

National Aeronautics and
Space Administration



Office of Inspector General
Washington, DC 20546-0001

February 21, 2008

TO: Chief Financial Officer, Goddard Space Flight Center
Chairperson, Wallops Exchange and Morale Association
Executive Council

FROM: Assistant Inspector General for Auditing

SUBJECT: Final Memorandum on Management of the Wallops Exchange and Morale
Association (Report No. IG-08-008; Assignment No. A-08-002-01)

The Office of Inspector General (OIG) conducted a quality control review of the Faw, Casson & Company, LLP audit of the Wallops Exchange and Morale Association (WEMA) financial statements for the fiscal year (FY) ended September 30, 2006. During our review, we noted deficiencies relevant to WEMA's cash management and financial reporting practices. This memorandum addresses those deficiencies. See Enclosure 1 for details on our scope and methodology.

Executive Summary

WEMA did not comply with the Department of the Treasury's Financial Manual (TFM) requirement to ensure that funds in excess of the Federal Deposit Insurance Corporation (FDIC) limit were collateralized or fully insured at another financial institution. Additionally, WEMA did not consistently include comparative notes with its FY 2006 financial statements as required by generally accepted accounting principles.

Our January 16, 2008, draft of this memorandum recommended that the Chairperson, WEMA Executive Council, request WEMA's depository to secure the uninsured amount of WEMA's cash deposits. We also recommended that the Council Chairperson prepare comparative notes for WEMA's future financial statements. Additionally, we recommended that the Goddard Chief Financial Officer monitor the Council's activities to ensure appropriate corrective actions are taken in response to our recommendations.

Management's comments on the draft of this memorandum are responsive (see Enclosure 2). We have closed Recommendation 1.b. and consider Recommendations 1.a. and 2 resolved. We will close the resolved recommendations upon completion and verification of management's corrective actions.

Background

WEMA is located in Building E-105 at the Goddard Space Flight Center's Wallops Flight Facility, Wallops Island, Virginia. WEMA promotes social, athletic, educational,

cultural, and other interests of Wallops employees. WEMA membership consists of active and retired civil service employees and the children, spouses, and parents of WEMA members. Benefits to members include special events sponsored by WEMA's Morale Activities Committee and reduced costs at the Exchange Store and Gift Shop. WEMA services include the cafeteria, open to both Wallops employees and guests; an Exchange Store that provides a wide variety of items; dormitories for Management Education Center participants, business travelers, cooperative students, and interns; and morale-boosting activities through the Rocket Club. In FY 2006, WEMA revenues totaled approximately \$872,000.

WEMA is chartered by the Director, Goddard Space Flight Center, and governed by the WEMA Executive Council. The Goddard Chief Financial Officer is responsible for reviewing financial statements and audit reports to ensure that WEMA is financially sound and that responsible business practices are being followed. The Council is responsible for the business and financial management of WEMA and operates under the authority of NASA Policy Directive (NPD) 9050.6I, "NASA Exchange and Morale Support Activities," November 10, 2004. The NPD requires that the Council include at least six members appointed by the Center Director, all of whom perform their duties without compensation from WEMA. The cafeteria is operated on a non-profit basis; profits from Gift Shop sales, Exchange Store sales, and dormitory rentals are used to promote the efficiency, welfare, and morale of Wallops personnel.

We performed a quality control review of the audit performed by Faw, Casson & Company of WEMA's FY 2006 financial statements. We are reporting the results of our quality control review to Faw, Casson & Company in a separate report.

During our quality control review of the Faw, Casson & Company audit of the WEMA financial statements, we found that WEMA did not ensure that cash deposits were adequately insured or collateralized and did not prepare comparative notes in its FY 2006 financial statements. This memorandum addresses those findings.

Cash Deposits Not Adequately Insured or Collateralized

WEMA did not comply with the TFM requirement to ensure that funds in excess of the FDIC limit were collateralized or fully insured at another financial institution. Specifically, as of September 30, 2006, WEMA's cash balance exceeded FDIC insurance coverage by \$85,846 (39 percent of WEMA's total cash balance).

WEMA's obligation to fully secure its cash deposits is found in TFM Volume 1, Part 6, Section 9040, "Securing Agency Accounts," which states:

All public money¹ 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 (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 . . .

