



MAR 13 2007

TO: Assistant Administrator, Office of Infrastructure and Administration
President, Headquarters Exchange Council

FROM: Assistant Inspector General for Auditing

SUBJECT: Final Memorandum on Follow-Up Review of the Management of the
Headquarters Exchange (Report No. ML-07-005; Assignment
No. A-06-010-01)

We are providing this final memorandum for review and additional comment. The Office of Inspector General (OIG) conducted a follow-up review on recommendations made by the independent public accounting (IPA) firms that had previously reviewed the Headquarters Exchange financial statements and on recommendations made in a previous NASA OIG Report, "Headquarters Exchange Activities" (G-00-006, April 4, 2002). We also reviewed internal controls as appropriate. See Enclosure 1 for details on our scope and methodology.

Executive Summary

The IPA that performed external reviews of Headquarters Exchange financial statements for fiscal years (FYs) 2003 and 2004 identified recurring deficiencies. Specifically, the IPA reported that the Headquarters Exchange Council did not adequately document its accounting policies and procedures; allowed Exchange Council members to purchase goods and services for the Headquarters Exchange store using personal funds; and did not record the Headquarters Exchange store's inventory value and methodology in the Headquarters Exchange Council's books or financial statements.

Additionally, the Exchange Council did not comply with various NASA reporting and contracting requirements. Specifically, the Exchange Council did not ensure timely submission of financial statement review reports; contracted for reviews instead of audits; and did not submit annual reports to NASA management for FY 2003, FY 2004, and FY 2005. The Headquarters Exchange Council and the Office of Infrastructure and Administration (OIA)¹ should exercise better management control over Headquarters Exchange activities.

We recommended that the Headquarters Exchange Council improve Exchange financial controls by developing a financial and accounting manual, establishing an imprest fund, and properly accounting for inventory. We recommended that the President,

¹ Formerly the Office of Infrastructure, Management, and Headquarters Operations.

Headquarters Exchange Council, submit annual activities reports, including a business plan for the next fiscal year, and audited financial statements to the Office of the Chief Financial Officer (OCFO) and the OIA by December 31 of each year. We also recommended that the President obtain audits rather than reviews of the Exchange's financial statements or obtain OCFO and OIA approval to contract for reviews. Finally, we recommended that the Assistant Administrator for OIA review the annual activities reports and monitor Headquarters Exchange Council activities to ensure timely implementation of our recommendations.

Our draft memorandum included a finding concerning the preparation of bank reconciliations. In response to the draft, the Assistant Administrator for OIA provided us with reconciliation data for FYs 2005 and 2006. After reviewing the data, we concluded that reconciliations were timely and accurate. Therefore, we deleted that finding and its associated recommendation.

The Assistant Administrator nonconcurred with our draft recommendation to establish an imprest fund, stating that the convenience of allowing Exchange Council members to use their personal funds to make purchases for the Exchange outweighs the risks of misuse. We revised the recommendation to establish a pre-approval process for purchases made with personal funds and request that the Assistant Administrator provide comments on the revised recommendation.

The Assistant Administrator for OIA concurred with our other recommendations and proposed responsive corrective actions, including the completion of a financial and accounting manual. In addition, the Exchange will install a new cash register system that will facilitate the inventory process; provide the OCFO with annual reports, including financial statement reports; and will participate in monthly meetings with the OCFO and others. Those meetings will continue until each of our recommendations is implemented. As a result, we consider the recommendations resolved. The revised recommendation concerning the use of personal funds is unresolved, pending additional comments. See Enclosure 2 for the full text of management's comments on the draft of this memorandum.

Background

The Headquarters Exchange is located inside the West Lobby of the NASA Headquarters building at 300 E Street, S.W., Washington, D.C. The Exchange sells NASA-related items, including patches, glasses and mugs, key chains, and clothing, to NASA personnel and visitors. Headquarters Exchange revenues totaled about \$350,000 in FY 2004. The Headquarters Exchange Council, chartered by the Director for Headquarters Operations, operates the Exchange primarily for the benefit of NASA Headquarters employees. The Council must include at least five Headquarters employees, who perform their duties without pay from the Exchange. Exchange-operated activities are generally self-sustaining; that is, supported by nonappropriated funds. The Council uses revenues generated from Exchange sales to fund various Headquarters-related activities and events, including book fairs, holiday parties, picnics, ice cream socials, and discounts on amusement park tickets.

