

National Aeronautics and  
Space Administration

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



JAN -7 2005

Mr. Timothy W. Doerfler  
President  
Cobb, Doerfler & Associates, CPA  
1039 West Avenue J  
Lancaster, CA 93534

Re: Final Report on the Quality Control Review of Cobb, Doerfler & Associates, CPA,  
Audit of Dryden Flight Research Center Exchange Financial Statements for the  
Fiscal Year Ended September 30, 2003  
Report No. IG-05-004

Dear Mr. Doerfler:

Enclosed is the subject final report. Please refer to the Executive Summary for the overall results. We consider the corrective action taken sufficient to close the recommendations. No further action is required. The final report distribution is in Appendix E. **The report will be publicly available.**

We appreciate the courtesies extended to the audit staff. If you have questions concerning the report please contact Mr. Karl M. Allen, Project Manager, Financial and Institutional Management, at (202) 358-2595; or Mr. Bret J. Skalsky, Auditor, at (281) 244-1156.

Sincerely,

A handwritten signature in cursive script that reads "Evelyn R. Klemstine".

Evelyn R. Klemstine  
Assistant Inspector General for Auditing

Enclosure

QUALITY CONTROL REVIEW REPORT IG-05-004

**Report Recipients:**

HQ/Office of Institutions &  
Management,  
Infrastructure,  
Management, and  
Headquarters Operations,  
Director, Management  
Systems Division  
DFRC/Audit Liaison  
Representative

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**COBB, DOERFLER & ASSOCIATES, CPA,  
AUDIT OF DRYDEN FLIGHT RESEARCH  
CENTER EXCHANGE FINANCIAL  
STATEMENTS FOR THE FISCAL  
YEAR ENDED SEPTEMBER 30, 2003**

**January 7, 2005**

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**cc:**

HQ/Space Operations,  
Audit Liaison  
Representative  
HQ/Office of Institutions &  
Management,  
Infrastructure,  
Management, and  
Headquarters  
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National Aeronautics and  
Space Administration

**OFFICE OF INSPECTOR GENERAL**

Released by:

*Evelyn R. Klemstine*

Evelyn R. Klemstine, Assistant Inspector General  
for Auditing

**Cobb, Doerfler & Associates, CPA, Audit of Dryden Flight Research  
Center Exchange Financial Statements for the  
Fiscal Year Ended September 30, 2003**

**Executive Summary**

The Inspector General Act of 1978, as amended, mandates that the Inspectors General ensure work performed for the Federal Government by non-Federal auditors complies with generally accepted government auditing standards (GAGAS) issued by the Comptroller General of the United States. GAGAS incorporates the generally accepted auditing standards (GAAS) of the American Institute of Certified Public Accountants (AICPA) for field work and reporting. As part of our continuing oversight of non-Federal audit work at NASA Exchanges, we reviewed the Cobb, Doerfler, & Associates, CPA, (Cobb, Doerfler & Associates) audit of the Dryden Flight Research Center (Dryden) Exchange financial statements for the fiscal year (FY) ended September 30, 2003. We performed our review to determine whether the audit work was performed in accordance with GAGAS.

Cobb, Doerfler & Associates issued an unqualified opinion on the audit of the Dryden Exchange financial statements for FY 2003. In performing our quality control review of Cobb, Doerfler & Associates, we found that controls were generally in place for ensuring compliance with applicable auditing standards. However, we identified three instances where the audit work of Cobb, Doerfler & Associates did not fully comply with applicable auditing standards for the audit of the Dryden Exchange financial statements for FY 2003. Specifically, we found that Cobb, Doerfler & Associates did not:

- follow all of its procedures to ensure the independence of its staff in accordance with GAGAS;
- require that the Dryden Exchange state, in its management representation letter, that management acknowledged its responsibility for the design and implementation of programs and controls to prevent and detect fraud; and
- request the Dryden Exchange to send a letter of inquiry to lawyers with whom management has consulted concerning litigation, claims, and assessments.

Cobb, Doerfler, & Associates took action responsive to our recommendations. All recommendations are closed.

