

National Aeronautics and  
Space Administration

**Office of Inspector General**  
Washington, DC 20546-0001



February 29, 2008

**TO:** Chief Financial Officer

**FROM:** Assistant Inspector General for Auditing

**SUBJECT:** Transmittal of the Final “Status of Fiscal Year 2006 Management Letter Findings and Recommendations” Letter, Prepared by Ernst & Young LLP, in Connection with the Audit of the National Aeronautics and Space Administration’s Fiscal Year 2007 Financial Statements (Report No. IG-08-011; Assignment No. A-07-008-01)

Under the Chief Financial Officers Act of 1990, NASA’s financial statements are to be audited in accordance with generally accepted government auditing standards. The Office of Inspector General selected the independent certified public accounting firm Ernst & Young LLP (E&Y) to audit NASA’s financial statements in accordance with “Government Auditing Standards” and Office of Management and Budget’s Bulletin No. 07-04, “Audit Requirements for Federal Financial Statements.”

E&Y separately reported in its “Report on Internal Control,” dated November 13, 2007, certain matters involving internal control and its operation that it considered to be significant deficiencies and material weaknesses under standards established by the American Institute of Certified Public Accountants. E&Y also followed up on matters involving internal control (Enclosure) that were reported in the “Comments on Internal Control and Other Matters” letter issued February 1, 2007, as part of the fiscal year (FY) 2006 audit.

In summary, E&Y’s enclosed letter either identified similar recurring issues, which were communicated in the FY 2007 “Report on Internal Control,” or stated that E&Y did not note the issue during the FY 2007 audit. Therefore, each recommendation made in the FY 2006 “Comments on Internal Control and Other Matters” letter is now considered closed.

During the FY 2007 audit, E&Y identified certain internal control issues that did not meet the criteria to be reported in the FY 2007 “Report on Internal Control,” but rather were communicated to NASA management throughout the audit process. Therefore, there will not be a “Comments on Internal Control and Other Matters” letter issued as a result of the FY 2007 audit.

E&Y is responsible for the enclosed report and the conclusions expressed therein. Accordingly, we do not express an opinion on NASA’s financial statements, internal controls over financial reporting, or compliance with certain laws and regulations.

We appreciate the courtesies extended during the testing and throughout the financial statement audit. If you have any questions, or need additional information, please contact me at 202-358-2572.

signed

Evelyn R. Klemstine

Enclosure

February 28, 2008

Mr. Mark Jenson  
Office of Inspector General  
National Aeronautics and Space Administration  
Washington, DC 20546

Dear Mr. Jenson:

As part of our audit of the National Aeronautics and Space Administration's (NASA) fiscal year (FY) 2007 financial statements, we reviewed the status of the FY 2006 comments on internal control and other matters included in a letter to NASA management dated February 1, 2007. Based on our discussions with NASA management, as well as system documentation, walkthroughs, and the results of audit procedures performed, the enclosed table outlines our assessment of the current status of the management letter comments outlined in the FY 2006 Management Letter.

Regards,

signed

Eleanor L. Crawford  
Executive Director

Enclosure

**Status of Fiscal Year 2006 Management Letter Findings and Recommendations**

<b>Issue Area</b>	<b>Summary Control Issue</b>	<b>FY 2007 Status</b>
Payroll	Ernst & Young noted the following: <ul style="list-style-type: none"> <li>• Instances where sufficient documentation was not available to support certain deductions or required documentation could not be located within the Official Personnel Files;</li> <li>• Instances where required authorizations could not be located;</li> <li>• Data elements that were not consistent between documents of a single sample;</li> <li>• Gross dollar payroll balances on the treasury SF 224 and in the general ledger that could not be substantiated for a selected pay period;</li> <li>• Payroll reconciliation differences that were not reported properly to headquarters through the monthly periodic monitoring process; and</li> <li>• Documentation to support the monitoring of payroll funds availability was not consistently available.</li> </ul>	Ernst & Young noted significant progress in the area of payroll. No issues were noted in our FY 2007 procedures.
Cash Receipts	Ernst & Young noted the following: <ul style="list-style-type: none"> <li>• Refunds and unused reimbursable activity was not processed timely to the financial management system;</li> <li>• Transactions were not billed on a timely basis;</li> <li>• Certain receipts were not recorded on a timely basis; and</li> <li>• Certain receipts were recorded initially to suspense and then to miscellaneous receivable and revenue when specific receivables could not be identified.</li> </ul>	Ernst & Young did not note these issues in FY 2007.

