

QUALITY CONTROL REPORT IG-04-003

Report Recipients:

R/Associate Administrator
for Aerospace Technology
GRC/0100/Director, John H.
Glenn Research Center
GRC/9000/Chairman, John
H. Glenn Exchange
Council

**GOMERSALL & ASSOCIATES INC. AUDITS OF
JOHN H. GLENN RESEARCH CENTER
EXCHANGE FINANCIAL STATEMENTS FOR
FISCAL YEARS ENDED
SEPTEMBER 30, 2000, AND 2001**

November 21, 2003

cc:

HQ/R/Audit Liaison
Representative
GRC/0224/Treasurer,
John H. Glenn Research
Center Exchange
GRC/0200/Audit Liaison
Representative



National Aeronautics and
Space Administration

OFFICE OF INSPECTOR GENERAL

Released by: [original signed by]

David M. Cushing, Assistant Inspector General for Auditing

**Gomersall & Associates Inc. Audits of John H. Glenn Research 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. As part of our continuing oversight of non-Federal audit work at NASA Exchanges, we reviewed the Gomersall & Associates Inc. audits of the NASA John H. Glenn Research Center (Glenn) Exchange financial statements for fiscal years (FYs) 2000 and 2001 to determine whether the audit work was performed in accordance with GAGAS.

We found that Gomersall & Associates' audit work complied with applicable auditing standards for FYs 2000 and 2001. Gomersall & Associates issued unqualified opinions on the financial statements, reported one weakness in internal controls, and did not identify any significant issues of noncompliance with laws and regulations.

We also found audit-related problems caused by Glenn Exchange management. Specifically they did not:

- provide the FY 2001 audited financial statements to the Glenn Chief Financial Officer (CFO) until 30 days after the December 31, 2001, deadline; and
- respond in a timely manner to findings in prior audits that identified internal control deficiencies.

Late Delivery of Financial Statements

The Glenn Exchange did not provide the FY 2001 audited financial statements to the Center CFO by December 31, 2001. NASA Policy Directive (NPD) 9050.6G, "NASA Exchange Activities," dated September 6, 2001, requires that the annual Exchange audit report be submitted to the Center CFO by December 31. To ensure timely completion of its work for the FY 2001 audit, Gomersall & Associates provided Glenn Exchange management an engagement letter, dated August 31, 2001, that stated:

We would expect to begin our audit in late October 2001 and issue 15 bound copies of our report no later than December 31, 2001.... Management is responsible for making all financial records and related information available to us. We understand that you will provide us with such information required for our audit and that you will be responsible for the accuracy and completeness of that information.

Three factors adversely affected the audit firm's timely delivery of the audited financial statements: (1) the Exchange bookkeeper did not properly reconcile the accounts or provide the required financial information to Gomersall & Associates in a timely manner, because the bookkeeper did not receive adequate training; (2) Exchange management encountered delays in coordinating meetings between themselves and Gomersall & Associates and (3) Exchange management had difficulty in implementing new accounting software. As a result of the audit firm's late delivery of the audited financial statements, Exchange management was, in turn, late providing the audited financial statements to the CFO. Late submission of the audited financial statements results in less benefit to management and other audited financial statement users.

Glenn Exchange Response to Prior Audit Findings

During the FYs 2000 and 2001 reviews of internal controls, the audit firm identified a reportable condition¹ in the area of Bank Reconciliation. This condition was considered to be a material weakness. Seven less significant internal control matters from both the FYs 2000 and 2001 audits were also cited in the management letter reports (Appendix D), including two weaknesses that had occurred in both years. As of May 30, 2003, the Exchange had not yet formally responded to the audit firm on the reportable condition or internal control matters.

In accordance with NPD 9050.6G, the Glenn Exchange Council and the Glenn CFO receive and review the Exchange's audited financial statements and the accompanying management letter from the certified public accounting firm that performs the audit. The Glenn CFO also discusses the audit results with the Exchange Chair and Treasurer to determine actions the Exchange plans to take in response to any audit recommendations or reportable conditions identified by the firm. The Glenn CFO ensures that the Exchange Council takes appropriate corrective actions and is required by NPD 9050.6G to monitor the Exchange's compliance with sound and responsible business practices. However, we found that the Glenn CFO had not informed Gomersall & Associates of the Exchange Council's decisions on corrective actions for the reportable condition and internal control weaknesses in the FYs 2000 and 2001 audits.

