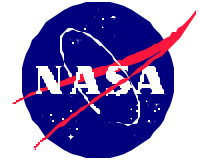


National Aeronautics and  
Space Administration

**Headquarters**

Washington, D.C. 20546-0001



Reply to Attn of: W

September 28, 2001

**TO:** Marshall Space Flight Center  
Attn: DAO1/Center Director

**FROM:** W/Assistant Inspector General for Inspections, Administrative  
Investigations, and Assessments

**SUBJECT:** Rapid Action Notice – Marshall Space Flight Center Exchange Financial  
Management, G-01-025

The Office of Inspector General (OIG) recently issued the subject rapid action notice addressing significant deficiencies pertaining to the Exchange financial management (Enclosure 1).

We found that proper procedures were not being followed in reconciling the Exchange's accounting system to applicable bank statements. Accordingly, we recommended that Marshall Space Flight Center management develop proper reconciliation procedures, make necessary adjusting entries to the Exchange's accounting system, and work with banking officials to negotiate service charges and correct banking errors identified during our review.

Management concurred with the recommendations in the rapid action notice and took appropriate corrective actions (Enclosure 2)<sup>1</sup>. We consider management's reply to be fully responsive and consider the issues highlighted in this notice to be closed.

[original signed by]  
David M. Cushing

Enclosures (2)

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<sup>1</sup> The financial and accounting information provided by management to support the corrective actions taken are not included as part of Enclosure 2.

cc:

B/Mr. Varholy

J/Mr. Sutton

JM/Mr. Werner

JR/Mr. Harding

M/Mr. Rothenberg

MSFC/DEO1/Mr. Roth

MSFC/RS40/Mr. Walker

MSFC/RSO1/Mr. Bates

Program Manager, Audit Quality/Marshall Space Flight Center

National Aeronautics and  
Space Administration  
**Headquarters**  
Washington, DC 20546-0001

ENCLOSURE 1



Reply to Attn of: W

MAY 10 2001

TO: Marshall Space Flight Center  
Attn: DA01/Center Director

FROM: W/Assistant Inspector General for Inspections, Administrative  
Investigations, and Assessments

SUBJECT: Rapid Action Notice – Marshall Space Flight Center Exchange  
Financial Management, G-01-025

The Office of Inspector General (OIG) announced its inspection of the Marshall Space Flight Center (Marshall) Exchange Activities (G-01-013) and recently conducted an onsite review. NASA Policy Directive (NPD) 9050.6F, *NASA Exchange Activities*, assigns general management and oversight responsibilities for NASA Exchanges to Center Directors, and assigns more specific roles for Center Chief Financial Officers and to Exchange Council members appointed by the Center Directors.<sup>1</sup>

As a result of our inspection team's routine interviews of key Marshall Exchange officials and reviews of financial records, we identified significant deficiencies pertaining to the Exchange's financial management. Our team briefed Marshall officials about these conditions during and after its site visit.

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<sup>1</sup> NPD 9050.6F states that Center Directors are responsible for: "(1) Establishing policy and procedures appropriate to Exchange management" and "(2) Operating the Exchange and its elements in a business-like manner."

The NPD further states that Exchange Council members are responsible to "(4) Establish a system of management controls that will provide reasonable assurance regarding the financial data, compliance with applicable laws and regulations, and prevention of, or prompt detection of, unauthorized acquisition, use, or disposition of exchange assets. Controls over assets include safeguards for the protection of the Exchange's property and supplies to prevent pilferage or unnecessary loss and periodic inventories." Further, the Exchange councils are to "(5) Review financial statements, activity budgets, and all other appropriate reports including those of the Office of Inspector General to ensure operation of a sound, business-like organization, and provide for an annual audit of books and records of the Exchange and its elements. Financial records will be maintained in accordance with generally accepted accounting principles promulgated by the American Institute of Certified Public Accountants."

Additionally, the NPD calls for the Center Chief Financial Officer to "monitor Exchange adherence to this NPD and review financial statements and audit reports to ensure that the Exchange is financially sound and that responsible business practices are being followed."

