
**QUALITY CONTROL REVIEW REPORT
IG-03-007**

Report Recipients:

M/Associate Administrator
for Space Flight
MSFC/DA01/Director
Marshall Space Flight
Center
Mr. Thomas Albright, CPA

**HOUSE & ALBRIGHT, P.C., AUDITS OF
MARSHALL SPACE FLIGHT CENTER EXCHANGE
FINANCIAL STATEMENTS FOR FISCAL YEARS
ENDED
SEPTEMBER 30, 2000, AND 2001**

February 19, 2003

cc:

ADI/Associate Deputy
Administrator for
Institutions and Asset
Management
B/Deputy Chief Financial
Officer for Financial
Management
B/Deputy Chief Financial
Officer for Resources
(Comptroller)
BF/Director, Financial
Management Division
G/General Counsel
JM/Director, Management
Assessment Division
JR/Director, Contractor
Industrial Relations
MSFC/DE01/Chair,
Marshall Exchange



National Aeronautics and
Space Administration

OFFICE OF INSPECTOR GENERAL

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Alan J. Lamoreaux, Assistant Inspector General for Audits

NASA Office of Inspector General

IG-03-007
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February 19, 2003

House & Albright, P.C., Audits of Marshall Space Flight Center Exchange Financial Statements for Fiscal Years Ended September 30, 2000, and 2001

The Inspector General Act of 1978, as amended, mandates Inspectors General to ensure that work performed by non-Federal auditors complies with generally accepted government auditing standards (GAGAS) issued by the Comptroller General of the United States. Therefore, we reviewed the audits performed by House & Albright, P.C., of the NASA Marshall Space Flight Center (Marshall) Exchange financial statements for fiscal years (FYs) 2000 and 2001 to ensure that the audit work complied with GAGAS.

We found that House & Albright's audit work complied with GAGAS for the 2 fiscal years and that the Marshall Exchange Council appropriately responded to the audit firm's recommendations for improvement. House & Albright's work papers showed that the Marshall Exchange had corrected all significant deficiencies. Appendix C contains details on House & Albright's audit results and recommendations for improvement and on the Exchange's corrective actions.

Appendices

Among the appendices, note that Appendix B contains a discussion of the requirements related to audits of the NASA Exchanges, and Appendix C contains details on House & Albright audit results and recommendations for improvement and the Marshall Exchange corrective actions.

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Acronyms Used in this Report

AICPA	American Institute of Certified Public Accountants
CFO	Chief Financial Officer
FY	Fiscal Year
GAAP	Generally Accepted Accounting Principles
GAAS	Generally Accepted Auditing Standards
GAGAS	Generally Accepted Government Auditing Standards

Appendix A. Objectives, Background, Scope, and Methodology

Objectives

The quality control review objective was to determine whether House & Albright audits of the Marshall Space Flight Center Exchange for FYs 2000 and 2001 were performed in accordance with applicable auditing standards. We also determined whether the Marshall Exchange Council had taken corrective actions in response to recommendations resulting from the audits.

Background

The Marshall Exchange retained House & Albright, P.C., a public accounting firm licensed to practice in Alabama, to perform the audits of the Marshall Exchange financial statements. The Marshall Exchange is a Government instrumentality operating under NASA's control. It operates and generates revenues from gift shops, vending, and a physical activity center. For the fiscal year ended September 30, 2001, the Marshall Exchange reported a cash balance of \$144,235, including amounts in money market accounts, and a net gain of \$47,303.

Scope and Methodology

In performing the quality control review, we used an internal work program that incorporated the auditing standards issued by the American Institute of Certified Public Accountants (AICPA). Based on those standards, we developed and organized the work program according to the general, field work, and reporting standards for financial audits. Our review focused on the auditors' qualifications, independence, peer review report, audit programs for appropriate procedures, and working paper documentation to include the results of the control risk assessment,¹ fraud risk assessment,² and controls testing. We also assessed plans and actions taken by the Marshall Exchange Council to implement the auditors' recommendations.