We performed a quality control review of reviews performed by an IPA of NASA Headquarters Exchange financial statements for the fiscal years that ended September 30, 2003, and September 30, 2004. We reported the results of our quality control review of the IPA reviews in “Quality Control Review of [an IPA’s] Reviews of Headquarters Exchange Financial Statements for Fiscal Years Ended September 30, 2003, and September 30, 2004” (IG-06-015, September 22, 2006).

During our quality control review, we followed up on previous IPA recommendations to determine whether they were implemented by the Headquarters Exchange Council. This memorandum addresses our observations that the Headquarters Exchange Council had not implemented all prior recommendations and that management controls over Headquarters Exchange activities need improvement.

Action Needed on Recurring External Review Results

The NASA Headquarters Exchange Council did not correct deficiencies identified in previous external reviews of Headquarters Exchange financial statements. Specifically, we identified the following uncorrected deficiencies:

- inadequate documentation of Headquarters Exchange policies and procedures;
- improper use of personal funds to purchase merchandise for sale in the Headquarters Exchange store; and
- improper recording of Headquarters Exchange store inventory balances in the financial statements.

The Exchange Council President said that the Exchange Council did not correct the deficiencies because the Council comprises unpaid, part-time volunteers who have inadequate time to address the deficiencies. According to the Council President, Council members give highest priority to the demands of their paid, full-time positions and, as a result, Headquarters Exchange issues are a relatively low priority. The recurring deficiencies that we observed indicate that the Headquarters Exchange Council has not exercised due diligence in responding to reviewer recommendations for corrective action. Until the Headquarters Exchange Council implements the recommendations, the Council cannot ensure sound financial management of Headquarters Exchange activities.

Detailed Policies and Procedures Not Adequately Documented. The NASA Exchange Council did not adequately document its policies and procedures for Exchange operations and activities. We identified that deficiency in NASA OIG Report No. G-00-006, and the Exchange Council concurred with our recommendation to develop a policies and procedures document for overall management of Exchange operations. The IPA later reported the inadequate policies and procedures in its management letters for the FY 2003 and FY 2004 reviews, dated January 23, 2004, and February 28, 2005, respectively.

According to the IPA, Headquarters Exchange Council policies and procedures should describe budget formation and budget amendments; describe the periodic accounting functions to be performed and periodic reports to be produced; illustrate the documents to be used to account for daily operations and to process payments; and identify the internal control procedures established for each operational cycle of the Council. The IPA stated that without adequate documentation, the Exchange Council cannot ensure consistency in application of financial and accounting policies and procedures; smooth transition of personnel into functions dealing with financial and accounting activities; communication of changes to all concerned; or traceability of accounting transactions to the summary of transactions on the financial statements.

The Headquarters Exchange Council concurred with the IPA finding in each year reported. According to the IPA, the Headquarters Exchange Council attempted to document its policies and procedures for overall management operations, but the final product lacked the details needed for financial and accounting purposes.

Personal Funds Used to Purchase Goods and Services for Exchange Store. In its FY 2003 and FY 2004 reviews, the IPA found that the Headquarters Exchange Council allowed Exchange Council members to use their personal funds, which were later reimbursed by the Exchange Council, to acquire goods and services in the normal course of Headquarters Exchange business. In the FY 2003 and FY 2004 management letters, the IPA reported that Exchange Council members had used \$8,240 and \$18,177 of their own funds in FY 2003 and FY 2004, respectively, to purchase merchandise for sale in the Headquarters Exchange store. Total merchandise purchases were \$100,044 in FY 2003 and \$173,856 in FY 2004.

According to the IPA, sound internal controls over cash require that cash disbursements be made by check, electronic funds transfer, or, for minor items, from petty cash funds. The IPA further stated that an organization should not rely on its members to advance their funds to make significant purchases of merchandise on behalf of Exchange store operations. The IPA recommended in both the FY 2003 and FY 2004 management letters that the Headquarters Exchange Council should establish an imprest fund for cash disbursements. However, the Headquarters Exchange Council did not implement the recommendation, stating that the additional paperwork and bureaucracy resulting from an imprest fund would not be worth the control benefit.

Beginning in FY 2006, the Headquarters Exchange Council began using a credit card for Headquarters Exchange purchases. Use of the credit card has reduced the use of personal funds to acquire goods and services. However, Exchange Council members still purchased \$3,138 in merchandise for sale during FY 2006.

