TASK ORDER NO. 36 (06-037)	20.RD	34,804
UA/UTCA/STUDENT FU	TASK ORDER 28 (05-00)	20.RD	3,392
MSU/APPLICATIONS	302645-060800	20.RD	537
UA/UCTA/Branch Office-Administrat	TASK ORDER NO. 42 (07-037)	20.RD	13,410
UA/UTCA/Traffic Signal systems on	TASK ORDER NO. 38 07-025	20.RD	21,454
			<u>73,597</u>
Total Department of Transportation			<u>567,680</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, 2007

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Pass-Through Entity Identifying Number	Federal CFDA Number	Federal Expenditures
Department of Commerce:		11.RD	2,563,614
			<u>2,563,614</u>
Pass-Through Funds:			
Department of Commerce:			
MSU/ Assessing the impact of Land	SUBAWARD19100036355901	11.RD	15,537
SURA/The Sura Coastal Ocean Obser	SURA2007401	11.RD	211,352
Univ. of Miami/Application of Sea	P105910	11.RD	24,981
GITSunlight Test System	N-20-8ZI-S063	11.RD	3,478
Criterion Technology, Inc.	N-20-8ZI-S063	11.RD	3,477
UCAR/Synthesizing Dual-Polarmetri	S0766806	11.RD	1,475
			<u>260,300</u>
Total Department of Commerce			<u>2,823,914</u>
Department of Energy:		81.RD	443,099
			<u>443,099</u>
Pass-Through Funds:			
Department of Energy:			
ADECA/REBUILD AMER	1DOE03SP05	81.RD	601
ANL/FUNCTIONAL GEN	4F-02201	81.RD	16,961
Los Alamos National Security LLC	4084200106	81.RD	48,471
			<u>66,033</u>
Total Department of Energy			<u>509,132</u>
Pass-Through Funds:			
Small Business Administration:			
UAB/SBDC/Small Business Development Center	SBA20052006	59.RD	(92)
Total Small Business Administration			<u>(92)</u>
Department of Agriculture:		10.RD	124,884
			<u>124,884</u>
Pass-Through Funds:			
Department of Agriculture:			
FSU/Decision Support System	87005520016634	10.RD	143,626
			<u>143,626</u>
Total Department of Agriculture			<u>268,510</u>
Pass-Through Funds:			
Environmental Protection Agency			
Lamar Univ/Top-down Emission Verification	634826	66.RD	41,325
Total Environmental Protection Agency			<u>41,325</u>
Veteran Affairs:		64.RD	1,551
United States Coast Guard:		97.RD	(1,888)
General Service Administration		39.RD	787,189
Department of Interior:		15.RD	76,507
Department of Labor:		17.RD	61,296
Total Research and Development Cluster			<u>51,464,636</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, 2007

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Pass-Through Entity Identifying Number	Federal CFDA Number	Federal Expenditures
Construction Grants:			
Department of Transportation:			
DOT/FHWA/Construction Transportation Building		20.205	19,347,828
DOT/FTA/UAH Intermodal Parking Facility		20.500	397,185
Total U.S. Department of Transportation			<u>19,745,013</u>
Total Construction Grants			<u>19,745,013</u>
Student Financial Aid Cluster:			
U.S. Department of Education:			
SEOG		84.007	190,165
PELL Grants		84.063	3,839,774
Work Study		84.033	113,666
Federal SMART Grant		84.376	319,364
Federal Academic Competitiveness		84.375	53,127
Total U.S. Department of Education			<u>4,516,096</u>
Total Student Financial Aid Cluster			<u>4,516,096</u>
Instruction and Training:			
Department of Health & Human Services:			
		93.358	109,198
National Science Foundation:			
Pass-Through Funds:		47.076	4,588
National Science Foundation:			
UAB/Alabama EPSCOR	UABEPCOR2005200	47.075	25,659
UAB/Alabama Minority Graduate Education (MGE)	UABAGRDTD61599	47.076	53,186
UAB/Bridge to Doctorate Program	AGRDTD8304	47.076	44,753
UAB/Alabama Louis Stokes Alliance	AGR DTD 7/21/06	47.074	28,142
			<u>151,740</u>
Total National Science Foundation			<u>156,328</u>
Department of State:			
		19.430	(37)
			<u>(37)</u>
Pass-Through Funds:			
Department of State:			
IREX/6 Weeks Professional Program		19.430	109,799
IREX/End of Program Conference/Eurasia		19.430	2,119
			<u>111,918</u>
Total Department of State			<u>111,881</u>
Department of Transportation:			
		20	14,685
			<u>14,685</u>
Total Instruction and Training			<u>392,092</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, 2007