To determine whether House & Albright had established and implemented an adequate quality control system, we reviewed the January 2001, report on the most recent peer review of the audit firm performed by DeLoach, Mann & Poarch, P.C. A peer review is a certified public accounting firm review of another certified public accounting firm's compliance with its quality control system. The purpose of a peer review is to determine and report whether a certified public accounting firm developed adequate policies and procedures of quality control and complied with them in performing accounting and

¹ AICPA Codification of Statements on Auditing Standards, Section 319, "Consideration of Internal Control in a Financial Statement," states that auditors are required to document the basis for concluding that control risk is below the maximum level.

² AICPA Codification of Statements on Auditing Standards, Section 316, "Fraud in a Financial Statement Audit," states that auditors are required to specifically assess the risk of material misstatement of the financial statements due to fraud and to document in the working papers evidence of their assessment.

Appendix A

auditing services for clients. DeLoach, Mann & Poarch, P.C. performed a peer review of the system of quality control for the accounting and auditing practice of House & Albright in effect for the year ended July 31, 2000. DeLoach, Mann & Poarch, P.C. found that the system had been ". . . designed to meet the requirements of the quality control standards for an accounting and auditing practice established by the AICPA and was complied with during the year then ended to provide the firm with reasonable assurance of conforming with professional standards."

Audit Field Work

We performed the quality control review from July through December 2002.

Appendix B. Requirements Applicable to Audits of NASA Exchanges

GAGAS are broad statements of the auditors' responsibilities, promulgated by the Comptroller General of the United States. The standards apply to audits of Government organizations, programs, activities, and functions. GAGAS prescribe the minimum hours of continuing education requirements and additional standards for field work and reporting. The GAGAS incorporate, by reference, the AICPA generally accepted auditing standards (GAAS) of field work and reporting.

NASA Policy Directive (NPD) 9050.6G, "NASA Exchange Activities," dated September 6, 2001, authorizes Center Directors to establish an Exchange to contribute to the efficiency, welfare, and morale of NASA personnel. Center Directors are required to appoint an Exchange Council to oversee the Exchange operations. The Council must consist of at least five Center employees who perform their duties without pay from the Exchange. Exchange-operated activities are generally self-sustained (that is, supported by nonappropriated funds³). The NPD also requires the Center Chief Financial Officer to monitor Exchange compliance with the NPD and to review financial statements and audit reports to ensure that the Exchange is financially sound and that responsible business practices are being followed. In addition, the Directive requires annual audits of the Exchange's financial statements and the annual submission of the statements and the audit reports to the Center Chief Financial Officer by December 31.

³ Nonappropriated funds are those received from sources other than congressional appropriations.

Appendix C. House & Albright, P.C. Audits of the Marshall Space Flight Center Exchange

Audit Scope. House & Albright conducted the FYs 2000 and 2001 audits in accordance with GAGAS, reported on internal controls and compliance with laws and regulations, and opined on the fair presentation of the financial statements.

Audit Results. In its audit reports dated September 30, 2000, and September 30, 2001, House & Albright rendered unqualified opinions on the Marshall Exchange FYs 2000 and 2001 Balance Sheets, Statements of Activities, and Cash Flows. An unqualified opinion means that the auditors determined that the financial statements present fairly the organization's financial position, changes in net assets, and cash flows in conformity with generally accepted accounting principles (GAAP). GAAP are a common set of accounting standards and procedures established by the accounting profession as a general guide to accounting theory and practice. GAAP include financial accounting standards, interpretations, and concepts set forth in the pronouncements of the Financial Accounting Standards Board and its predecessor agencies. During both audits, House & Albright identified reportable conditions involving the internal control over financial reporting and compliance with laws and regulations.

