

FEBRUARY 15, 2008

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REVIEW REPORT

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OFFICE OF AUDITS

QUALITY CONTROL REVIEW OF  
FAW, CASSON & COMPANY, LLP'S AUDIT OF  
WALLOPS EXCHANGE AND MORALE ASSOCIATION  
FINANCIAL STATEMENTS FOR FISCAL YEAR ENDED  
SEPTEMBER 30, 2006

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OFFICE OF INSPECTOR GENERAL

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National Aeronautics and  
Space Administration

## Acronyms

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AICPA	American Institute of Certified Public Accountants
CPA	Certified Public Accountant
FDIC	Federal Deposit Insurance Corporation
FY	Fiscal Year
GAS	Government Accountability Office's "Government Auditing Standards, 2003 Revision"
SEC	Securities and Exchange Commission
TFM	Treasury's Financial Manual
WEMA	Wallops Exchange and Morale Association

National Aeronautics and  
Space Administration

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



February 15, 2008

Ronald W. Hickman, CPA  
Faw, Casson & Company, LLP

**SUBJECT:** Quality Control Review of Faw, Casson & Company, LLP's Audit of Wallops Exchange and Morale Association Financial Statements for Fiscal Year Ended September 30, 2006 (Report No. IG-08-007; Assignment No. A-08-002-00)

The audit firm of Faw, Casson & Company, LLP performed an audit of the Wallops Exchange and Morale Association (WEMA) financial statements for the fiscal year ended September 30, 2006 (FY 2006). The Inspector General Act of 1978, as amended, section 4, paragraph (b)(1)(C), directs each Inspector General, with respect to the organization within which the office is established, to take appropriate steps to ensure that any work performed by non-Federal auditors complies with the standards established by the Comptroller General.

Our quality control review was to determine whether Faw, Casson & Company performed its audit in accordance with the Government Accountability Office's "Government Auditing Standards, 2003 Revision" (GAS), issued by the Comptroller General of the United States. GAS applies to audits of Government organizations, programs, activities, and functions and prescribes general standards (including independence, professional judgment, competence, quality control, and assurance requirements), fieldwork standards, and reporting standards. Additionally, GAS incorporates the generally accepted auditing standards of the American Institute of Certified Public Accountants (AICPA) for fieldwork and reporting.<sup>1</sup> See Enclosure 1 for details on the scope and methodology of our review, requirements for reviews of exchanges and morale support activities, and our summary of the latest peer review of Faw, Casson & Company. See Enclosure 2 for the results of the Faw, Casson & Company audit of WEMA for FY 2006.

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<sup>1</sup> The AICPA is the national professional organization for all certified public accountants (CPAs). According to the AICPA, its mission is to provide members with the resources, information, and leadership that enable the members to provide valuable services in the highest professional manner to benefit the public as well as employers and clients. In fulfilling its mission, the AICPA works with State CPA organizations and gives priority to those areas where public reliance on CPA skills is most significant.

**Background.** WEMA is located at the NASA Goddard Space Flight Center's Wallops Flight Facility, Wallops Island, Virginia. WEMA promotes the social, athletic, educational, cultural, and other interests of Wallops employees. Activities supported by WEMA include a cafeteria, a gift shop, dormitories, and various clubs and events. In FY 2006, WEMA revenues totaled approximately \$872,000.

Faw, Casson & Company maintains offices in Dover, Delaware; Ocean City, Maryland; and Salisbury, Maryland. According to its Web site, the firm has expertise in agribusiness, governmental units, manufacturing, real estate development, healthcare, employee benefit plan audits, wholesale and distribution, construction, hospitality, and professional services.

**Review Results.** Faw, Casson & Company's audit work on the FY 2006 audit of WEMA's financial statements substantially met GAS. We found no exception with the auditors' qualifications, audit planning, audit supervision, and the conduct of the audit fieldwork. However, we noted two exceptions related to audit reporting. The firm did not report WEMA's failure to comply with a Federal regulation (Finding A). We also found that Faw, Casson & Company did not report that WEMA did not include comparative notes in the FY 2006 financial statements (Finding B).

**Management Comments.** In response to a draft of this report, Mr. Hickman agreed to implement the recommendations in subsequent audits, and we have closed the recommendations. The full text of management's comments is in Enclosure 3.