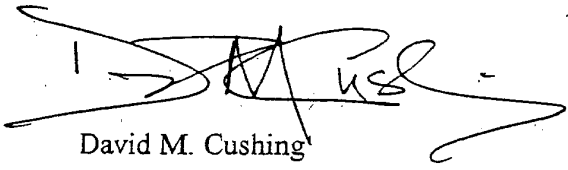
We observed that the Marshall Exchange accounting system did not accurately reflect cash shown in the Exchange's operating account when compared to the operating account bank statements. Our analysis showed that the Exchange Treasurer did not timely perform bank statement reconciliations, and did not compare reconciliations to Exchange accounting system data. As a result, banking errors were not brought to the attention of bank personnel for correction, and miscellaneous bank charges were not entered into the accounting system. The Exchange Treasurer neither informed the Exchange accountant that adjusting accounting entries should be made, nor were bank statements returned to the Exchange accountant after reconciliations were completed. Although the Exchange Treasurer had the capabilities to adjust accounting system data when errors were identified during periodic reconciliations, this was not done. In addition, during their review of the financial statements for the year ending September 30, 2000, House and Albright, PC, the Exchange's independent auditors, advised Exchange personnel that accounting adjustments should be made to ensure that bank records and accounting system data were in agreement. Accounting adjusting entries were not made. These deficiencies, beyond simply poor accounting practices, could result in or hide fraud, embezzlement, or theft against the Marshall Exchange.

Given the severity of the potential internal control problems with the Marshall Exchange financial management and record-keeping processes, we recommend that Marshall management take prompt action to:

- (1) Develop procedures to ensure that Exchange bank statements are reconciled to the Exchange accounting system on a monthly basis;
- (2) Identify necessary adjusting entries to reflect miscellaneous bank charges in the accounting system for prior periods;
- (3) Coordinate with the independent auditor to ensure that a correcting accounting adjustment is made which is appropriate to bring the accounting system and bank statements into agreement; and
- (4) Contact bank officials to negotiate monthly service charges and corrections for banking errors identified during this review.

Please notify this office in writing not later than May 25, 2001, of the steps you will take to respond to our recommendations.

In the meantime, we will continue our inspection activity of the Marshall Exchange and alert management immediately of any further significant findings and concerns. If you have any questions, please call me at (202) 358-2572 or Mr. Dana Mellerio, Director, Inspections and Assessments, at (202) 358-0271. Our inspection team, led by Mr. Randy Fowler at Marshall, is also available to provide more detailed information on request.



David M. Cushing

cc:

B/Mr. Varholy

J/Mr. Sutton

JM/Mr. Werner

JR/Mr. Harding

M/Mr. Rothenberg

MSFC/DE01/Mr. Roth

MSFC/RS40/Mr. Walker

MSFC/RS01/Mr. Bates

National Aeronautics and  
Space Administration  
**George C. Marshall Space Flight Center**  
Marshall Space Flight Center, AL 35812

ENCLOSURE 2



Reply to Attn of:

DE01

JUL 18 2001

TO: NASA Headquarters  
Attn: W/David M. Cushing

FROM: DE01/Sidney P. Saucier

SUBJECT: Rapid Action Notice Follow-up Results - Marshall Space Flight Center  
Exchange Financial Management, Assignment Number G-01-025

The subject notice recommended that we take prompt action to strengthen the financial management and record-keeping processes of the Marshall Exchange. We concurred with the recommendations and have implemented corrective actions. For example, we replaced the Exchange Treasurer and new procedures have been developed to correct the accounting deficiencies identified by your staff. Based on the results of our follow-up activities, we consider all recommendations closed. The specific recommendations are listed below, and our reasons for closing them are noted in italics.

#### **RECOMMENDATION 1**

Marshall management should take prompt action to develop procedures to ensure that Exchange bank statements are reconciled to the Exchange accounting system on a monthly basis.

**MSFC Management Response:** Concur. The responsibilities of the Exchange Treasurer have been documented and provided to the new Treasurer. These responsibilities include monthly bank statement reconciliation.