Inventory Value and Methodology Not Recorded in Council's Books or Financial Statements. In NASA OIG Report No. G-00-006, we reported that the Headquarters Exchange Council had not performed a physical count of the Exchange store inventory to ensure an accurate inventory balance in the financial statements. The Headquarters Exchange Council concurred with our recommendation that the Council President should establish formal procedures to perform a wall-to-wall physical count of all Exchange

store retail inventory at each fiscal year-end and to resolve any discrepancies between the physical count and the Exchange store's inventory records. The IPA reported in its FY 2004 management letter that the Headquarters Exchange Council did not enter the inventory value and methodology in the Exchange's books or financial statements.

According to the management letter, available-for-sale inventory is an asset and should be reported on the Exchange's balance sheet, and notes to the financial statements should describe the inventory methodology and the procedure for inventory valuation. The IPA recommended that the Headquarters Exchange Council enter the inventory value in the books at the beginning of the year and periodically update the value, document the inventory methodology and procedures, and ensure that the year-end inventory valuation equals the physical inventory valuation. The Headquarters Exchange Council did not respond to the recommendation. As of November 16, 2006, the Headquarters Exchange Council was continuing its practice of not entering the inventory value and methodology in the Exchange's books or financial statements.

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

Deleted, Renumbered, and Revised Recommendations. In response to management comments on a draft of this memorandum, we deleted the finding concerning the preparation of bank reconciliations and its associated recommendation (draft Recommendation 2) and renumbered the remaining recommendations. We also revised our draft recommendation regarding the establishment of an imprest fund.

Recommendation 1. We recommended that the Headquarters Exchange Council develop a financial and accounting manual to document the financial and accounting policies and procedures used by the Exchange Council for external and internal transactions and identify files and forms used in its accounting system.

Management's Response. Management concurred, stating that it will complete a Headquarters Exchange financial and accounting manual by August 31, 2007.

Evaluation of Management's Response. Management's planned action is responsive to the recommendation. The recommendation is resolved and will be closed upon our review of the Headquarters Exchange financial and accounting manual.

Recommendation 2. We recommend that the Headquarters Exchange Council establish a pre-approval process for all purchases made using personal funds.

Management's Response. Management nonconcurred with our draft recommendation to establish an imprest fund, stating that the Headquarters Exchange had greatly reduced the amount of purchases made by the members, primarily through the use of a credit card specifically obtained for the purpose of making Exchange Council purchases. In addition, management stated that it had considered the benefit of this method, balanced against the risk of misuse, and determined that

the Exchange Council needs to continue the practice of allowing Exchange Council members to use their personal funds to make purchases for the Exchange. Management also stated that such purchases are reviewed to ensure appropriate use of Council funds.

Evaluation of Management's Response. In response to management's comments, we revised the recommendation in our draft memorandum by eliminating the suggestion to establish an imprest fund and replacing it with a suggestion to establish a pre-approval process. The revised recommendation addresses our conclusion that the Exchange assumes an unnecessary risk when allowing members to use personal funds for Exchange purchases. We believe that a pre-approval process would adequately mitigate that risk because the Exchange Council can more easily disapprove a planned purchase than a purchase for which a member is seeking reimbursement. We request that the Assistant Administrator provide comments on the revised recommendation. The recommendation is unresolved.

Recommendation 3. We recommended that the Headquarters Exchange Council properly account for inventory.

Management's Response. Management concurred, stating that the Headquarters Exchange Council conducts an annual wall-to-wall inventory and will continue to do so. The Council is in the process of procuring a new cash register system for the store that would facilitate the inventory process. In addition, the Exchange Council has accepted an offer of assistance from the OCFO to review and adjust the store's annual inventory reporting.

Evaluation of Management's Response. Management's action is responsive, and the recommendation is closed.

Noncompliance with NASA Policy

The Headquarters Exchange Council did not specify a December 31 due date for financial statement review reports, contract for financial statement audits, or submit the required annual reports to the Office of the Chief Financial Officer (OCFO) or the Office of Infrastructure and Administration (OIA). Those conditions occurred because the Headquarters Exchange Council did not comply with NASA Policy Directive (NPD) 9050.6I, "NASA Exchange and Morale Support Activities," November 10, 2004. Financial statements and accompanying reports submitted late provide less benefit to management and other users than statements and reports submitted in a timely manner. Timely information is needed to assess financial status, plan future funding and expenditures, and evaluate proposed capital improvements.