## Finding A

**Noncompliance with a Federal Regulation Was Not Reported.** WEMA's FY 2006 financial statements included a disclosure, "Note B – Credit Risk," stating that WEMA had cash deposits in financial institutions in excess of the amounts insured by the Federal Deposit Insurance Corporation (FDIC) as of September 30, 2006. Specifically, WEMA's cash balance exceeded FDIC coverage by \$85,846, or 39 percent of the WEMA's total cash balance.

The Department of the Treasury's Financial Manual (TFM) contains a requirement to ensure that funds in excess of the FDIC limit are collateralized. TFM Volume 1, Part 6, Section 9040, "Securing Agency Accounts," states:

All public money<sup>2</sup> deposited in a depository must be fully secured at all times. The current Federal deposit insurance limit per insured account is \$100,000. . . . When an agency deposits public money exceeding the recognized deposit insurance limit

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<sup>2</sup> TFM, Section 9010, states that public money includes "revenue and funds of the United States and any funds the deposit of which is subject to the control or regulation of the United States or any of its officers, agents or employees." Section 9020 states: "A financial institution is defined as any bank, savings bank, savings and loan association, credit union, or similar institution. Financial institutions may be designated as depositories."

(generally \$100,000), the agency must request that the depository pledge eligible collateral to secure the uninsured amount. . . . This collateral requirement applies to total agency deposits at a depository that exceed the applicable insurance limit.

WEMA should have requested that its depository pledge eligible collateral to secure the uninsured amount of its cash deposits in accordance with TFM Part 6, Section 9040. This condition was not reported by Faw, Casson & Company in its “Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards.” As a result, WEMA management has taken no action to comply with the TFM requirement.

**Recommendation 1.** Faw, Casson & Company should ensure it tests compliance with the requirements found in TFM Volume 1, Part 6, Section 9040, and communicate any noncompliance discovered in future financial statement audits in accordance with the applicable generally accepted government auditing standards.

**Management’s Response.** Mr. Hickman stated that GAS-required reporting of noncompliance is based on whether the condition is considered a significant violation of provisions of contracts or grant agreements and abuse. Faw, Casson & Company, when it issued its report, was not aware of any financial deterioration and, therefore, concluded that this condition deserved a note due to the ongoing contingency associated with it, but that there was no significant violation. However, Mr. Hickman agreed that the situation deserves reporting; Faw, Casson & Company will communicate this in writing in subsequent audits.

**Evaluation of Management’s Response.** Management’s planned corrective action is responsive to the intent of our recommendation. Subsequent to Faw, Casson & Company’s written response, we received a copy of its FY 2007 management letter addressed to WEMA. The management letter reports that WEMA did not have adequate FDIC insurance to cover its cash deposits. We consider the recommendation closed.

## Finding B

**Lack of Comparative Notes in Financial Statements Was Not Reported.** WEMA did not consistently provide comparative notes to the financial statements as of and for the years ended September 30, 2006, and 2005. For example, WEMA did not include FY 2005 data in its notes regarding its credit risk for uninsured cash balances (discussed in Finding A), and a note receivable balance representing a delinquent amount due under a court order for restitution. According to the audited FY 2005 financial statements,

WEMA had uninsured cash balances of \$41,843. Accounting Research Bulletin 43, “Restatement and Revision of Accounting Research Bulletins,” issued by the American Institute of Accountants in June 1953, Chapter 2A, states: “Footnotes, explanations, and accountants’ qualifications which appeared on the statements for the preceding years should be repeated, or at least referred to, in the comparative statements to the extent that they continue to be of significance.”

We reviewed Faw, Casson & Company’s FY 2006 audit documentation and audit report concerning the comparative statements and determined that Faw, Casson & Company did not communicate to WEMA the noncompliance with the Accounting Research Bulletin and did not recommend that WEMA correct this deficiency prior to or subsequent to issuance of the financial statements. According to communication we received from Faw, Casson & Company, the auditors did not believe FY 2005 data were necessary for certain notes because, in the auditors’ view, the balances as of September 30, 2006, were important; the risks (e.g., credit risk for uninsured cash balances) that existed as of September 30, 2005, were not.

The omission of comparative notes in the FY 2006 financial statements prevents a reader of those statements from discerning potentially significant information, affecting the usefulness of the financial statements.

**Recommendation 2.** We recommend that Faw, Casson & Company advise WEMA to prepare comparative notes for its FY 2007 and subsequent financial statements.