***MSFC MANAGEMET REASONS FOR CLOSURE:*** *The responsibilities of the Exchange Treasurer (Enclosure 1), including monthly bank statement reconciliation, have been provided to the Treasurer. We will formally incorporate the responsibilities into the Exchange Policy that we plan to update in FY02.*

#### **RECOMMENDATION 2**

Marshall management should take prompt action to identify necessary adjusting entries to reflect miscellaneous bank charges in the accounting system for prior periods.

*Mission Success Starts with Safety*

**MSFC Management Response:** Concur. The Exchange Treasurer will identify the necessary adjusting entries that need to be made to the accounting system to properly record any inappropriate bank charges made in prior periods.

***MSFC MANAGEMENT REASONS FOR CLOSURE:*** *The necessary adjusting entries (Enclosure 2) have been identified and made in the accounting records to reconcile unrecorded bank charges from prior periods.*

### **RECOMMENDATION 3**

Marshall management should take prompt action to coordinate with the independent auditor to ensure that a correcting accounting adjustment is made which is appropriate to bring the accounting system and bank statements into agreement.

**MSFC Management Response:** Concur. The Exchange Treasurer, Exchange accountant, and independent auditors are working together to correct all the past errors associated with the failure to reconcile the checking account.

***MSFC MANAGEMENT REASONS FOR CLOSURE:*** *Corrections have been made to the Exchange Profit and Loss Statement and the Balance Sheet to accurately reflect the financial position of the MSFC Exchange. (See Enclosure 3)*

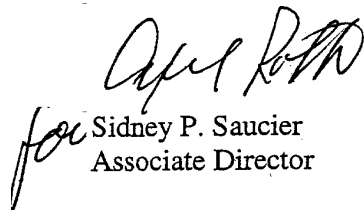
### **RECOMMENDATION 4**

Marshall management should take prompt action to contact bank officials to negotiate monthly service charges and corrections for banking errors identified during this review.

**MSFC Management Response:** Concur. The Council Chairman and a bank officer met May 16, 2001, to discuss the bank errors and to negotiate eliminating monthly service charges from the Exchange account. The bank officer has agreed to research the bank errors as well as explore alternative account options that would reduce or eliminate service fees.

***MSFC MANAGEMENT REASONS FOR CLOSURE:*** *Monthly service charges have been eliminated from the Exchange account and adjustments have been made to correct errors identified during this review. (See Enclosure 4)*

The corrective actions for Recommendations 1 through 4 have been implemented. Based on these actions, we consider all recommendations for this rapid action notice closed. If you have any questions or need additional information, please contact Teresa Danne, Audit Liaison Representative, at (256) 544-2268.

  
for Sidney P. Saucier  
Associate Director

4 Enclosures

cc:

DE01/Mr. Roth

RS01/Mr. Bates

HQ/B/Mr. Varholy

HQ/J/Mr. Sutton

HQ/JM/Mr. Werner

HQ/JR/Mr. Harding

HQ/M/Mr. Rothenberg



## NASA Exchange-MSFC Responsibilities of the Treasurer

1. Supervise the handling of Exchange funds, bank accounts, and Government securities in accordance with the approved budgets and procedures.
2. Monitor/report on the Exchanges cash flow status. Other financial task, considered "accounting duties" are to be handled by a separate person and include receiving/ depositing monies, account payables, maintaining ledgers, and writing checks. The same person does not deposit monies and sign checks.
3. Investments will be purchased and sold upon proper authorization by the treasurer.
4. Sign checks.
5. Ensure proper authorizations have been given for checks that are written. (Purchase orders, etc.)
6. Ensure that balances in checking account do not exceed the FDIC insured amount. (If special circumstances arise the Exchange Chairman and Operations Manager should be notified.
7. Bank reconciliation's are to be performed on a monthly basis. Once the accountant receives the bank statement he/she will deliver it unopened to the Treasurer. The Treasurer will have 30 days from the day he/she receives the bank statement to complete it via QuickBooks. Once the Treasurer is complete he/she should return the bank statement signed and dated to the accountant to file.
8. Perform monthly or semi-monthly surprise audits to verify accuracy with all petty cash monies.

Harold B. Huzels, Exchange Treasurer, 7-10-01