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Pass-Through Entity Identifying Number	Federal CFDA Number	Federal Expenditures
Other Federal Awards:			
National Science Foundation:		47.076	37,690
			<u>37,690</u>
Pass-Through Funds:			
Department of Defense:			
Program Income for LAI Lean Academy	FA449706P0082	12	27,729
			<u>27,729</u>
National Aeronautics & Space Administration:			
UA Systems Office AMSTEC	UASYSLETTERAGRDTD123	43.001	(47)
			<u>(47)</u>
Total Other Federal Awards			<u>65,372</u>
Total Expenditures of Federal Awards			<u>\$ 76,183,209</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, 2007

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	\$ 22,147,268	\$ 694,457	\$ 2,006,563	\$ 20,444,763	\$ 75,191	\$ 494,083	\$ 2,563,614	\$ 1,492,638	49,918,577
Federally Funded Construction	-	-	-	-	-	19,745,013	-	-	19,745,013
Student Financial Aid	-	-	-	-	4,516,096	-	-	-	4,516,096
Federal Pass-Throughs	<u>65,288</u>	<u>133,596</u>	<u>122,707</u>	<u>634,387</u>	<u>5,292</u>	<u>73,597</u>	<u>260,300</u>	<u>250,892</u>	<u>1,546,059</u>
Total Major Programs	22,212,556	828,053	2,129,270	21,079,150	4,596,579	20,312,693	2,823,914	1,743,530	75,725,745
Non-major Programs	-	109,198	42,278	(47)	-	14,685	-	(37)	166,077
Non-major Pass-Throughs	<u>27,729</u>	<u>-</u>	<u>151,740</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>111,918</u>	<u>291,387</u>
Total Non-major Programs	27,729	109,198	194,018	(47)	-	14,685	-	111,881	457,464
Total Expenditures of Federal Awards	\$ 22,240,285	\$ 937,251	\$ 2,323,288	\$ 21,079,103	\$ 4,596,579	\$ 20,327,378	\$ 2,823,914	\$ 1,855,411	\$ 76,183,209

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, 2007

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, 2007. 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 Catalog of Federal Domestic Assistance (CFDA) and pass-through numbers have been provided to the extent they were available.

Subrecipients

Certain funds are passed through to subgrantee organizations by the University. Expenditures incurred by the subrecipients and reimbursed by the University are presented in the Schedules. The University provided approximately \$3,439,148 of research and development cluster awards to subrecipients during the year ended September 30, 2007.

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	\$ 509,132
Department of Agriculture	268,510
Department of Veteran Affairs	1,551
Department of Interior	76,507
Department of Labor	61,296
Environmental Protection Agency	41,325
General Service Administration	787,189
Small Business Administration	(92)
State Department	111,881
United States Coast Guard	(1,888)
	<u>\$ 1,855,411</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

The University of Alabama in Huntsville

Notes to Schedules of Expenditures of Federal Awards

Year Ended September 30, 2007

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, 2007, 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 responsible for collection of these loans. During 2007, the University disbursed approximately \$17,520,400 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, 2007

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

Significant deficiency(ies) 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

Significant deficiency(ies) 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

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:

\$ 2,811,108

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

**The University of Alabama in Huntsville
Schedule of Findings and Questioned Costs
Year Ended September 30, 2007**

REFERENCE	PROGRAM	QUESTIONED COSTS
07-01	Student Financial Aid	\$1,400

Award Year - July 1, 2006 through June 30, 2007
Federal Pell Grant Program - CFDA 84.063
National Science and Mathematics Access to Retain Talent - CFDA 84.376

CONDITION

The University is required to verify certain items from the Free Application for Federal Student Aid (FAFSA) for at least 30 percent of its total number of applicants receiving assistance under the Federal Pell Grant, ACG, National SMART Grant, Federal Direct Stafford/Ford Loan, campus-based, and Federal Stafford Loan programs in an award year. During testing of Student Financial Aid we noted two of fifty-five students selected for testing in which the verification information obtained did not agree with the information used by the University to determine the expected family contribution (EFC).

REFERENCE

34 CFR Subpart E - Verification of Student Aid Application Information

CAUSE/EFFECT

The financial aid department obtained the verification information from the student but the correct information was not entered into BANNER. As a result, the amount of aid awarded to the students in question was affected by the differences between the verification information and that entered into BANNER. The students received approximately \$1,400 more funding than was appropriate based on Pell regulations.