Additionally, WEMA's Constitution requires the Exchange to fully insure cash deposits. Specifically, Section 8, "Duties of the Officers of the Executive Council," Paragraph c, states, in part: "The Exchange operations manager will be custodian of all funds and securities belonging to the Exchange and may deposit said funds in the NASA Federal Credit Union, a local bank insured by the Federal Deposit Insurance Corporation, or a federal savings and loan institution insured by the Federal Savings and Loan Insurance Corporation. The deposit in any of the aforementioned institutions will not exceed the amount covered by the Federal Deposit Insurance."

Faw, Casson & Company personnel advised WEMA to disclose the uninsured cash issue in the FY 2006 financial statements, which it did, but WEMA took no action to move the excess funds to another financial institution. Uninsured cash deposits leave WEMA vulnerable to the potential loss of its uninsured cash deposits.

Comparative Notes Not Included in Financial Statements

WEMA, which is responsible for the fair presentation of its financial statements, did not provide comparative notes to the FY 2006 financial statements. For example, WEMA did not report FY 2005 data in its notes regarding the uninsured cash balance discussed in the previous finding and a note receivable balance representing a delinquent amount due under a court order for restitution. 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."

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 WEMA's financial statements.

¹ 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."

Recommendations, Management's Response, and Evaluation of Management's Response

Recommendation 1.a. We recommended that the WEMA Executive Council Chairperson request that its depository pledge eligible collateral to secure the uninsured amount of WEMA's cash deposits in accordance with TFM Volume 1, Part 6, Section 9040.

Management's Response. The Goddard Chief Financial Officer concurred and issued a letter to the WEMA Executive Council Chairperson requesting written certification that all WEMA deposits in excess of the FDIC limit have been collateralized or moved to another financial institution.

Evaluation of Management's Response. Management's comments are responsive. We consider the recommendation resolved. Once WEMA's cash deposits are adequately collateralized or insured, we will close the recommendation.

Recommendation 1.b. We recommended that the WEMA Executive Council Chairperson prepare comparative notes for its FY 2007 and subsequent financial statements in accordance with generally accepted accounting principles.

Management's Response. The Goddard Chief Financial Officer concurred and issued a letter to the WEMA Executive Council Chairperson requesting written certification that necessary comparative notes are included in future financial statements.

Evaluation of Management's Response. Management's comments are responsive. In a 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.

Recommendation 2. We recommended that the Goddard Chief Financial Officer monitor the Executive Council's activities to ensure appropriate corrective actions are taken in response to Recommendation 1.

Management's Response. The Goddard Chief Financial Officer concurred and took appropriate action (see Recommendation 1).

Evaluation of Management's Response. We reviewed the proposed corrective actions and letter addressed to the WEMA Executive Council Chairperson and found that they adequately address our concerns. We consider the recommendation resolved. We will close the recommendation after verifying receipt of the written certification that WEMA's cash deposits are adequately collateralized or insured.

We appreciate the courtesies extended the staff during the review. If you have any questions, or need additional information, please contact Mr. Mark Jenson, Financial Statement Audits Director, at 202-358-0629.

(signed) A. Dahnelle Payson for

Evelyn R. Klemstine

2 Enclosures

cc:

Assistant Administrator for Infrastructure and Administration

Director, Logistics Management Division

Director, Goddard Space Flight Center

Director, Wallops Flight Facility

WEMA General Manager

WEMA Executive Council Members

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, Salisbury, Maryland. Our review covered areas related to Faw, Casson & Company's compliance with generally accepted government auditing standards. We focused the review on auditor qualifications, audit planning, audit supervision, conduct of the audit fieldwork, and audit reporting.

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 the deficiencies addressed in this memorandum with Faw, Casson & Company personnel and WEMA management. We did not use computer-processed data in performing our review.

Review of Internal Controls

Faw, Casson & Company reported in its FY 2006 audit report that it considered the WEMA Executive Council's internal controls over financial reporting in order to determine its auditing procedures for the purpose of expressing its opinions on the financial statements. Faw, Casson & Company did not express an opinion on WEMA's internal controls. We did not examine internal controls because our purpose in issuing this memorandum is only to advise the WEMA Executive Council and NASA management of deficiencies observed during our quality control review of the audit by Faw, Casson & Company.