## **Findings and Recommendations**

### ***Procedures to Ensure Auditor Independence Were Not Always Followed***

Cobb, Doerfler & Associates did not follow all of its own procedures to ensure independence of its staff in accordance with GAGAS. GAGAS requires that in all matters relating to the audit work, the audit organization, and the individual auditor, whether government or public, should be free both in fact and appearance from personal, external, and organization impairments to independence. GAGAS further requires that audit organizations have an internal quality control system to help determine whether auditors have any personal impairment to independence that could affect their impartiality or the appearance of impartiality. Cobb, Doerfler & Associates has procedures to ensure auditor independence. Cobb, Doerfler & Associates requires that all employees certify they are independent by completing an Employee Independence Representation form when hired and annually thereafter. However, we found that:

- The Employee Independence Representation form identified compliance with AICPA standards, the State of California Board of Accountancy, the State of California Certified Public Accountant Society, and the Security and Exchange Commission independence rules, regulations, interpretations, and rulings but did not identify compliance with GAGAS. GAGAS has its own independence standard, which states, “In all matters relating to the audit work, the audit organization and the individual auditor, whether government or public, should be free both in fact and appearance from personal, external, and organizational impairments to independence.” That requirement is different from the AICPA standard, which states, “In all matters relating to the assignment, an independence in mental attitude is to be maintained by the auditor or auditors.”
- One staff member of Cobb, Doerfler & Associates, who had worked on the audit of the Dryden Exchange financial statements for FY 2003, did not complete the Employee Independence Representation form when hired. The staff member did not complete the form until our visit in June 2004. Two other staff members of Cobb, Doerfler & Associates who performed work on the Dryden Exchange financial statements for FY 2003 did not annually certify to their independence. The two staff members last completed the Employee Independence Representation form in August 2001.

Cobb, Doerfler & Associates stated that it did not include the GAGAS requirement for independence in its Employee Independence Representation form because it believed that the requirement is similar to the AICPA general standard and therefore not necessary. In addition, the management of Cobb, Doerfler & Associates stated that its employees had not completed the independence forms because of an oversight.

***Management Representation Letter Did Not Acknowledge Responsibility to Prevent and Detect Fraud***

The Dryden Exchange, in its Management Representation Letter to Cobb, Doerfler & Associates, did not state its responsibility for the design and implementation of programs and controls for preventing and detecting fraud. AICPA field work standards require that written representations from management should be obtained for all financial statements and periods covered by the auditors' report. Cobb, Doerfler & Associates stated that they inadvertently omitted the disclosure statement when they prepared the representation letter for the signature of Dryden Exchange management.

***Inquiry Not Made Concerning Litigation, Claims, and Assessments***

Cobb, Doerfler & Associates did not request that the Operations Manager for the Dryden Exchange send a letter of inquiry to lawyers with whom management had consulted concerning litigation, claims, and assessments against the Dryden Exchange. AICPA field work standards state that the auditor should request that the client's management send a letter of inquiry to those lawyers with whom management consulted concerning litigation, claims, and assessments. The lawyers' responses along with audit procedures specified in the AICPA field work standards provide evidence concerning the accounting for and reporting of pending and threatened legal actions. In addition, a letter of audit inquiry to the client's lawyer is the auditor's primary means of obtaining corroboration of the information furnished by management concerning litigation, claims, and assessments. Cobb, Doerfler & Associates did not initiate an inquiry because it concluded that the Exchange was a Government entity and therefore a letter of inquiry was not required.

***Recommendations for Corrective Action, Management's Response, and Evaluation of Management's Response***

- 1. Cobb, Doerfler & Associates should revise its Employee Independence Representation form to include the GAGAS requirement for independence.**

**Management's Response.** Concur. Cobb, Doerfler & Associates revised its Employee Independence Representation form to include the GAGAS requirement for independence.

**Evaluation of Management's Response.** Cobb, Doerfler & Associates action is responsive to the recommendation, and the recommendation is closed.