Recommendations. In separate communications to the Manager of the Marshall Exchange, House & Albright reported several control deficiencies identified during audits of the FY 2000 financial statements and recommended improvements to correct the deficiencies, including improvements to internal controls. The significant recommendations follow:

- The bookkeeper for the Exchange should be provided training in the accounting software that is used.
- The amount of freight paid should be included on an item-by-item basis in the cost of inventory.
- The Exchange should ensure that monthly reports are received from the Physical Exercise Program (PEP) coordinator as required in the PEP contract.
- The concessionaire agreements require the Exchange to give “preliminary notice of the Exchange’s intention to renew at least sixty days before this agreement is to expire.” This preliminary notice should be on file at the Exchange.

Marshall Exchange Corrective Actions. House & Albright reported that the Marshall Exchange had taken actions on these recommendations.

Appendix D. Report Distribution

Independent Audit Firm

Mr. Thomas Albright, CPA
House & Albright, P.C.
400 Meridian Street, Suite 102
Huntsville, AL 35801

National Aeronautics and Space Administration (NASA) Headquarters

AD/Deputy Administrator
AA/Chief of Staff
ADI/Associate Deputy Administrator for Institutions and Asset Management
B/Deputy Chief Financial Officer for Financial Management
B/Deputy Chief Financial Officer for Resources (Comptroller)
BF/Director, Financial Management Division
G/General Counsel
J/Assistant Administrator for Management Systems
JM/Director, Management Assessment Division
JR/Director, Contractor Industrial Relations
M/Associate Administrator for Space Flight

NASA Centers

MSFC/DA01/Director, Marshall Space Flight Center
MSFC/DE01/Chairman, NASA Exchange Marshall Space Flight Center

Non-NASA Federal Organizations and Individuals

Assistant to the President for Science and Technology Policy
Deputy Associate Director, Energy and Science Division, Office of Management and Budget
Branch Chief, Science and Space Programs Branch, Energy and Science Division, Office of Management and Budget
Managing Director, Acquisition and Sourcing Management Team, General Accounting Office
Managing Director, Financial Management and Assurance, General Accounting Office
Senior Professional Assistant, Senate Subcommittee on Science, Technology, and Space

Appendix D

Chairman and Ranking Minority Member – Congressional Committees and Subcommittees

Senate Committee on Appropriations

Senate Subcommittee on VA, HUD, and Independent Agencies

Senate Committee on Commerce, Science, and Transportation

Senate Subcommittee on Science, Technology, and Space

Senate Committee on Governmental Affairs

House Committee on Appropriations

House Subcommittee on VA, HUD, and Independent Agencies

House Committee on Government Reform

House Subcommittee on Government Efficiency, Financial Management and Intergovernmental Relations

House Subcommittee on Technology and Procurement Policy

House Committee on Science

House Subcommittee on Space and Aeronautics, Committee on Science

Congressional Member

Honorable Pete Sessions, U.S. House of Representatives

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Report Title: House & Albright, P.C., Audits of Marshall Space Flight Center Exchange Financial Statements for Fiscal Years Ended September 30, 2000, and 2001

Report Number: _____ **Report Date:** _____

Circle the appropriate rating for the following statements.

	Strongly Agree	Agree	Neutra l	Disagre e	Strongl y Disagre e	N/A
1. The report was clear, readable, and logically organized.	5	4	3	2	1	N/A
2. The report was concise and to the point.	5	4	3	2	1	N/A
3. We effectively communicated the audit objectives, scope, and methodology.	5	4	3	2	1	N/A
4. The report contained sufficient information to support the finding(s) in a balanced and objective manner.	5	4	3	2	1	N/A

Overall, how would you rate the report?

Excellent	Fair
Very Good	Poor
Good	

If you have any additional comments or wish to elaborate on any of the above responses, please write them here. Use additional paper if necessary. _____

How did you use the report? _____

How could we improve our report? _____

How would you identify yourself? (Select one)

- | | |
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Thank you for your cooperation in completing this survey.

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