

JULY 6, 2007

REVIEW REPORT

OFFICE OF AUDITS

IG-07-020

QUALITY CONTROL REVIEW OF
MACIAS GINI & O'CONNELL LLP AUDITS OF AMES
EXCHANGE FINANCIAL STATEMENTS FOR FISCAL
YEARS ENDED SEPTEMBER 30, 2005, AND
SEPTEMBER 30, 2006

OFFICE OF INSPECTOR GENERAL



National Aeronautics and
Space Administration

REPORT No. IG-07-020 (ASSIGNMENT No. A-07-010-00)

Acronyms

AICPA	American Institute of Certified Public Accountants
CPA	Certified Public Accountant
FY	Fiscal Year
GAGAS	Generally Accepted Government Auditing Standards
MGO	Macias Gini & O'Connell LLP

National Aeronautics and
Space Administration

Office of Inspector General
Washington, DC 20546-0001



July 6, 2007

Ms. Cynthia Pon
Macias Gini & O'Connell LLP

SUBJECT: Quality Control Review of Macias Gini & O'Connell LLP Audits of
Ames Exchange Financial Statements for Fiscal Years Ended
September 30, 2005, and September 30, 2006 (Report No. IG-07-020;
Assignment No. A-07-010-00)

We are providing this report for your review and comment. The audit firm of Macias Gini & O'Connell LLP (MGO) performed audits of the NASA Ames Exchange financial statements for the fiscal years ended September 30, 2005 (FY 2005) and 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 MGO performed its audits in accordance with generally accepted government auditing standards (GAGAS) issued by the Comptroller General of the United States. GAGAS standards apply to audits of Government organizations, programs, activities, and functions and prescribe general standards (including independence, professional judgment, competence, and 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)¹ for fieldwork and reporting. 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 MGO. See Enclosure 2 for the results of MGO's audits of the Exchange for FY 2005 and FY 2006.

Background. The Ames Exchange is located at the Ames Research Center, Moffett Field, California. The Ames Exchange provides a variety of services, including a golf

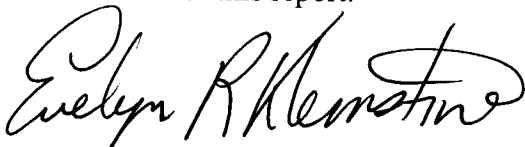
¹ The AICPA is the national professional organization for certified public accountants (CPAs). According to the AICPA, its mission is to provide members with the resources, information, and leadership that enable the members to provide valuable services in the highest professional manner to benefit the 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.

course, cafeteria, catering, gift shops, lodge, swimming pool, recreational vehicle lot, tickets, mobile food truck, and vending machines. Ames Exchange sales totaled approximately \$2.3 million in FY 2005 and \$2.9 million in FY 2006.

MGO is a statewide public accounting and consulting firm headquartered in Sacramento, California, with office locations in Oakland, Walnut Creek, Los Angeles, and San Diego. According to its Web site, the firm was established in 1987 and, at that time, principally focused on serving the public sector industry area. The firm employs over 150 professionals and provides services to governmental entities at the Federal, State, and local levels.

Review Results. MGO's audits of the Ames Exchange financial statements for FY 2005 and FY 2006 complied with GAGAS; specifically, the audits complied with general standards, fieldwork standards for financial audits, and reporting standards for financial audits. MGO reported that, except for possible adjustments related to the physical inventory taken as of September 30, 2005, the financial statements present fairly, in all material respects, the financial position of the Ames Exchange as of September 30, 2005, and September 30, 2006, and the changes in its net assets and cash flows for the years then ended.

We appreciate the courtesies extended to the review staff. For additional information on this report, please contact Mr. David L. Gandrud, Project Manager, at 650-604-2672. See Enclosure 3 for the report distribution. The review team members are listed inside the back cover of this report.



Evelyn R. Klemstine
Assistant Inspector General for Auditing

3 Enclosures

QUALITY CONTROL REVIEW PROCESS

Scope and Methodology

We conducted a quality control review of MGO's audits of the FY 2005 and FY 2006 Ames Exchange financial statements. We performed our review April 10 through 20, 2007, at the Walnut Creek office of MGO. Our review covered areas related to MGO's compliance with GAGAS. We focused the review on the general standards, the fieldwork standards for financial audits, and the reporting standards for financial audits.