Guidance on Operations of NASA Exchange Stores. NPD 9050.6I provides policies for operations of NASA Exchange stores. NPD 9050.6I, paragraph 5.d, requires the Center Chief Financial Officer to monitor Exchange compliance with the NPD and to review financial statements and audit reports to ensure that the Exchange is financially

sound and follows responsible business practices. The OIA is responsible for monitoring Headquarters Exchange compliance with NPD 9050.6I.

Late Submission of Review Reports. The Headquarters Exchange Council did not specify a December 31 due date for financial statement review reports when contracting with an IPA. NPD 9050.6I, paragraph 5.c.(5), requires the Exchange Council to submit copies of the consolidated September 30 Exchange balance sheet, income statement, and annual report to the Center Chief Financial Officer—for the Headquarters Exchange Council, this would be the OCFO—by December 31. IPAs routinely submitted their review reports to the Headquarters Exchange Council after the prescribed December 31 due date. We reported in “Reviews of the NASA Headquarters Exchange Financial Statements for Fiscal Years Ended September 30, 1998, and 1999” (IG-01-031, July 30, 2001) that an IPA issued the FY 1998 and FY 1999 financial statements and corresponding review reports 14 months and 4 months, respectively, after the December 31 due date specified by then NPD 9050.6F. The IPA submitted late reports because the Headquarters Exchange Council hired the IPA after the due dates and did not specify completion dates for the reviews. The Exchange Council agreed to implement our recommendation that the agreements with the IPAs specify a December 31 due date for financial statements and reports beginning with FY 2001.

The engagement letters for the FY 2003, FY 2004, and FY 2005 reviews did not specify a December 31 due date. The IPA issued its FY 2003 and FY 2004 review reports about 1 month and 2 months, respectively, after the December 31 due date. The IPA had not issued its FY 2005 review report as of December 14, 2006, almost 12 months after the due date. Noncompliance with the prescribed reporting dates for FY 2003, FY 2004, and FY 2005 occurred because the Exchange Council hired the IPA late in the year, giving it less time to complete the reviews by December 31, and did not specify due dates for the reviews. Management needs timely information to assess financial status, plan future funding and expenditures, and evaluate proposed capital improvements.

Approval of Reviews Not Obtained. The Exchange Council contracted for reviews instead of audits of the Headquarters Exchange’s FY 2003, FY 2004, and FY 2005 financial statements, without obtaining requisite management approval for the reviews. NPD 9050.6I, paragraph 5.c.(5), requires an annual audit of Exchange financial statements, but allows for reviews when reviews are fully justified and approved in writing, in advance, by the OCFO and the OIA. We first reported this condition in Report No. IG-01-031. The Exchange Council concurred with our recommendation to contract for audits or obtain approval to contract for reviews. According to the Exchange Council President, the Exchange Council had not requested OCFO or OIA approval for the FY 2003, FY 2004, and FY 2005 reviews and neither organization asked the Exchange Council why it contracted for reviews instead of audits. Without audits, users of the Exchange’s financial statements cannot benefit from an audit opinion on the fairness of financial statement presentation or the adequacy of related internal controls.

Annual Reports Not Submitted. The Exchange Council did not submit annual reports for FY 2003, FY 2004, and FY 2005 to the Headquarters Office of Institutions and Management and the OCFO as required by NPD 9050.6I, paragraph 5.c.(6). The NPD

states that the Exchange Council should submit an annual activities report, including a business plan for the next fiscal year, to the Center Director within 90 days after the end of the fiscal year, and forward a copy of the annual report and business plan to the Headquarters Office of Institutions and Management and the OCFO. NPD 9050.6I, paragraph 5.d, requires the Center Chief Financial Officer to monitor Exchange compliance with the NPD and to review financial statements and audit reports to ensure that the Exchange is financially sound and follows responsible business practices. The OIA is responsible for monitoring Headquarters Exchange compliance with NPD 9050.6I. According to the Exchange Council President, the Exchange Council had not produced the required annual reports and neither the OCFO nor the Office of Institutions and Management had inquired about the missing reports. Without annual reports, NASA management has a diminished ability to effectively monitor Headquarters Exchange performance.

