

JUNE 13, 2008

QUALITY CONTROL REVIEW REPORT

OFFICE OF AUDITS

QUALITY CONTROL REVIEW OF THE
HOUSE & ALBRIGHT P.C. AUDIT OF THE
MARSHALL SPACE FLIGHT CENTER EXCHANGE
FINANCIAL STATEMENTS FOR FISCAL YEAR ENDED
SEPTEMBER 30, 2007

OFFICE OF INSPECTOR GENERAL



National Aeronautics and
Space Administration

Acronyms

AICPA	American Institute of Certified Public Accountants
CPA	Certified Public Accountant
CPE	Continuing Professional Education
FY	Fiscal Year
GAGAS	Generally Accepted Government Auditing Standards
MSFC	Marshall Space Flight Center

National Aeronautics and
Space Administration

Office of Inspector General
Washington, DC 20546-0001



June 13, 2008

William C. House, CPA
House & Albright P.C.

SUBJECT: Quality Control Review of the House & Albright P.C. Audit of the Marshall Space Flight Center Exchange Financial Statements for Fiscal Year Ended September 30, 2007 (Report No. IG-08-020; Assignment No. A-08-008-00)

The audit firm of House & Albright P.C. performed an audit of the Marshall Space Flight Center (MSFC) Exchange financial statements for the fiscal year ended September 30, 2007 (FY 2007). 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 House & Albright P.C. performed its audit in accordance with the Government Accountability Office's "Government Auditing Standards, 2003 Revision" (often referred to as generally accepted government auditing standards, or GAGAS), issued by the Comptroller General of the United States. GAGAS 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, GAGAS incorporates the generally accepted auditing standards of the American Institute of Certified Public Accountants (AICPA) for fieldwork and reporting.¹ 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 House & Albright P.C. See Enclosure 2 for the results of the House & Albright P.C. audit of the MSFC Exchange for FY 2007.

Background. The MSFC Exchange is located at MSFC in Huntsville, Alabama. The MSFC Exchange contributes to the welfare, efficiency, and morale of NASA MSFC employees; other Government personnel stationed at MSFC; retired NASA employees;

¹ 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.

families and guests of the preceding; and MSFC on-site contractor personnel. Services provided by the MSFC Exchange include vending and retail stores, convenience services, health and recreation activities, and a physical exercise program. In FY 2007, MSFC Exchange revenues totaled approximately \$850,000 and assets totaled approximately \$909,000. House & Albright P.C. maintains an office in Huntsville, Alabama.

Review Results. House & Albright P.C.'s audit work on the FY 2007 audit of the MSFC Exchange's financial statements substantially met GAGAS. We found no exceptions regarding the firm's audit fieldwork or audit reporting. However, we noted two exceptions regarding the firm's compliance with the general standards² of GAGAS. The firm did not require two audit team members to adequately address personal or external impairments that could have affected their independence when auditing the MSFC Exchange financial statements (Finding A). We also found that one audit team member had not met her continuing professional education (CPE) requirements (Finding B). In a draft of this report, issued April 11, 2008, we made two recommendations to address our findings.

Management Comments. Mr. William House concurred with our findings and recommendations and described actions to be taken in response to the draft report (see Enclosure 3 for the full text of management comments). We consider the comments responsive and have closed the recommendations.

Finding A

Auditor Independence Inquiries Not Adequate. Prior to starting the MSFC Exchange audit, House & Albright P.C. did not determine whether the auditors had any personal or external impairments that could affect their independence on the audit.

GAGAS, paragraph 3.03 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 organizational impairments to independence. GAGAS also requires audit organizations to establish policies and procedures that will enable the identification of personal impairments to independence. Personal impairments include, for example, an immediate or close family member who is a director or officer of the audited entity; a responsibility for managing or making decisions that could affect the audited entity; or preconceived ideas toward individuals, groups, organizations, or objectives that could bias the audit. External impairments would deter the auditors from acting objectively and exercising professional skepticism

² General standards concern the fundamental requirements for ensuring the credibility of auditors' results. General standards encompass the independence of the audit organization and its individual auditors; the exercise of professional judgment in performing and reporting on the audit; the competence of audit staff; and the existence of quality control systems and external peer reviews.

by pressures, actual or perceived, from management and employees of the audited entity or oversight organizations.