In conducting our review, we assessed the documentation gathered and prepared by MGO, including documentation used to support the audit reports, and discussed our review with MGO personnel. We confirmed the license status of MGO and the MGO personnel who worked on the Ames Exchange audits by querying the Web site of the California Board of Accountancy. We determined that MGO and the applicable MGO personnel held active CPA licenses during the Ames Exchange audits. 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 establish activities to contribute to the 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 MGO, issued May 26, 2006, prepared by Davis Monk & Company, CPAs and Business Consultants, for the year ended

March 31, 2006. The report stated that the system of quality control for the accounting and auditing practice of MGO 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 MGO had complied with the quality control standards during the year ended March 31, 2006, providing the firm with reasonable assurance of conforming to professional standards.

RESULTS OF THE MGO AUDITS OF THE AMES EXCHANGE FOR FY 2005 AND FY 2006

MGO Audit Reports

On February 7, 2007, MGO issued audit reports to the Ames Exchange Council on the firm's audits of the Ames Exchange's statement of financial position, statement of activities, and statement of cash flow as of September 30, 2005, and September 30, 2006. MGO reported that it had performed the audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in GAGAS. MGO further reported that, except for possible adjustments related to the physical inventory taken as of September 30, 2005, the financial statements present fairly, in all material respects, the financial position of the Ames Exchange as of September 30, 2005, and September 30, 2006, and the changes in its net assets and cash flows for the years then ended.

MGO Report on Internal Control

On February 7, 2007, MGO issued an "Independent Auditor'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 As of September 30, 2002 and For the Years Ended September 30, 2003 through 2006" (Report on Internal Control). The Report on Internal Control stated that the Ames Exchange financial management systems are not integrated or configured to support financial management and reporting, and the related internal controls are not sufficient to provide reasonable assurance that (1) transactions are recorded accurately and in a timely manner and (2) adequate documentation exists to support the reported amounts. The report identified the following 13 reportable conditions, 11 of which MGO considered to be material weaknesses:²

- financial reporting not timely and financial statements not reliable (material weakness);

² A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

- functional responsibilities, such as for handling and recording checks, not segregated (material weakness);
- equity account postings not adequately controlled (material weakness);
- payroll reports not reviewed or reconciled to the general ledger (material weakness);
- noncompliance with payroll laws and regulations (material weakness);
- inadequate controls over credit cards (material weakness);
- undocumented procurement procedures (material weakness);
- no policies and procedures for ensuring that capital asset acquisitions and retirements comply with generally accepted accounting principles (material weakness);
- inadequate controls over accounts receivable balances (material weakness);
- vendor tickets for movies, amusement parks, and sports events not tracked or recorded in the general ledger (material weakness);
- source documentation supporting accounting transactions not locatable when needed (material weakness);
- inadequate controls over petty cash transactions; and
- financial position and financial activity of various special function accounts not reported to the special function account custodians.

In response to MGO's recommendations, the Ames Exchange Council agreed to

- develop instructions and procedures to address internal controls,
- continue to review central and departmental staff duties and procedures in order to minimize risk and transactional errors,
- segregate general journal entries,
- update and correct the process to estimate year-end liability for compensated absences,
- establish an employee reimbursement policy requiring that all Ames Exchange employee reimbursements be documented and approved,
- maintain capital asset records and record depreciation in a more timely fashion,

- send quarterly financial reports to applicable technical organizations that use Ames Exchange services,
- formally inform management of accounts receivable activity and aging,
- formally recognize the need for ticket inventory control,
- develop a policy and procedures statement indicating where all records/files are filed and maintained,
- develop an accounting procedures manual, and
- store backups of the Ames Exchange's financial data in a fireproof safe.

REPORT DISTRIBUTION

Independent Audit Firm

Ms. Cynthia Pon
Macias Gini & O'Connell LLP
Mt. Diablo Plaza
2175 N. California Boulevard, Suite 645
Walnut Creek, California 94596

National Aeronautics and Space Administration

Deputy Administrator
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Director, Ames Research Center
Chief Financial Officer, Ames Research Center
Ames Exchange Council Chairman
Ames Exchange Council Co-Chairman

Major Contributors to the Report:

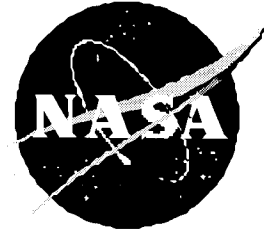
Catherine Schneider, Director, Financial and Institutional Management Directorate

David Gandrud, Project Manager

Bobbie Wells, Auditor

JULY 6, 2007

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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 or call 202-358-0203.

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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
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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.