The Exchange and the audit firm should work together to obtain a solution to the conditions and internal control weaknesses identified in the audits. Further, Office of Management and Budget (OMB) Circular A-50, "Audit Follow-up," dated September 29, 1982, requires Federal agencies to respond to audit recommendations, including those received from non-Federal auditors. The Circular states that audit follow-up is an integral part of good management and requires prompt resolution and

¹ Reportable conditions are matters that come to the auditor's attention that could adversely affect the Exchange's ability to record, process, summarize, and report financial data.

corrective actions on audit recommendations. Corrective action taken on resolved findings and recommendations is essential to improving the effectiveness and efficiency of operations.

Subsequent to our audit, the Glenn CFO directed the Glenn Audit Liaison Representative to begin tracking the audit recommendations and reportable conditions identified during the annual audits of the Exchange financial statements in the same manner as other audit recommendations affecting Glenn. In addition, in a prior Office of Inspector General Quality Control Report (IG-03-016, "Johns, Bubbers & Johns, P.A., Audits of Kennedy Space Center Exchange Financial Statements for Fiscal Years Ended September 30, 2000, and 2001," dated May 28, 2003), we made a formal recommendation to the NASA Assistant Administrator for Management Systems to revise NPD 9050.6G to reference OMB Circular A-50 for requirements on responding to audit reports and resolution of findings and recommendations. The Assistant Administrator concurred with that recommendation and corrective actions are being implemented. Those actions should help ensure that all future Exchange audit findings are properly and timely addressed.

Recommendations for Corrective Action

The Director, John H. Glenn Research Center should ensure that:

- 1. Properly trained or experienced accounting personnel are assigned to perform accounting and reconciliation duties for the Exchange and submit financial statements in a timely manner to the audit firm for review.**

Management Response. Concur. GRC management decided to contract with a Certified Public Accountant (CPA) firm for bookkeeping service rather than continue to have Exchange employees perform that work. On July 11, 2003, GRC awarded a contract to Greenwald & Co. CPA, Inc. for bookkeeping and financial statement preparation.

Evaluation of Management Response. Management actions are responsive to the recommendation. Based on our review of the contract executed with Greenwald & Co. CPA, the recommendation is resolved, dispositioned, and closed for reporting purposes.

- 2. The Exchange immediately provides a written response to Gomersall & Associates on the status of the reportable condition and internal control weaknesses in the FYs 2000 and 2001 audits.**

Management Response. Concur. During the OIG's quality control review, the GRC Chief Financial Officer directed the Audit Liaison Officer to begin tracking the audit recommendations and reportable conditions identified during annual audits of the Exchange financial statements in the same manner as other audit recommendations affecting GRC. The Audit Liaison Officer and the GRC Exchange Treasurer prepared and submitted a spreadsheet to Gomersall & Associates documenting the corrective

actions taken in response to the Exchange auditor's recommendations from FYs 2000, 2001, and 2002.

Evaluation of Management Response. Management actions are responsive to the recommendations. Based on our review of the spreadsheet documenting the corrective actions taken, the recommendation is resolved, dispositioned, and closed for reporting purposes.

Appendixes

Among the appendixes, note that Appendix A details the status of the current audit recommendations, and Appendix C discusses the requirements related to audits of the NASA Exchanges.

List of Appendixes

Appendix A – Status of Recommendations

Appendix B – Objectives, Background, Scope, and Methodology

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Appendix D – Gomersall & Associates Inc. Audits of the Glenn Research
Center Exchange

Appendix E – Management Response

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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
NPD	NASA Policy Directive

Appendix A. Status of Recommendations

Recommendation No.	Resolved	Unresolved	Open/ECD*	Closed
1	X			X
2	X			X

* - Estimated Completion Date

Appendix B. Objectives, Background, Scope, and Methodology

Objectives

The quality control review objective was to determine whether Gomersall & Associates performed the audits for the FYs 2000 and 2001 financial statements for the John H. Glenn Research Center Exchange in accordance with applicable auditing standards. We also determined whether the Glenn Exchange Council had taken corrective actions in response to recommendations resulting from the audits.

Background

The Glenn Exchange retained Gomersall & Associates Inc., a public accounting firm licensed to practice in Ohio, to perform the audits of the Glenn Exchange financial statements. The Glenn Exchange is a Government instrumentality operating under NASA's control. The Exchange operates and generates revenues from gift shops and cafeterias. For the fiscal year ended September 30, 2001, the Glenn Exchange reported a cash balance, including amounts in money market accounts, of \$290,182 and a net loss of \$101,408. The Glenn Exchange also posted net losses of \$68,726 for FY 2000, and \$25,479 for FY 1999.

