

**Report Recipients:**

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

---

**ALEXANDER, VAN LOON, SLOAN, LEVENS &  
FAVRE, PLLC, AUDIT OF JOHN C. STENNIS  
SPACE CENTER EXCHANGE FINANCIAL  
STATEMENTS FOR THE FISCAL YEAR  
ENDED SEPTEMBER 30, 2003**

**January 13, 2005**

---

**cc:**

HQ/Space Operations,  
Audit Liaison  
Representative  
HQ/Office of Institutions  
& Management,  
Infrastructure,  
Management, and  
Headquarters  
Operations, Logistics  
Management Office,  
Director  
SSC/Director  
SSC/Stennis Exchange,  
Exchange Operations  
Manager  
SSC/Stennis Exchange,  
Chairman  
SSC/Legal Office



National Aeronautics and  
Space Administration

**OFFICE OF INSPECTOR GENERAL**

Released by:

*Evelyn R. Klemstine*

Evelyn R. Klemstine, Assistant Inspector General for  
Auditing

**Alexander, Van Loon, Sloan, Levens & Favre, PLLC, Audit of John C. Stennis Space Center Exchange Financial Statements for the Fiscal Year Ended September 30, 2003**

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 Alexander, Van Loon, Sloan, Levens & Favre, PLLC (Alexander Van Loon), audit of the John C. Stennis Space Center (Stennis) 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.

**Executive Summary**

Alexander Van Loon's audit work of the Stennis Exchange financial statements for the FY ended September 30, 2003, complied with GAGAS. Alexander Van Loon issued an unqualified opinion on the audit of the Stennis Exchange financial statements for FY 2003 as well as a management letter to the Stennis Exchange Council with comments and suggestions for strengthening internal controls and operating efficiency. In response to Alexander Van Loon's comments and suggestions, the Stennis Exchange Council implemented procedures that should strengthen internal controls and operating efficiencies.

**Appendixes**

Among the appendixes, note that Appendix A contains objectives, background, scope, and methodology requirements related to the quality control review of the Stennis Exchange; Appendix B contains regulations, policies, and guidance used for the audit of the Stennis Exchange; Appendix C contains the audit scope and results from Alexander Van Loon's audit of the Stennis Exchange financial statements; and Appendix D contains the final report distribution.

## **List of Appendixes**

---

Appendix A - Objectives, Background, Scope, and Methodology

Appendix B - Criteria Applicable to Audits of NASA Exchanges

Appendix C - Alexander, Van Loon, Sloan, Levens & Favre, PLLC, Audit  
of the John C. Stennis Space Center Exchange Financial  
Statements

Appendix D - 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. Objectives, Background, Scope, and Methodology**

---

### **Objectives**

The quality control review objective was to determine whether the Alexander Van Loon audit of the Stennis Exchange financial statements for the FY ended September 30, 2003, was performed in accordance with GAGAS issued by the Comptroller General of the United States. GAGAS incorporates the GAAS of the AICPA for field work and reporting.

### **Background**

The Stennis Exchange retained Alexander Van Loon, a public accounting firm licensed to practice in the state of Mississippi, to perform the audit of the Stennis 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's revenues are derived from the operation of two Exchange retail stores and fees obtained from approximately six Exchange-Vendor Concessionaire Agreements. In addition, the Exchange serves an oversight role in monitoring the activities of the Stennis Child Development Center and the Stennis Recreation Association, which includes the revenue producing "Cypress House" operation. For FY 2003, the Stennis Exchange reported an operating loss of \$42,920, a cash balance (including cash equivalents) of \$273,780, and a retained earnings balance of \$347,471.

### **Scope and Methodology**

In performing the quality control review, we used an internal work program that incorporated 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 for appropriate procedures, and working paper documentation to include the results of the control risk assessment, fraud risk assessment, and controls testing. We also assessed prior year findings addressed in a management letter and followup on those corrective actions taken by the Stennis Exchange Council to implement the auditors' recommendations.

To determine whether Alexander Van Loon had established and implemented an adequate quality control system, we reviewed the November 13, 2002, report on the most recent peer review of the audit firm performed by Wilson, Price, Barranco, Blankenship & Billingsley, P.C. A peer review is a certified public accounting firm's 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

## **Appendix A**

---

public accounting firm developed adequate policies and procedures of quality control and complied with them in performing accounting and auditing services for clients. Wilson, Price, Barranco, Blankenship & Billingsley, P.C., performed a peer review of the system of quality control for the accounting and auditing practice of Alexander Van Loon, in effect for the year ended June 30, 2002. Wilson, Price, Barranco, Blankenship & Billingsley, 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 complying with professional standards.”

### **Review**

We performed the quality control review in November 2004.

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

---

GAGAS standards are broad statements of auditors' 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 (includes independence, professional judgment, competence, quality control, and assurance requirements), field work standards, and reporting standards. GAGAS incorporates the GAAS of the AICPA for field work and reporting. The AICPA general standards are not incorporated into GAGAS.