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

Recommendation 4. We recommended that the President, Headquarters Exchange Council, submit annual activities reports, including a business plan for the next fiscal year, and audited financial statements to the OCFO and the Headquarters OIA by December 31 of each year.

Management's Response. Management concurred, stating that an annual report was under development and was expected to be completed by the end of February 2007. The report and the audited financial statements will be provided to the OCFO in accordance with NPD 9050.6I.

Evaluation of Management's Response. Management's planned action is responsive. The recommendation is resolved and will be closed upon our verification of the completed annual report.

Recommendation 5. We recommended that the President, Headquarters Exchange Council, obtain audits rather than reviews of the Exchange's financial statements, or obtain OCFO and OIA approval to contract for reviews.

Management's Response. Management concurred, stating that it will continue to obtain reviews but will get the appropriate approvals.

Evaluation of Management's Response. Management's planned action is responsive. The recommendation is resolved and will be closed upon our verification that the Exchange Council obtained approval for a review instead of an audit of the next financial statements.

Recommendation 6. We recommended that the Assistant Administrator for OIA review the Headquarters Exchange annual activities report.

Management's Response. Management concurred, stating that the requirement for review of the Headquarters Exchange annual activities report already exists. In addition, a letter was sent to all Exchanges in November 2006 reminding them to submit their annual reports to the OIA by January 15 each year.

Evaluation of Management's Response. Although NPD 9050.6I does not address procedures for reviewing the Exchanges' annual activities reports, management's action will help to ensure that the Headquarters Exchange submits its annual report to the OIA, which it has not done in the last 3 years. We consider management's action responsive, but the OIA needs to review the report to ensure the effective and sound management of the Headquarters Exchange (Recommendation 7). The recommendation is closed.

Recommendation 7. We recommended that the Assistant Administrator for OIA monitor Headquarters Exchange Council activities to ensure timely implementation of Recommendations 1 through 5.

Management's Response. Management concurred, stating that a series of monthly meetings between the Industrial Relations Officer, the OCFO, and the President of the Headquarters Exchange Council will be set to discuss the progress by the Headquarters Exchange regarding each recommendation. The meetings, which were to begin in February 2007, will continue until each recommendation is implemented.

Evaluation of Management's Response. Management's planned action is responsive; however, we are concerned that the February meeting was not held. We consider the recommendation resolved, but it will remain open until our final disposition of Recommendations 1 through 5.

We request that the Assistant Administrator for OIA provide comments on revised Recommendation 2 by April 13, 2007.

We appreciate the courtesies extended the staff during the review. If you have any questions, or need additional information, please contact Ms. Catherine Schneider, Financial and Institutional Management Director, at 202-358-3789 or me at 202-358-2572.



Evelyn R. Klemstine

2 Enclosures

cc:

Chief Financial Officer

Acting Assistant Administrator for Internal Controls and Management Systems

Deputy Assistant Administrator, Office of Infrastructure and Administration

Acting Director, Logistics Management Division

Industrial Relations Officer, Logistics Management Division

Headquarters Exchange Council Members

Scope and Methodology

We conducted a quality control review of the IPA reviews of the FY 2003 and FY 2004 Headquarters Exchange financial statements. Our review covered areas related to the IPA's compliance with the American Institute of Certified Public Accountants' Statements on Standards for Accounting and Review Services. The results of that work are in "Quality Control Review of [an IPA's] Reviews of Headquarters Exchange Financial Statements for Fiscal Years Ended September 30, 2003, and September 30, 2004" (IG-06-015, September 22, 2006).

We performed our follow-up review from June 2006 through January 2007. As part of the quality control review, we compared the findings reported in the IPA's management letters for the FY 2003 and FY 2004 reviews with findings in our two previous reports, "Reviews of the NASA Headquarters Exchange Financial Statements for Fiscal Years Ended September 30, 1998, and 1999" (IG-01-031, July 30, 2001) and "Headquarters Exchange Activities" (G-00-006, April 4, 2002), to identify continuing Exchange management deficiencies. Additionally, we identified several previously unreported deficiencies in the Exchange Council's contracting and reporting practices. We discussed the deficiencies and their underlying causes with Exchange Council and NASA management officials. We did not use computer-processed data in performing our review.