**Management’s Response.** Mr. Hickman stated that uninsured cash balances for the prior year do not represent a contingency to be disclosed as of the date of the current year report because there was no loss for those prior year amounts and that only the uninsured deposits for the current year have significance. Similarly, only the current year note receivable balance is subject to any loss contingency, as the prior year amount was already reduced to the current year amount. However, Mr. Hickman agreed to report comparative amounts in the footnotes in future years.

**Evaluation of Management’s Response.** Management’s planned corrective action is responsive to the intent of our recommendation. In the copy of WEMA’s FY 2007 financial statements that we received on February 11, 2008, the notes to the statements include comparative amounts for uninsured cash balances and the note receivable. We consider the recommendation closed.

## RESULTS

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We appreciate the courtesies extended to the staff during our review. For additional information on this report, please contact Mr. David L. Gandrud, Project Manager, at 650-604-2672. See Enclosure 4 for the report distribution. The review team members are listed inside the back cover of this report.

signed

Evelyn R. Klemstine  
Assistant Inspector General for Auditing

4 Enclosures





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## QUALITY CONTROL REVIEW PROCESS

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### Scope and Methodology

We conducted a quality control review of the Faw, Casson & Company's audit of the FY 2006 WEMA financial statements. We performed our review October 15 through 25, 2007, at the office of Faw, Casson & Company in Salisbury, Maryland. Our review covered areas related to Faw, Casson & Company's compliance with GAS. We focused the review on auditor qualifications, audit planning, audit supervision, conduct of the audit fieldwork, and audit reporting. We obtained and examined the following accounting and regulatory guidance: Accounting Research Bulletin 43 and TFM Volume 1, Part 6, Chapter 9000.

In conducting our review, we assessed the documentation gathered and prepared by Faw, Casson & Company, including documentation used to support the audit report, and discussed our review with Faw, Casson & Company personnel. We confirmed the license status of the company and its personnel who worked on the WEMA audit by obtaining copies of their certified public accountant (CPA) licenses and querying the Web site of the Maryland State Board of Public Accountancy. We determined that Faw, Casson & Company and the applicable Faw, Casson & Company personnel held active CPA licenses during the WEMA audit. We did not use computer-processed data in performing our review.

### Exchange and Morale Support Activities

**Inspector General Act.** The Inspector General Act of 1978, as amended, requires an agency's Inspector General to take appropriate steps to ensure that any work performed by non-Federal auditors complies with the standards established by the Comptroller General.

**NASA Requirement.** NASA Policy Directive 9050.6I, "NASA Exchange and Morale Support Activities," November 10, 2004, authorizes Center Directors to operate activities to contribute to the efficiency, welfare, and morale of NASA personnel. The Directive requires that financial records be maintained and that an annual audit be conducted. The Directive also requires the Center Chief Financial Officer to monitor compliance with the Directive and to review financial statements and audit reports to ensure that the Center's exchange and morale support activities are operated in a financially sound and responsible manner.

**External Peer Review**

We reviewed the most recent peer review report on Faw, Casson & Company, prepared by Accountants Global Network, for the year ended May 31, 2004. The report, issued on October 19, 2004, stated that the system of quality control for the accounting and auditing practice applied by Faw, Casson & Company to the audits of non-SEC issuers of financial statements was designed to meet the requirements of the quality control standards for an accounting and auditing practice established by the AICPA. The peer review found that Faw, Casson & Company had complied with quality control standards during the year ended May 31, 2004, providing the firm with reasonable assurance of complying with applicable professional standards. The peer review report identified no deficiencies in Faw, Casson & Company's system of quality control.

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**RESULTS OF THE FAW, CASSON &  
COMPANY AUDIT OF THE  
WALLOPS EXCHANGE AND  
MORALE ASSOCIATION FOR  
FY 2006**

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**Faw, Casson & Company Audit Report**

On November 3, 2006, Faw, Casson & Company issued a report to WEMA on the firm's audit of WEMA's statement of financial position as of and for the years ended September 30, 2006 and 2005, and the related statements of changes in net assets, activities, and cash flows for the years then ended. Faw, Casson & Company reported that it had performed the audit in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in "Government Auditing Standards," issued by the Comptroller General of the United States. It further stated that the financial statements presented fairly, in all material respects, the financial position of WEMA as of September 30, 2006 and 2005, and the changes in WEMA's net assets and cash flows for the years then ended.