Scope and Methodology

In performing the quality control review, we used an internal work program that incorporated the auditing standards issued by generally accepted government auditing standards (GAGAS) and 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 independent public accounting firm's qualifications, independence, quality control system, audit programs for appropriate procedures, and working paper documentation to include the results of the control risk assessment,² fraud risk assessment,³ and controls testing. We also assessed plans and actions taken by the Glenn Exchange Council to implement the independent public accounting firm's recommendations.

To determine whether Gomersall & Associates had established and implemented an adequate quality control system, we reviewed the August 31, 2000, report on the most

² 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.

³ 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 B

recent peer review⁴ of the audit firm performed by Diefenbach, Delio, Kearney & Dedionisio, CPA. Diefenbach, Delio, Kearney & Dedionisio, CPA, conducted a peer review of the system of quality control for the accounting and auditing practice of Gomersall & Associates in effect for the year ended March 31, 2000. Diefenbach, Delio, Kearney & Dedionisio, CPA, 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 complying with professional standards."

Audit Field Work

We performed the quality control review from November 2002 through May 2003.

⁴ 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 the peer review is to determine and report whether the firm under review has developed adequate policies and procedures of quality control and complied with those policies and procedures in performing accounting and auditing services for clients.

Appendix C. Requirements Applicable to Audits of NASA Exchanges

Generally accepted government auditing standards (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. They 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.

GAAS (1) require that an independent auditor obtain written representations from management as a part of an audit of financial statements and (2) provide guidance on the representations to be obtained. Management should disclose through the representation letter information concerning fraud involving (1) management, (2) employees who have significant roles in internal control, or (3) others when the fraud could have a material effect on the financial statements.

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 funds⁵). The NPD also requires the Center CFO 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.

Office of Management and Budget Circular A-50, "Audit Followup," dated September 29, 1982, provides policies and procedures for use by executive agencies, including NASA, when considering reports issued by the Inspectors General and other audit organizations including non-Federal auditors when follow-up is necessary. The Circular requires management officials to receive and analyze audit reports, provide timely responses to the audit organization, and take corrective action where appropriate.

⁵ Nonappropriated funds are those received from sources other than congressional appropriations.

Appendix D. Gomersall & Associates Inc. Audits of the Glenn Research Center Exchange

Audit Scope. Gomersall & Associates Inc. 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 December 6, 2000, and January 30, 2002, Gomersall & Associates rendered unqualified opinions on the Glenn Exchange FYs 2000 and 2001 Balance Sheets, Statements of Revenue, Expenses and Changes in Retained Earnings, 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.

Recommendations. In separate communications to the Executive Council of the Glenn Exchange, Gomersall & Associates reported several control deficiencies identified during its audits of the Exchange's FYs 2000 and 2001 financial statements and recommended improvements to correct the deficiencies, including improvements to internal controls. The significant recommendations follow:

Gomersall & Associates Inc. Recommendations from FYs 2000 and 2001 Audits

Recommendation	Status
Accounts Receivable.* The invoice detail and subsidiary ledger should be reconciled to the general ledger on a monthly basis. Follow up on disputed receivables on a timely basis to assure proper treatment in the matching accounting period.	Open
Custodial Accounts. Consider closing custodial accounts that have had no recent activity.	Corrected
Council Meeting Minutes. Council designates an individual to maintain minutes of all meetings. Minutes should be presented and approved at subsequent meetings and such approval documented.	Corrected
Inventory. To assure accuracy of physical counts, both individuals performing the physical inventory should verify each other's count of the inventory. The store could benefit from the use of an automated inventory system or a computer spreadsheet.	Corrected
Procurement Procedures. The Exchange should consider establishing procedures to document its price inquiries to evidence that purchases are informally competed. Procurement done by the Exchange is for amounts less than those requiring competitive bids.	Corrected
Financial Reporting.* Management establishes a timeline for financial reporting and accountability if schedules are not met.	Open
Check Signing Authority. The accounting technician should not be an authorized signer on any Exchange account because of the lack of segregation of duties.	Open

*These recommendations were made in both years.

Glenn Exchange Response to Audit Recommendations. Gomersall & Associates told us that there were no formal written responses from the Glenn Exchange to the recommendations in the FYs 2000 and 2001 audits.