RECOMMENDATION

We recommend that the University implement controls that will help ensure that all student financial aid information for students selected for verification is agreed and reconciled to the information entered into BANNER to determine the amount of need. All differences noted should be researched and resolved in order to ensure that the financial aid disbursed is appropriate.

MANAGEMENT'S VIEW AND CORRECTIVE ACTION PLAN

The University concurs with this finding. The University has implemented controls that will ensure that student financial aid verification information agrees and that any differences are followed up on in a timely manner to determine if any refunds are due to the Department of Education.

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, 2007**

REFERENCE	PROGRAM	QUESTIONED COSTS
07-02	Student Financial Aid	N/A

Award Year - July 1, 2006 through June 30, 2007
Federal Direct Loan - CFDA 84.268

CONDITION

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. 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. During our testing of Student Financial Aid we noted one instance in a sample of fifty-five students 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

The financial aid department was not alerted that the student had withdrawn until the end of the semester. Rather than going through the normal withdrawal procedures, the student in question simply quit coming to school. There is no mandated attendance recording policy at the University that would necessarily identify these situations before semester end. Furthermore, the financial aid department believed that the address on record was not the current address for the selected student. Not providing the necessary information or performing exit counseling, may result in penalties and or sanctions from the Department of Education in addition to higher default rates.

RECOMMENDATION

We recommend that the University implement procedures to ensure that borrowers who cease enrollment be notified of the need to complete exit counseling. Evidence of this exit counseling should be retained by the University.

MANAGEMENT'S VIEW AND CORRECTIVE ACTION PLAN

The University concurs with this finding. The University has automated processes to notify borrowers who cease enrollment of the need to complete exit counseling which will ensure that evidence is retained with respect to 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, 2007**

REFERENCE	PROGRAM	QUESTIONED COSTS
07-03	Student Financial Aid	N/A

Award Year - July 1, 2006 through June 30, 2007
Federal Work-Study Program - CFDA 84.033

CONDITION

The Department of Education uses the Fiscal Operations Report and Application to Participate ("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. During our testing of the 2006-2007 FISAP, we noted the following item that was incorrectly reported to the Department of Education by the Student Accounting office:

- Total earned compensation for Federal Work Study (FWS) Program

REFERENCE

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

CAUSE/EFFECT

As a result of the University not having a review process in place to ensure the accuracy of all line items of the FISAP, the total earned compensation for the FWS program was understated by \$16,263 on the initial FISAP filing. This error was a result of incorrect calculations and use of incorrect reports. Due to the error, the University was required to resubmit its FISAP with the updated information.

RECOMMENDATION

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

MANAGEMENT'S VIEW AND CORRECTIVE ACTION PLAN

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

The University of Alabama in Huntsville
Schedule of Findings and Questioned Costs
Year Ended September 30, 2007

REFERENCE	PROGRAM	QUESTIONED COSTS
07-04	Research and Development (R&D)	N/A

National Aeronautics and Space Administration (NASA) - CFDA 43.RD

CONDITION

The NASA Grant and Cooperative Handbook states the final 272 report is due within 90 days after the expiration date of the grant/cooperative agreement. During our testing of financial reporting for the R&D Cluster, it was noted that the final 272 report for three out of fifty-five grants selected for testing were not submitted within the required timeframe. Two of our exceptions were sub-grants falling under the realm of a larger grant and were filed one day late while the third, and separate finding, was filed nineteen days after the required date.

REFERENCE

OMB Circular A-110 (§____.71 (a)).

CAUSE/EFFECT

As a result of the University's turnover within the contracts and grant accounting department and not having adequate controls in place to ensure timely submission of all financial reports, the reporting requirements of certain grants were not met. The University could be subject to penalties and not allowed to receive future grants from NASA if they do not comply with the terms and conditions of the grants they receive.

RECOMMENDATION

We recommend the University evaluate and improve control procedures to ensure operating effectiveness and timely submission of applicable financial reports.

MANAGEMENT'S VIEW AND CORRECTIVE ACTION PLAN

The University concurs with this finding. The University has developed and implemented procedures to monitor the timely grant close-out and submission of financial reports subject to federal reporting standards.

