

October 1993

**FEDERAL RESEARCH**

**Assessment of the  
Financial Audit for  
SEMATECH's Activities  
in 1992**



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**United States  
General Accounting Office  
Washington, D.C. 20548**

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**Resources, Community, and  
Economic Development Division**

B-236668

October 13, 1993

The Honorable Sam Nunn  
Chairman, Committee on  
Armed Services  
United States Senate

The Honorable Ronald V. Dellums  
Chairman, Committee on  
Armed Services  
House of Representatives

The National Defense Authorization Act for Fiscal Years 1988 and 1989 (P.L. 100-180) requires that we review the annual audits of the financial statements of SEMATECH, Inc., a consortium of U.S. semiconductor manufacturers and the Department of Defense (DOD), and provide comments to you on their accuracy and completeness. This report, our fifth in response to the legislative requirement,<sup>1</sup> reviews the audit conducted by Price Waterhouse, an independent public accountant, of SEMATECH's financial statements for the year ending December 31, 1992. During this review, we also followed up on a recommendation made in our report on SEMATECH's 1990 financial statements<sup>2</sup> that resulted in a January 1993 change in the method of providing federal grant funds to SEMATECH.

Price Waterhouse's opinion, dated February 5, 1993, stated that SEMATECH's 1992 financial statements are fairly presented in all material respects in conformance with generally accepted accounting principles. Also in conformance with generally accepted government auditing standards, Price Waterhouse issued reports on SEMATECH's internal control structure and compliance with laws and regulations. These reports disclosed no material internal control weaknesses or noncompliance with laws and regulations. Price Waterhouse also issued a management letter making recommendations that, although not material to the financial statements, were intended to improve SEMATECH's management efficiency and enhance its internal control structure.

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<sup>1</sup>See "Related GAO Products" at the end of this report.

<sup>2</sup>Federal Research: Assessment of the Financial Audit for SEMATECH's Activities in 1990 (GAO/RCED-92-97, Apr. 9, 1992).

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## Results in Brief

We found no indication during our review that Price Waterhouse's opinion on SEMATECH's 1992 financial statements, its report on the internal control structure, or its report on compliance with laws and regulations cannot be relied upon.

In addition, in January 1993, DOD began providing advance payments to SEMATECH on a monthly instead of a quarterly basis. This procedure, adopted in response to a recommendation in our report on SEMATECH's 1990 financial statements, appears to provide sufficient working capital funds while minimizing the amount of unexpended government funds that SEMATECH holds.

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## Background

SEMATECH was incorporated in Delaware in August 1987 as a nonprofit research and development corporation with the objective of advancing semiconductor manufacturing technology. The National Defense Authorization Act for Fiscal Years 1988 and 1989, enacted in December 1987, authorized the Secretary of Defense to make grants to SEMATECH to defray research and development expenses. The act required the Secretary of Defense to enter into a memorandum of understanding that provided, in part, that (1) the total amount of funds made available to SEMATECH by federal, state, and local government agencies for any fiscal year to support research and development activities may not exceed 50 percent of the total cost of such activities and (2) an independent, commercial auditor must submit annual reports to the Secretary of Defense, SEMATECH, and the Comptroller General on the extent to which SEMATECH's use of funds made available by the United States is consistent with the purposes of the act and SEMATECH's charter and annual operating plan. The Congress has made available about \$100 million annually for SEMATECH's use since fiscal year 1988 to match the contributions of SEMATECH's member companies.

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## Scope and Methodology

To determine the accuracy and completeness of the Price Waterhouse audit, we

- reviewed the auditor's approach for and planning of the audit;
- evaluated the qualifications and independence of the audit staff;
- reviewed the financial statements and auditor's reports to evaluate compliance with generally accepted accounting principles and generally accepted government auditing standards; and

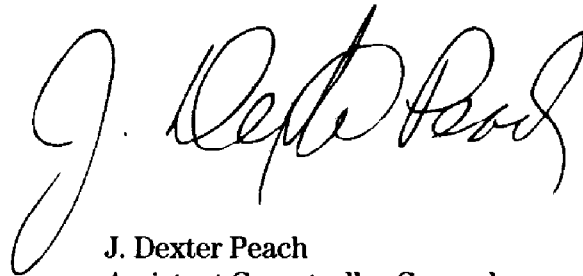
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- reviewed the auditor's working papers to determine (1) what the nature, timing, and extent of the audit work were; (2) what audit quality control methods were used; (3) whether a review was conducted of SEMATECH's internal control structure; (4) whether transactions were tested for compliance with applicable laws and regulations; and (5) whether evidence in the working papers supported the auditor's opinion on the financial statements and internal control structure and compliance reports.

We conducted our review of the Price Waterhouse audit of SEMATECH's 1992 financial statements from July to September 1993 in accordance with generally accepted government auditing standards. We discussed the facts of this report with cognizant SEMATECH and DOD officials. The report does not include a copy of the 1992 financial statements because they contain proprietary information.

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As agreed with your offices, we are sending copies of this report to the Secretary of Defense, the Chairman of the Board of Directors of SEMATECH, representatives of Price Waterhouse, and other interested parties. We will make copies available to others upon request.

This report was prepared under the direction of Victor S. Rezendes, Director, Energy and Science Issues, who can be reached on (202) 512-3841 if you or your staff have any questions. Major contributors to this report are listed in appendix I.



J. Dexter Peach  
Assistant Comptroller General

# Major Contributors to This Report

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# Related GAO Products

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Federal Research: Assessment of the Financial Audit for SEMATECH's Activities in 1991 (GAO/RCED-93-50, Dec. 11, 1992).

Federal Research: Lessons Learned From SEMATECH (GAO/RCED-92-283, Sept. 29, 1992).

Federal Research: SEMATECH's Technological Progress and Proposed R&D Program (GAO/RCED-92-223BR, July 16, 1992).

Federal Research: Assessment of the Financial Audit for SEMATECH's Activities in 1990 (GAO/RCED-92-97, Apr. 9, 1992).

Federal Research: SEMATECH's Efforts to Develop and Transfer Manufacturing Technology (GAO/RCED-91-139FS, May 10, 1991).

Federal Research: Assessment of the Financial Audit for SEMATECH's Activities in 1989 (GAO/RCED-91-74, Apr. 30, 1991).

Federal Research: SEMATECH's Efforts to Strengthen the U.S. Semiconductor Industry (GAO/RCED-90-236, Sept. 13, 1990).

Federal Research: Assessment of the Financial Audit for SEMATECH's Activities in 1988 (GAO/RCED-90-35, Feb. 16, 1990).

Federal Research: The SEMATECH Consortium's Start-up Activities (GAO/RCED-90-37, Nov. 3, 1989).

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