- 2. Cobb, Doerfler & Associates should complete independence certifications for the audit of the Dryden Exchange financial statements for FY 2003 to confirm that the staff members who performed work were in compliance with GAGAS independence standards.**

**Management's Response.** Concur. Cobb, Doerfler & Associates completed independence certifications for the audit of the Dryden Exchange financial statements for FY 2003 in compliance with GAGAS independence standards.

**Evaluation of Management's Response.** Cobb, Doerfler & Associates action is responsive to the recommendation, and the recommendation is closed.

- 3. Cobb, Doerfler & Associates should ensure the implementation of its procedure to make certain that independence is verified when employees are hired and annually thereafter.**

**Management's Response.** Concur. Cobb, Doerfler & Associates implemented additional steps in its procedures manual to ensure that independence is verified when employees are hired and annually thereafter. A memorandum to all staff will be circulated regarding the requirement to certify independence, and an annual reminder to recertify employee independence will be placed on the office calendar. Also, a checklist that includes the requirement for certifying employee independence upon hiring, will be included in the hiring guide.

**Evaluation of Management's Response.** Cobb, Doerfler & Associates action is responsive to the recommendation, and the recommendation is closed.

- 4. Cobb, Doerfler & Associates should evaluate the impact of the fact that the management representation letter for the Dryden Exchange financial statement audit for FY 2003 did not contain the required management acknowledgement of their responsibility for the design and implementation of programs and controls for preventing and detecting fraud. If the representation is identified as necessary, have the Dryden Exchange complete a new management representation letter that includes the omitted representation.**

**Management's Response.** Concur. Cobb, Doerfler & Associates evaluated the impact of the omitted management acknowledgement of responsibility for the design and implementation of programs and controls for preventing and detecting fraud and concluded the following:

- The omission of the required management acknowledgement in the management representation letter did not materially impact the outcome of the FY 2003 financial statement audit.
- Cobb, Doerfler & Associates will revise all future management representation letters to include the management acknowledgement of its responsibility for the design and implementation of programs and controls for preventing and detecting fraud.

Cobb, Doerfler & Associates received a new management representation letter for the Dryden Exchange FY 2003 financial statement audit. The letter includes management's acknowledgement of responsibility for the design and implementation of programs and controls for preventing and detecting fraud.

**Evaluation of Management's Response.** Cobb, Doerfler & Associates action is responsive to the recommendation, and the recommendation is closed.

- 5. Cobb, Doerfler & Associates should request the Operations Manager for the Dryden Exchange to send a letter of inquiry to lawyers with whom management has consulted concerning litigation, claims, and assessments; evaluate the response and apply other procedures as necessary; and determine any impact on the FY 2003 financial statement audit.**

**Management's Response.** Concur. Cobb, Doerfler & Associates agreed that the legal confirmation is a necessary step in the audit process. Cobb, Doerfler & Associates determined, by having discussions with Exchange management and searching through financial information, that no potential legal issues were noted. In addition, the management representation letter states that "no unasserted claims or assessments" existed. Also, Cobb, Doerfler & Associates received a legal representation letter from the Attorney-Advisor, NASA Dryden Flight Research Center, stating that no unasserted claims or assessments existed involving the Exchange that might call for financial disclosure.

**Evaluation of Management's Response.** Cobb, Doerfler & Associates action is responsive to the recommendation, and the recommendation is closed.

## **Appendixes**

Among the appendixes, note that Appendix B contains objectives, background, scope, and methodology requirements related to the quality control review of the Dryden Exchange; Appendix C contains regulations, policies, and guidance used for the audit of the Dryden Exchange; Appendix D contains the audit scope and results from the Cobb, Doerfler & Associates audit of the Dryden Exchange financial statements; and Appendix E contains the final report distribution.