House & Albright P.C. audit staff members did not adequately address various potential impairments to their independence due to the firm's use of a list of "commandments" applicable to all areas of accounting at the firm, which is signed by the staff members acknowledging receipt and agreeing to comply with the "commandments." Only one commandment related to independence and read, "Never fail to notify, in writing, the partner if you or your family have a financial interest (directly or indirectly) in one of the firm's clients." The form did not address the other types of personal or external impairments to independence delineated in GAGAS. Even though no independence issues came to our attention during the review, there was the potential that House & Albright P.C. audit staff with independence issues may inappropriately participated in an audit.

Recommendation 1. House & Albright P.C. should require all audit team members to complete and sign an independence questionnaire that covers the independence requirements in GAGAS before team members initiate work on audits subject to GAGAS.

Management's Response. Mr. House stated that House & Albright P.C. will use the independence questionnaire illustrated in the firm's Yellow Book (GAGAS) guidelines for all future engagements (whether or not the engagement is subject to GAGAS). Additionally, each member of the engagement's participating staff will complete a new questionnaire and the questionnaire will be maintained with the engagement documentation.

Evaluation of Management's Response. Management's planned corrective action is responsive to the intent of our recommendation. Subsequent to House & Albright P.C.'s written response, we received a copy of the firm's memorandum to all staff dated May 27, 2008, which, in part, requires each staff member to complete, for each audit, a comprehensive questionnaire regarding possible personal and external impairments to their independence. We consider the recommendation closed.

Finding B

Audit Staff Not Required to Obtain Continuing Professional Education. One of two auditors on the MSFC Exchange financial statements audit had earned no CPE credits over the past 2 years. According to GAGAS paragraph 3.45, "Auditors performing work under GAGAS, including planning, directing, performing field work, or reporting on an audit or attestation engagement under GAGAS, need to maintain their professional competence through CPE. Therefore, each auditor performing work under GAGAS

should complete, every 2 years, at least 80 hours of CPE that directly enhance the auditor's professional proficiency to perform audits and/or attestation engagements.”

The founding partner of House & Albright P.C. advised the NASA Office of Inspector General that he thought only certified audit staff members (i.e., staff members who were Certified Public Accountants) required CPE and, therefore, did not require non-certified auditors to obtain CPE. As a result of this misunderstanding, an audit staff member did not have the required GAGAS CPE credits.

Recommendation 2. We recommended that House & Albright P.C. require that all auditors who perform audit work subject to GAGAS meet the CPE requirements specified by GAGAS.

Management's Response. Mr. House stated that House & Albright P.C. has implemented procedures to ensure that all audit staff members performing audit work subject to GAGAS have met their respective CPE requirements.

Evaluation of Management's Response. Management's action is responsive to the intent of our recommendation. Subsequent to House & Albright P.C.'s written response, we received a copy of the firm's memorandum to all staff dated May 27, 2008, which, in part, assigns an audit partner the responsibility for completing a CPE Documentation Form and requires staff members to acknowledge by their initials the accuracy of their respective CPE hours shown on the form. According to the form's instructions, the form reflects the GAGAS CPE requirements and is to be completed during the planning stages of the engagement and filed with the audit documentation. We consider the recommendation closed.

We appreciate the courtesies extended to the staff during our review. For additional information on this report, please contact Mr. David L. Gandrud, the 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

QUALITY CONTROL REVIEW PROCESS

Scope and Methodology

We conducted a quality control review of the House & Albright P.C. audit of the MSFC Exchange financial statements for FY 2007. We performed our review February 20 through March 4, 2008, at the office of House & Albright P.C. in Huntsville, Alabama. Our review covered areas related to House & Albright P.C.'s compliance with GAGAS. 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 House & Albright P.C., including documentation used to support the audit report, and discussed our review with House & Albright P.C. personnel. We confirmed the permit status of the company and the partner who worked on the MSFC Exchange audit by querying the Web site of the Alabama State Board of Public Accountancy. We determined that House & Albright P.C. and its CPA partner who supervised the audit of the MSFC Exchange held active permits with the Alabama State Board of Public Accountancy. 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 House & Albright P.C., which was prepared by Mann, Poarch, Miller, Key & Morrison, P.C., for the year ended July 31, 2006. The report, issued on April 20, 2007, stated that the system of quality control for the accounting and auditing practice of House & Albright P.C. was 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, providing the firm with reasonable assurance of conforming with professional standards. The peer review report identified no deficiencies in House & Albright P.C.'s system of quality control.