The AICPA professional standards for performing and reporting on peer reviews state that firms in the AICPA peer review program have an independent peer review of their accounting and auditing practices at least once every 3 years. The peer review program is based on the principle that a systematic monitoring and education process is the most effective way to attain high-quality performance through the profession. A firm that has been reviewed is expected to take appropriate actions in response to deficiencies. Disciplinary actions are taken only for a failure to cooperate or for deficiencies that are so serious that remedial or corrective actions are not suitable.

## **Appendix C. Alexander, Van Loon, Sloan, Levens & Favre, PLLC, Audit of the John C. Stennis Space Center Exchange Financial Statements**

---

**Audit Scope.** Alexander Van Loon conducted the audit of the Stennis Exchange financial statements for the FY ended September 30, 2003, 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 report dated October 31, 2003, Alexander Van Loon rendered an unqualified opinion on the Stennis Exchange FY 2003 Balance Sheets; Statements of Revenues, Expenses and Changes in Retained Earnings; 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 an 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.** No matters were identified related to compliance with certain provisions of laws, regulations, contracts and grants, or other matters involving internal control over financial reporting that would have been reported to the Stennis Exchange management. However, Alexander Van Loon, in a management letter to the Stennis Exchange Council, reported opportunities for strengthening internal controls and operating efficiencies. The comments and suggestions are identified as follows:

### **1. Uninsured Cash Deposits**

- a. The cash balance held with one financial institution exceeded the amount of coverage offered through the Federal Deposit Insurance Corporation. The risk may be acceptable if management periodically reviews the financial status of the institution being used for savings. Otherwise, the Exchange may want to consider alternative means for safeguarding the Exchange's liquid assets.

### **2. Souvenir Shop**

- a. Segregation of Duties
  - 1) Unopened bank statements should be sent directly to the Exchange's administrative assistant. The administrative assistant

should prepare the bank reconciliation and review all cancelled checks for propriety of payee and signature. All unusual items noted during this review should be investigated.

- 2) Retain the detailed deposit slip cancelled by the bank and attach that slip, along with the bank validated deposit slip, to the daily close out report. Have the administrative assistant verify the deposited amounts with the daily close out report and investigate any variances.

b. Payments to Vendors

- 1) Vendors are occasionally paid from statements rather than invoices. Invoices are therefore susceptible to duplicate payment. Payments should always be from original invoices and invoices should be reconciled to amounts represented on vendor statements.

c. Inventory Valuation

- 1) Costs included in the product report did not always agree with the costs on the vendor invoices. The product report is used to determine the amounts invested in inventory as well as determining gross profit. Care should be taken when inputting inventory information into the system. Comparing the product report balances to the perpetual inventory balance can be performed to determine if costs are being reported properly.

d. Damaged Inventory

- 1) Damaged inventory is not being removed from the product report. Consequently, inventory is overstated by the value of the damaged inventory. Policies and procedures should be developed for tracking and removing damaged inventory from the perpetual inventory system on a periodic basis (monthly).

e. Inventory Pricing

- 1) The retail price of items is usually changed, prior to a sale, in the cash register to reflect the discounted price. Discounts were sometimes offered at the cash register. Policies and procedures should be developed to ensure pricing methods are consistent for all transactions.



**Corrective Actions.** The Stennis Exchange Council addressed all of Alexander Van Loon's comments and suggestions identified in the management letter, and implemented procedures that should strengthen internal controls and operating efficiencies.

## **Appendix D. Report Distribution**

---

### **Independent Audit Firm**

Mr. Steven Dockens, Manager  
Alexander, Van Loon, Sloan, Levens & Favre, PLLC  
9490 Three Rivers Road  
Gulfport, MS 39503

### **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  
Headquarters Operations

### **NASA Centers**

SSC/Director  
SSC//Legal Office  
SSC/Stennis Exchange, Chairman  
SSC/Stennis Exchange, Exchange Operations Manager  
SSC/Audit Liaison Representative

### **Additional Copies**

To obtain additional copies of this report, contact the Assistant Inspector General for Auditing at (202) 358-1232, or visit [www.hq.nasa.gov/office/oig/hq/issuedaudits.html](http://www.hq.nasa.gov/office/oig/hq/issuedaudits.html).

### **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  
Washington, DC 20546-0001

### **NASA Hotline**

To report fraud, waste, abuse, or mismanagement, contact the NASA OIG Hotline at (800) 424-9183, (800) 535-8134 (TDD), or at [www.hq.nasa.gov/office/oig/hq/hotline.html#form](http://www.hq.nasa.gov/office/oig/hq/hotline.html#form); or write to the NASA Inspector General, P.O. Box 23089, L'Enfant Plaza Station, Washington, DC 20026. The identity of each writer and caller can be kept confidential, upon request, to the extent permitted by law.

## **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