## **List of Appendices**

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Appendix A - Status of Recommendations

Appendix B - Objectives, Background, Scope, and Methodology

Appendix C - Criteria Applicable to Audits of NASA Exchanges

Appendix D - Cobb, Doerfler & Associates, CPA, Audit of the Dryden  
Flight Research Center Exchange Financial Statements

Appendix E - Report Distribution

## **Acronyms Used in this Report**

AICPA	American Institute of Certified Public Accountants
FY	Fiscal Year
GAAP	Generally Accepted Accounting Principles
GAAS	Generally Accepted Auditing Standards
GAGAS	Generally Accepted Government Auditing Standards
OIG	Office of Inspector General



## Appendix A. Status of Recommendations

<b>Recommendation No.</b>	<b>Resolved</b>	<b>Unresolved</b>	<b>Open/ECD*</b>	<b>Closed</b>
1	Yes			10/13/04
2	Yes			10/13/04
3	Yes			10/13/04
4	Yes			10/13/04
5	Yes			10/13/04

\*ECD - Estimated Completion Date.

## **Appendix B. Objectives, Background, Scope, and Methodology**

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### **Objectives**

The quality control review objective was to determine whether the Cobb, Doerfler & Associates, CPA, (Cobb, Doerfler & Associates) audit of the Dryden Flight Research Center (Dryden) Exchange financial statements for the fiscal year (FY) ended September 30, 2003, was performed in accordance with generally accepted government auditing standards (GAGAS) issued by the Comptroller General of the United States. GAGAS incorporates the generally accepted auditing standards (GAAS) of the American Institute of Certified Public Accountants (AICPA) for field work and reporting.

### **Background**

The Dryden Exchange retained Cobb, Doerfler & Associates, a public accounting firm licensed to practice in the state of California, to perform the audit of the Dryden Exchange financial statements for FY 2003. The Exchange is operated as a Government instrumentality and is entitled to all the immunities and privileges normally associated with a Government instrumentality. The Exchange engages in several activities to accomplish its mission. The Exchange operates and generates revenues from a cafeteria, vending machines, gift shop, activities trailer, and investments. For the FY ending September 30, 2003, the Exchange reported an increase of total assets of \$33,962, an increase in cash of \$22,241, and an increase of total unrestricted revenue of \$38,720.

### **Scope and Methodology**

In performing the quality control review, we used an internal work program that incorporates the auditing standards issued by the Comptroller General of the United States and the 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, and working paper documentation including the results of the control risk assessment, fraud risk assessment, and controls testing. We also assessed the findings addressed in the management letter and the corrective actions identified by the Dryden Exchange Council to implement the auditors' recommendations.

To determine whether Cobb, Doerfler & Associates had established and implemented an adequate quality control system, we reviewed the October 25, 2001, report on the most recent peer review of the audit firm performed by Brakensiek Leavitt Pleger, LLP. 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 auditing services for clients. Brakensiek Leavitt Pleger, LLP, performed a peer review of the system of quality control for the accounting and auditing practice of Cobb, Doerfler & Associates, in effect for the year ended June 30, 2001.

Brakensiek Leavitt Pleger, LLP, 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.”

**Review**

We performed the quality control review from June through July 2004. A discussion draft report was issued on August 31, 2004, requesting management’s informal comments. Based on the discussion draft, management took corrective action and satisfactorily addressed all recommendations by October 20, 2004, therefore formal management comments were not required.

## **Appendix C. Criteria Applicable to Audits of NASA Exchanges**

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Generally accepted government auditing standards (GAGAS) are broad statements of auditor responsibilities, as set forth and established by the Comptroller General of the United States. The standards apply to audits of government organizations, programs, activities, and functions. They prescribe general standards (including independence, professional judgment, competence, quality control, and assurance requirements), field work standards, and reporting standards. GAGAS incorporates the generally accepted auditing standards (GAAS) of the American Institute of Certified Public Accountants (AICPA) for field work and reporting. GAGAS does not incorporate the AICPA general standards.

The GAGAS general standard for independence states that in all matters relating to the audit work, the audit organization and the individual auditor, whether government or public, should be free both in fact and appearance from personal, external, and organizational impairments to independence. The AICPA general standard for independence states that in all matters relating to the assignment, independence in mental attitude is to be maintained by the auditor or auditors. In addition, GAGAS requires that audit organizations have an internal quality control system to help determine whether auditors have any personal impairment to independence that could affect their impartiality or the appearance of impartiality.