**RESULTS OF THE HOUSE &
ALBRIGHT P.C. AUDIT OF THE
MSFC EXCHANGE FOR
FYs 2007 AND 2006**

House & Albright P.C. Audit Report

House & Albright P.C. issued its February 5, 2008, report on the audit of the MSFC Exchange's statement of financial position as of September 30, 2007 and 2006, and the related statements of activities and cash flows for the years then ended, to the MSFC Chief Financial Officer. House & Albright P.C. 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 the MSFC Exchange as of September 30, 2007 and 2006, and the changes in the MSFC Exchange's net assets and cash flows for the years then ended.

**House & Albright P.C. Report on Internal Control and Compliance
and Other Matters**

House & Albright P.C.'s "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," February 5, 2008, stated that House & Albright P.C. "did not identify any deficiencies in internal control over financial reporting 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." The report noted a finding that the MSFC Exchange maintained a checking account balance that exceeded the Federal Deposit Insurance Corporation (FDIC) limit of \$100,000.

MANAGEMENT COMMENTS

*MEMBER OF ALABAMA SOCIETY OF
CERTIFIED PUBLIC ACCOUNTANTS

**HOUSE
ALBRIGHT P.C.**
Certified Public Accountants

*MEMBER OF AMERICAN INSTITUTE
OF CERTIFIED PUBLIC ACCOUNTANTS

May 22, 2008

Ms. Evelyn R. Klemstine
Assistant Inspector General for Auditing
National Aeronautics and Space Administration
Office of Inspector General
Washington, DC 20546-0001

Subject: Quality Control Review Report of the House & Albright, P.C. Audit of the
Marshall Space Flight Center Exchange Financial Statements for Fiscal Year
Ended September 30, 2007 (Assignment No. A-08-0080-00)

Dear Ms. Klemstine:

We do not take exception to the findings contained within the subject report. Our responses to the recommendations follow.

Recommendation 1: Require all audit team members to complete and sign an independence questionnaire that covers the independence requirements of GAGAS, before initiating work on audits subject to GAGAS.

Concur. We will use the independence questionnaire illustrated in our Yellow Book guidelines for all future engagements (Yellow Book or not). Each member of the engagement's participating staff will complete a new questionnaire, and that questionnaire will be maintained with the engagement documentation.

Recommendation 2: Require all auditors who perform audit work subject to GAGAS to meet CPE requirements specified by GAGAS.

Concur. We have implemented procedures to ensure that all audit staff performing audit work subject to GAGAS have met their respective CPE requirements.

We hope the Office of Inspector General finds these changes responsive to their findings.

Please call if there are any questions on this matter.

Sincerely,


William C. House, CPA

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REPORT DISTRIBUTION

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Chief of Staff
Chief Financial Officer
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Director, Marshall Space Flight Center
Chief Financial Officer, Marshall Space Flight Center
NASA Exchange – MSFC Council Chairperson
NASA Exchange – MSFC Council Operations Manager
NASA Exchange – MSFC Council Treasurer
NASA Exchange – MSFC Council Secretary
NASA Exchange – MSFC Council Legal Advisor

Major Contributors to the Report:

Mark Jenson, Director, Financial Statement Audits Directorate

David Gandrud, Project Manager

JUNE 13, 2008

REPORT No. IG-08-020



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ADDITIONAL COPIES

Visit www.hq.nasa.gov/office/oig/hq/audits/reports/FY08/index.html to obtain additional copies of this report, or contact the Assistant Inspector General for Auditing at 202-358-1232.

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 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
Washington, DC 20546-0001

NASA HOTLINE

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