Prior Coverage

In 2001, the OIG performed a quality control review of an external audit of WEMA's financial statements for FYs 1998, 1999, and 2000. That report, "Leatherbury-Broache & Co., P.C., Audits of National Aeronautics and Space Administration Wallops Flight Facility Exchange and Morale Association Financial Statements for Fiscal Years Ended September 30, 1998, 1999 and 2000" (IG-02-006, December 20, 2001), is available over the Internet at <http://www.hq.nasa.gov/office/oig/hq/audits/reports/FY02/pdfs/ig-02-006.pdf>.

Management's Comments

National Aeronautics and
Space Administration
Goddard Space Flight Center
Greenbelt, MD 20771



Reply to Attn of: 150

February 15, 2008

TO: NASA Headquarters
Assistant Inspector General for Auditing

FROM: Chief Financial Officer

SUBJECT: GSFC Response to Office of Inspector General (OIG) Draft
Memorandum on Management of the Wallops Exchange and
Morale Association (WEMA), Assignment No. A-08-002-01

I concur with the recommendations that the WEMA Executive Council:

1.a. Have the Depository Institution collateralize WEMA deposits in excess of the Federal Deposit Insurance Corporation (FDIC) insurance limit of \$100,000 or move the excess deposit to another financial institution authorized in its Constitution.

1.b. For full disclosure, provide comparative footnotes that have material impact on the financial statements.

The recommendations apply to future financial statements of WEMA as required by its Constitution with respect to number 1.a. and generally accepted accounting principles with respect to number 1.b.

To improve the usefulness of future recommendations, the audit and Quality Assurance review of audits of WEMA should be more timely. This report relates to the Fiscal Year 2006 financial statements. The time lag diminishes the value of the recommendations, especially the recommendation about unsecured deposits.

I also concur with recommendation number 2 that the Goddard Chief Financial Officer should monitor the activities of the WEMA Executive Council for the purpose of ensuring that recommendation number 1 is implemented.

My letter dated February 14, 2008, to the WEMA Executive Council Chairperson (copy enclosed) will ensure that future financial statements comply with the requirements of recommendation number 1. Recommendation 1.a. will be completed by March 31, 2008. We consider recommendations 1.b. and 2 closed for reporting purposes.

If you have any questions or need additional information, please contact Ms. Barbara Sally,
GSFC Audit Liaison Officer, at (301) 286-8436.



Dr. Cyprian O. Ejiasa

Enclosure

cc:
Assistant Administrator for Internal Controls and Management Systems
Director, Goddard Space Flight Center
Director, Wallops Flight Facility
WEMA General Manager
WEMA Executive Council Members
Audit Liaison Officer, Goddard Space Flight Center

National Aeronautics and
Space Administration
Goddard Space Flight Center
Greenbelt, MD 20771



Reply to Attn of: 150

February 14, 2008

TO: Chairperson, Wallops Exchange and Morale Association
Executive Council

FROM: 150/Chief Financial Officer

SUBJECT: Certification Requirement for Wallops Exchange and Morale Association
Financial Statements

A recent NASA Office of Inspector General (OIG) review of WEMA's FY2006 financial statements identified deficiencies relevant to WEMA's cash management and financial reporting practices. The OIG found that WEMA did not comply with existing regulatory requirements and its own Constitution concerning funds in excess of the Federal Deposit Insurance Corporation (FDIC) insurance limit and did not consistently include comparative notes with its financial statements as required by generally accepted accounting principles.

In accordance with my obligation to monitor the WEMA Executive Council's activities, I request that you do the following:

- Provide me, no later than March 14, 2008, written certification that all WEMA deposits with any one financial institution in excess of the FDIC insurance limit of \$100,000 have been collateralized by that financial institution or moved to another approved financial institution or that a plan is in place to complete action(s) necessary to safeguard the excess deposits expeditiously.
- Beginning with the preparation of WEMA's 2007 financial statements and in subsequent years, provide me written certification that WEMA deposits are insured as noted above and that any necessary comparative notes were included in the financial statements.


Dr. Cyprrian O. Ejiasa

Enclosure