Appendix E. Management Response

National Aeronautics and
Space Administration
John H. Glenn Research Center
Lewis Field
Cleveland, OH 44135-3191



October 20, 2003

Reply to Attn of: 0200

TO: NASA Headquarters
Attn: W/Assistant Inspector General for Audits

FROM: 0100/Director

SUBJECT: Draft Quality Control Review Report, "Gomersall & Associates Inc. Audits of John H. Glenn Research Center (GRC) Exchange Financial Statements for Fiscal Years Ended September 30, 2000, and 2001"
Assignment Number A-03-004-00

We have reviewed the subject draft report in response to your request of October 6, 2003, subject as above. Our detailed comments follow.

Recommendation 1: The Director, John H. Glenn Research Center should ensure that properly trained or experienced accounting personnel are assigned to perform accounting and reconciliation duties for the Exchange and submit financial statements in a timely manner to the audit firm for review.

GRC Response:

We concur with this recommendation.

Actions Planned, In Process, or Complete:

Action Complete: To improve the accuracy of Exchange accounting and reconciliation functions and provide timely information to the financial statement auditors, GRC Exchange management decided to contract with a Certified Public Accountant (CPA) firm for bookkeeping services rather than continue to have Exchange employees perform that work. On July 11, 2003, GRC awarded a contract to Greenwald & Co. CPA, Inc. for bookkeeping and financial statement preparation.

Projected Corrective Action Closure Date: October 27, 2003

Recommendation 2: The Director, John H. Glenn Research Center should ensure that the Exchange immediately provides a written response to Gomersall & Associates on the status of the reportable condition and internal control weaknesses in the FYs 2000 and 2001 audits.

GRC Response:

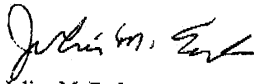
We concur with this recommendation.

Actions Planned, In Process, or Complete:

Action in Process: During the OIG's quality control review, the GRC Chief Financial Officer directed the GRC Audit Liaison Officer to begin tracking the audit recommendations and reportable conditions identified during the annual audits of the Exchange financial statements in the same manner as other audit recommendations affecting GRC. The Audit Liaison Officer and the GRC Exchange Treasurer have prepared a spreadsheet documenting the corrective actions taken in response to the Exchange auditor's recommendations from FYs 2000, 2001, and 2002. The Exchange Treasurer will provide this information to Gomersall & Associates at the entrance conference for the audit of the Exchange's FY 2003 financial statements, which is scheduled for October 27, 2003. A similar spreadsheet will be prepared each year and provided to the financial statement auditor during the entrance conference for the subsequent year's audit. This will enable the audit firm to assess the Exchange's completed corrective actions and make additional recommendations if necessary.

Projected Corrective Action Closure Date: October 27, 2003

We appreciate the opportunity to review the draft report. If you have any questions or need additional information regarding our comments, please feel free to contact Mr. Patrick A. Iler at (216) 433-5319.



Julian M. Earls

cc:

HQ/JM/J. D. Werner
R/J. V. Lebacqz
RS/S. M. Humphrey
LaRC/OJ/G. G. Degear

Appendix F. Report Distribution

Independent Audit Firm

Ms. Debbie Rush, CPA
Gomersall & Associates Inc.
Certified Public Accountants
24610 Detroit Road, Suite 150
West Lake, Ohio 44145

National Aeronautics and Space Administration (NASA) Headquarters

AD/Associate Deputy Administrator
AA/Chief of Staff
ADI/Associate Deputy Administrator for Institutions and Asset Management
B/Chief Financial Officer (Designate)
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
JG/Director, Logistics Management Office
JM/Director, Management Assessment Division
JR/Director, Contractor Industrial Relations
R/Associate Administrator for Aerospace Technology

NASA Centers

GRC/0100/Director, John H. Glenn Research Center
GRC/0120/Chief Counsel, John H. Glenn Research Center
GRC/0200/Chief Financial Officer, John H. Glenn Research Center
GRC/0224/Treasurer, John H. Glenn Research Center Exchange

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

Appendix F

Non-NASA Federal Organizations and Individuals (continued)

Senior Professional Staff Member, Senate Subcommittee on Science, Technology, and Space

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 and Financial Management

House Subcommittee on Technology, Information Policy, Intergovernmental Relations, and the Census

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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Suggestions for Future Audits

To suggest ideas for or to request future audits, contact the Assistant Inspector General for Auditing. Ideas and requests can also be mailed to:

Assistant Inspector General for Auditing
Code W
NASA Headquarters
Washington, DC 20546-0001

NASA Hotline

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Major Contributors to the Report

Neil Ryder, Director, Financial Management Audits Directorate

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