The AICPA field work standards require, as part of an audit of financial statements, that an independent auditor obtain written representations from management. In addition, the AICPA provides guidance on obtaining and disclosing the representations. Management representation letters should disclose management's acknowledgment of its responsibility for the design and implementation of programs and controls to prevent and detect fraud. In addition, AICPA field work standards acknowledge that auditors ordinarily do not possess legal skills and, therefore, cannot make legal judgments concerning information coming to his/her attention. Accordingly, the auditor should request that the client's management send a letter of inquiry to those lawyers with whom management consulted concerning litigation, claims, and assessments. Furthermore, a letter of audit inquiry to the client's lawyer is the auditor's primary means of obtaining corroboration of the information furnished by management concerning litigation, claims, and assessments.

## **Appendix D. Cobb, Doerfler & Associates, CPA, Audit of the Dryden Flight Research Center Exchange Financial Statements**

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**Audit Scope.** Cobb, Doerfler & Associates, CPA, (Cobb, Doerfler & Associates) conducted the audit of the Dryden Flight Research Center (Dryden) Exchange financial statements for the fiscal year (FY) ended September 30, 2003, in accordance with generally accepted government auditing standards (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 report, dated January 30, 2004, Cobb, Doerfler & Associates rendered an unqualified opinion on the Dryden Exchange FY 2003 Statements of Financial Position, Statements of Activities, and Statements of Cash Flows. An unqualified opinion means that the auditors determined that the financial statements present fairly the organization's financial position, activities, and cash flows in conformity with generally accepted accounting principles (GAAP). GAAP is a technical accounting term that encompasses the conventions, rules, and procedures necessary to define accepted accounting practice at a particular time. It includes not only broad guidelines of general application, but also detailed practices and procedures. Those conventions, rules, and procedures provide a standard by which to measure financial presentations.

**Recommendations.** Cobb, Doerfler & Associates did not identify any matters related to compliance with certain provisions of laws, regulations, contracts and grants, or other matters involving internal control over financial reporting that necessitated a formal report to the Dryden Exchange management. However, Cobb, Doerfler & Associates did issue a management letter noting that certain individuals performed several functions that resulted in inadequate segregation of duties. The inadequate segregation of duties led to an internal control weakness. Also, the letter states that the Exchange did not maintain a general ledger system nor did it prepare periodic financial statements. In addition, the letter also identified the importance of taking periodic inventory counts and reconciling those counts to computer inventory amounts. The Chair of the Dryden Exchange, in response to the management letter, identified that most of the recommendations had already been implemented or were to be implemented.

## **Appendix E. Report Distribution**

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### **Independent Audit Firm**

Mr. Timothy W. Doerfler, President  
Cobb, Doerfler & Associates, CPA  
1039 West Avenue J  
Lancaster, CA 93534

### **National Aeronautics and Space Administration (NASA) Headquarters**

Chief Financial Officer  
General Counsel  
Assistant Administrator for Legislative Affairs  
Audit Liaison Representative, Space Operations Directorate  
Director Management Systems Division, Office of Infrastructure, Management, and  
Headquarters Operations  
Audit Liaison Representative, Management Systems Division, Office of Infrastructure,  
Management, and Headquarters Operations  
Contactor Industrial Relations Officer, Office of Infrastructure, Management, and  
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DFRC/Legal Office  
DFRC/Dryden Exchange, Chair  
DFRC/Dryden Exchange, Exchange Operations Manager  
DFRC/Audit Liaison Representative

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## **Comments on this Report**

In order to help us improve the quality of our products, if you wish to comment on the quality or usefulness of this report, please send your comments to Mr. Lee T. Ball, Director, Quality Control Division, at [Lee.T.Ball@nasa.gov](mailto:Lee.T.Ball@nasa.gov) or call (757) 864-3269.

## **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  
NASA Headquarters  
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## **Major Contributors to the Report**

David L. Gandrud, Acting Director, Financial and Institutional Management Directorate

Karl M. Allen, Project Manager

Bret J. Skalsky, Auditor-in-Charge