CORRECTIVE ACTION PLAN CONTACT

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

PART III
STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS

The University of Alabama in Huntsville

Status of Prior Year Findings and Questioned Costs

06-1 Research and Development Equipment Purchased with Federal Funds

When testing the results of the physical inventory of federally purchased equipment, PwC noted supporting documentation was inadequate regarding three federal equipment items selected for testing. PwC also noted an instance in which the asset was incorrectly recorded resulting in \$66,319 of unrecorded assets in the fixed asset system.

STATUS

The University has evaluated its physical inventory procedures and implemented improvements to ensure that federally purchased equipment is inventoried and that all inventory records are maintained in accordance with University policy. The University has also implemented procedures to ensure that equipment purchases are properly recorded in the fixed assets records.

06-2 Research and Development Financial Status Reports

PwC noted certain financial reports selected for testing were not submitted timely for the fiscal year ended September 30, 2006 when testing reporting for the Research and Development Cluster. Per discussion with management, PwC further noted that a significant number of its required federal report submissions were not made timely for the fiscal year ended September 30, 2006.

STATUS

The University has developed procedures to monitor the timely submission of applicable financial reports subject to federal reporting standards. In fiscal year 2007, significant progress has been made in filing financial reports required by the terms and conditions of the related awards although there were a few similar findings noted in the current year audit. See finding 07-04.

06-3 Research and Development Time and Effort Reporting

PwC noted one employee selected for testing had compensation charged to a grant during a period in which no time or effort was provided.

STATUS

The University has reviewed its after-the-fact effort reporting policies and procedures and made necessary changes to ensure that compensation for employees working on federal grants accurately depicts actual time and effort.

06-4 Student Financial Aid Academic Progress

PwC noted that two students selected for testing had not maintained satisfactory academic progress standards and were not identified by the system to calculate the amount of aid, if any, to be refunded.

STATUS

The finding was the result of a system implementation error. The University resolved the issue by reviewing the 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 is met.

06-5 Student Financial Aid Exit Counseling

PwC noted two instances in which evidence of exit counseling and notification of exit counseling could not be provided by the University.

STATUS

The University has automated processes to notify borrowers who cease enrollment to at least half time are notified of the need to complete exit counseling. Despite the improvement, one instance was noted in the current year. See finding 07-02.

The University of Alabama in Huntsville

Status of Prior Year Findings and Questioned Costs

06-6 Student Financial Aid FISAP

During testing of the 2005-2006 Fiscal Operations Report and Application to Participate ("FISAP"), it was noted by PwC that certain items were incorrectly reported to the Department of Education by the Student Financial Aid office.

STATUS

The University corrected and resubmitted the FISAP based on the finding noted during the prior year audit. Additionally, the University has implemented review procedures to ensure the accurate submission of FISAP data. A similar finding was noted in the current year audit. See finding 07-03.

June 27, 2008

Mr. Robert Leonard
The University of Alabama in Huntsville
132 Madison Hall
Huntsville, Alabama 35899

Dear Mr. Leonard:

Enclosed are fifty copies of the Report on Federal Awards in Accordance with OMB A-133 for the year ended September 30, 2007 for The University of Alabama in Huntsville together with our reports thereon.

Please contact us if you have any questions or comments concerning the above.

Very truly yours,

PricewaterhouseCoopers LLP

MWL
MKT

Enclosures

FINAL CHECK DOCKET

Client Name: University of Alabama-Huntsville		Charge Code:		No. Pages: 27	
Before Signing Document	Reports	Initials	Date	Items to Check	
		PC	6/27/08	Document has been spellchecked (including Excel spreadsheets)	
		PC	6/27/08	Dates have been checked on covers, headings, flysheets, and letters to ensure they match and are correct	
		PC	6/27/08	Table of contents and page headings match	
		PC	6/27/08	Double-check the following items: (a) Title fits cover; (b) Consistent font size in schedules; (c) Right margins consistent; (d) Draft and footer designations removed; (e) Widows/orphans fixed;	
	Manager/ Associate			Document has been footed before final printing	
				Appropriate signatures appear on all dockets	
				References to charts and illustrations have been checked to ensure they are referred to the correct pages	
			Tabs or flysheets match the table of contents		
After Signing Document	Reproduction			Signature is present on opinion and supplement information pages on Financial Statements	
				A quality control document was run and checked to ensure superb copy quality	
				Paper is checked to ensure proper paper stock is being used for the copy project	
After Copying Document					Pages are in their proper order
					Pages are printed straight
					Correct cover appears on all documents
					Document has been checked for spots, streaks and uneven printing
				Appropriate number of copies have been made	
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				Internal copies have been noted on document and distributed	