**Faw, Casson & Company Report on Internal Control and  
Compliance and Other Matters**

Faw, Casson & Company issued its "Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards" on November 3, 2006. The report stated: "We found no matters involving the internal control over financial reporting and [WEMA's] operation that we consider to be material weaknesses [and] no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards."

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## MANAGEMENT COMMENTS

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February 5, 2008

NASA  
Office of Inspector General  
Office of Audits  
Evelyn R. Klemstine  
Assistant Inspector General for Auditing  
Washington, D. C. 20546-0001

Dear Sirs:

We have reviewed the draft report of the Quality Control Review of Faw, Casson & Co., LLP's Audit of Wallops Exchange and Morale Association Financial Statements for Fiscal Year Ended September 30, 2006 (Assignment No. 1-08-002-00). We appreciate that the IG's "Review Results" as reported on page 2 which states that the firm's audit work on the 2006 audit of WEMA's financial statements substantially met the GAO's Governmental Auditing Standards. Our firm takes great pride in the quality its audits and particularly in our expertise in auditing nonprofit and governmental organizations. We also appreciate the recommendations/comments we received throughout the quality control process.

As requested on page 4, we offer our response to your recommendations reported as Finding A and B on pages 2-4.

**Finding A. Recommendation 1:**

The report states that while WEMA's financial statements reported uninsured cash deposits in the notes to the financial statements as of September 30, 2006, the Report on Internal Controls Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards did not mention this condition. The recommendation states that we should test compliance and communicate any noncompliance in future audits.

606 S. SCHUMAKER DRIVE • SALISBURY, MD 21804-2098  
TELEPHONE 410-749-3142 • TELECOPIER 410-749-7267 • WWW.FAWCASSON.COM

NASA  
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February 5, 2008  
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**Our Response:**

We would like to emphasize that this requirement was tested as evidenced by the financial statement note presented on this condition. As to where this condition should be reported, Government Auditing Standards' required reporting of noncompliance is based on whether the condition is considered a "significant violation of provisions of contracts or grant agreements and abuse". As of the date of our report, we were not aware of any financial deterioration or change in the financial institution that held the uninsured deposits and the risk of loss appeared extremely remote. We have concluded that this condition deserved a note due to the ongoing contingency associated with it, but that there was no significant violation.

We respect the IG's position that the situation deserves reporting and we will communicate this in writing in subsequent audits.

**Finding B, Recommendation 2:**

The report states that we did not advise WEMA to prepare comparative footnotes relative to the uninsured cash balances and a note receivable for 2006 and 2005.

**Our Response:**

As stated in your finding B, "Footnotes, etc should be repeated in comparative statements to the extent that they continue to be of significance". Our position regarding uninsured cash for the prior year is that it doesn't represent a contingency to be disclosed as of the date of the current year report because there was no loss for those prior year amounts and that the only significance regarding any contingency is the current year uninsured deposits.

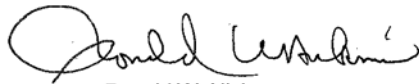
Similarly for the note receivable balance as of the prior year, the only significance of the amount subject to any loss contingency would be the current year balance because the prior amount had been reduced to the current year amount.

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Office of Inspector General  
February 5, 2008  
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Again we respect the IG's position and will report comparative amounts in the footnotes in future years.

If you should have any comments or questions, please contact me at your convenience.

Sincerely,



Ronald W. Hickman  
Partner

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## REPORT DISTRIBUTION

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### **Independent Audit Firm**

Ronald W. Hickman, CPA  
Faw, Casson & Company, LLP  
606 S. Schumaker Drive  
Salisbury, Maryland 21804-2098

### **National Aeronautics and Space Administration**

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Chief Financial Officer  
Assistant Administrator for Infrastructure and Administration  
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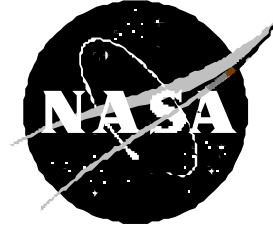




Major Contributors to the Report:

Mark Jenson, Director, Financial Statement Audits Directorate

David Gandrud, Project Manager



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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 Ms. Jacqueline White, Director of Quality Assurance, at [Jacqueline.White@nasa.gov](mailto:Jacqueline.White@nasa.gov) or call 202-358-0203.

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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