Issue Area	Summary Control Issue	FY 2007 Status
Cash Disbursements	Ernst & Young noted the following: <ul style="list-style-type: none"> <li>• Adjustments were not identified and posted in a timely fashion;</li> <li>• Supporting documentation lacked appropriate approval;</li> <li>• Certain documentation related to employee travel was not readily available;</li> <li>• Travel vouchers were not processed in a timely manner; and</li> <li>• For one sample item, an invoice was paid after 30 days without payment of interest.</li> </ul>	Ernst & Young noted certain instances of untimely processing of travel vouchers. This issue was included in the Financial Systems, Analyses, and Oversight Material Weakness in the Report on Internal Control.  Ernst & Young did not note the other FY 2006 issues in FY 2007.
Procurement/Contracts	Ernst & Young noted the following: <ul style="list-style-type: none"> <li>• Certain documentation was not readily available; and</li> <li>• Certain required documents lacked appropriate approval.</li> </ul>	Ernst & Young did not identify these issues in FY 2007.
Grants	Ernst & Young noted the following: <ul style="list-style-type: none"> <li>• Certain sample items had no-cost extensions without use of authorized modification form;</li> <li>• Certain required documentation could not be readily located; and</li> <li>• Untimely receipt of the SF 272 for expired grants.</li> </ul>	Ernst & Young identified one item at one center whereby one document could not be readily located in a grant file. Additionally, we noted untimely receipt of final SF 272 being the cause for many expired grants not being closed out timely. In FY 2007, this issue was included in the Financial Systems, Analyses, and Oversight Material Weakness in the Report on Internal Control.  Ernst & Young did not note the other FY 2006 issue during the FY 2007 audit.

Issue Area	Summary Control Issue	FY 2007 Status
Accounts Receivable	<p>Ernst &amp; Young noted the following:</p> <ul style="list-style-type: none"> <li>• For 3 Centers, the total dollars per the Open Item Listing did not agree to the corresponding accounts receivable aging report;</li> <li>• IPAC transactions were not recorded timely; and</li> <li>• Certain interest calculated by SAP lacked review or could not be recalculated.</li> </ul>	<p>Ernst &amp; Young did not identify these issues in FY 2007.</p> <p>Ernst &amp; Young did note one instance where a document could not be readily located to support the collection of a delinquent debt. We communicated that item to management through a formal internal communication.</p>
Accounts Payable	<p>Ernst &amp; Young noted the following:</p> <ul style="list-style-type: none"> <li>• For 2 sample items, an invoice was paid after 30 days without documentation to support the payment of interest;</li> <li>• We could not obtain documentation to support the correct costing or that the unit price was correct;</li> <li>• Certain travel transactions were not recorded timely within SAP; and</li> <li>• One center had erroneously posted an amount into SAP utilizing the incorrect business agency code.</li> </ul>	<p>Ernst &amp; Young identified certain instances where travel vouchers were not submitted or recorded into the financial management system on a timely basis. We reported this weakness within the Material Weakness on Financial Systems, Analyses, and Oversight within the Report on Internal Control.</p> <p>Ernst &amp; Young did not identify the remaining issues in FY 2007.</p>
Undelivered Orders	<p>Ernst &amp; Young noted the following:</p> <ul style="list-style-type: none"> <li>• We noted inconsistencies between various required documents, SAP, or supporting worksheets;</li> <li>• Certain documentation was not readily available; and</li> <li>• Certain items were not deobligated on a timely basis.</li> </ul>	<p>Ernst &amp; Young noted untimely deobligation of open items and included this weakness in the Financial Systems, Analyses, and Oversight Material Weakness in the Report on Internal Control.</p> <p>Ernst &amp; Young did not note the other FY 2006 issues in FY 2007.</p>

Issue Area	Summary Control Issue	FY 2007 Status
Property, Plant, and Equipment	Ernst & Young noted inconsistencies in the application of policies and procedures developed by the Office of the Chief Financial Officer (OCFO) and the lack of timely and clear communication protocols between center personnel and OCFO.	Ernst & Young continued to identify these issues in FY 2007. These items were consolidated into the material weakness on property in the FY 2007 Report on Internal Control.
Environmental Liability	Ernst & Young noted weaknesses in NASA's ability to generate auditable environmental liability estimates and to identify disclosure items; training of personnel; defined roles and responsibilities of NASA's OCFO and Environmental Management Division (EMD) staff.	Ernst & Young continued to identify these weaknesses in FY 2007 and have reported these issues within the material weakness on Financial Systems, Analysis, and Oversight within the FY 2007 Report on Internal Control.
Information Technology	<p>Ernst &amp; Young noted the following:</p> <ul style="list-style-type: none"> <li>• IEMP security, design and implementation needed improvement;</li> <li>• IEMP security and general information technology controls need to be strengthened;</li> <li>• Oversight functions supporting IEMP security programs need improvement; and</li> <li>• Segregation of duties needs strengthening.</li> </ul>	<p>Ernst &amp; Young believed that corrections for these issues have been substantially completed. Segments related to segregation of duties and other access issues still exist and have been combined in the FY 2007 Report on Internal Control in the Financial Systems, Analyses, and Oversight Material Weakness.</p> <p>Additionally, we have issued a separate management letter on our audit procedures related to NASA's financial management information system.</p>