

GAO

Report to Congressional Committees

August 1994

# FINANCIAL AUDIT

## Review of the Audit of SEMATECH's Financial Statements for 1993



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

Accounting and Information  
Management Division

B-236668

August 29, 1994

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 (Public Law 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, and provide comments to you on the statements' accuracy and completeness. This report, the sixth in response to the legislative requirement,<sup>1</sup> presents the results of our review of the audit conducted by Price Waterhouse, an independent public accountant, of SEMATECH's financial statements for the year ending December 31, 1993.

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## Results in Brief

Price Waterhouse's opinion, dated January 25, 1994, stated that SEMATECH's 1993 financial statements are fairly presented in all material respects in conformance with generally accepted accounting principles. Also, in conformity with generally accepted government auditing standards, Price Waterhouse issued reports on SEMATECH's internal control structure and its 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.

We found no indication during our review that Price Waterhouse's opinion on SEMATECH's 1993 financial statements, its report on internal control structure, or its report on compliance with laws and regulations cannot be relied upon.

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<sup>1</sup>See list of related GAO products at the end of this report.

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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. For these purposes, the Congress has made available about \$100 million annually for SEMATECH's use since fiscal year 1988.

The act also required the Secretary of Defense to enter into a memorandum of understanding with SEMATECH. The memorandum provided that the total amount of funds made available to SEMATECH by federal, state, and local government agencies for any fiscal year for the support of research and development activities may not exceed 50 percent of the total cost of such activities. Additionally, an independent, commercial auditor must submit annual reports to the Secretary of Defense, SEMATECH, and the Comptroller General. This report focuses 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.

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## Scope and Methodology

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

- reviewed the auditor's approach 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
- reviewed the auditor's working papers to determine (1) the nature, timing, and extent of audit work performed, (2) the extent of audit quality control methods the auditors used, (3) whether a review was conducted of SEMATECH's internal control structure, (4) whether the auditors tested transactions 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 1993 financial statements in July 1994 in accordance with generally accepted government auditing standards. We discussed this report with

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cognizant Price Waterhouse, SEMATECH, and Defense officials. The report does not include a copy of the 1993 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. Copies will be made available to others upon request. Please call me or Roger Stoltz, Assistant Director, at (202) 512-9095 if you or your staffs have any questions.



David M. Connor  
Director, Defense Financial Audits

# Related GAO Products

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Federal Research: Assessment of the Financial Audit for SEMATECH's Activities in 1992 (GAO/RCED-94-17, Oct. 13, 1993).

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).

The SEMATECH Consortium's Start-up Activities (GAO/T-RCED-90-11, Nov. 8, 1989).

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

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