Review of Internal Controls

The IPA reported in its FY 2003 and FY 2004 review reports that it considered the Headquarters Exchange Council's internal controls over financial reporting by obtaining an understanding of the Headquarters Exchange Council's internal controls, determining whether internal controls had been placed in operation, assessing control risk, and performing tests of controls to determine auditing procedures for the purpose of expressing an opinion on the principal financial statements. The IPA reported that it did not express an opinion on the Exchange's internal controls. While the IPA found no reportable conditions involving internal controls or the application of those controls, the IPA communicated several non-reportable conditions² to the Headquarters Exchange Council. We did not fully examine internal controls because our purpose in issuing this memorandum is only to advise the Headquarters Exchange Council and NASA management of various deficiencies observed during our quality control review of the IPA's work.

² According to the IPA's management letters, non-reportable conditions are those matters involving internal controls and the Headquarters Exchange Council's operation that warrant management's attention but are not significant enough to be considered reportable conditions or material weaknesses by the American Institute of Certified Public Accountants.

Prior Coverage

Since June 2001, we performed the following two reviews of particular relevance to the subject of this report.

“Reviews of the NASA Headquarters Exchange Financial Statements for Fiscal Years Ended September 30, 1998, and 1999” (IG-01-031, July 30, 2001)

We reported that the Headquarters Exchange Council had contracted for reviews instead of audits of its financial statements. We recommended that the Exchange Council obtain audits of its FY 1998 and FY 1999 financial statements that are in accordance with applicable standards, contract for audits of FY 2001 and subsequent years' financial statements or obtain approval to contract for reviews, and specify in agreements with auditors that financial statements and reports are due by December 31. The Exchange Council concurred with the recommendations to contract for audits of financial statements or obtain approval to contract for reviews, agreed to specify the required reporting due date in its contractual agreements with the auditor or accountant, and partially concurred that it should obtain audits of the Exchange Council's FY 1998 and FY 1999 financial statements.

“Headquarters Exchange Activities” (G-00-006, April 4, 2002)

We reported among many findings that the Headquarters Exchange Council did not maintain adequate policies and procedures for Exchange operations and activities, could improve the reliability of its financial statements through audits instead of reviews, could improve its accounting procedures to develop reliable and useful financial statements, did not perform a physical count of the Exchange store inventory to ensure an accurate inventory balance in the annual financial statement, and did not maintain petty cash or an equivalent account for cash payments. We also reported that the Headquarters Exchange Council did not record the actual date of sale on individual sales receipts, required only one signature on checks, did not request the Headquarters Associate General Counsel for General Law to review the appropriateness of the Disaster Relief Fund provisions, often expended its limited nonappropriated funds on activities more properly supported by appropriated funds, allowed concession vendors to sell books without written contracts with the Exchange, and did not include discussions about Exchange store operations in Council minutes. We made 18 recommendations for improved management of the Headquarters Exchange's operations and activities. The Acting Associate Administrator for Headquarters Operations concurred with all recommendations.

Management's Comments

National Aeronautics and
Space Administration
Headquarters
Washington, DC 20546-0001



January 29, 2007

Reply to Atrn of

Office of Infrastructure and Administration

TO: Assistant Inspector General for Auditing
FROM: Assistant Administrator for Infrastructure and Administration
SUBJECT: Response to Draft Memorandum on Follow-Up Review of the Management of the Headquarters Exchange (Assignment Number A-06-010-01)

Thank you for the opportunity to respond to your draft memorandum entitled "Follow-Up Review of the Management of the Headquarters Exchange (Assignment Number A-06-010-01), dated December 19, 2006. In general, NASA concurs with the OIG's recommendations as communicated in the draft memorandum and plans to implement those recommendations as delineated below. We do, however, non-concur with recommendations 2 and 3. These non-concurrences are based on additional supporting documentation provided to the OIG relating to the accuracy Headquarters Exchange bank reconciliations, and; the additional burden on limited volunteer resources does not warrant establishment of an imprest fund.

Recommendation 1: *The Headquarters Exchange Council should develop a financial and accounting manual to document the financial and accounting policies and procedures used by the Exchange Council for external and internal transactions and identify files and forms used in its accounting system.*

Management's Response: Concur.

The OCFO has offered their assistance in developing the policies and procedures to be included in a financial and accounting manual for the HQ Exchange. It is anticipated that this will be a relatively small document so as to not overly burden the purely volunteer staff. We anticipate completion of a financial and accounting manual by August 31, 2007.

Recommendation 2: *The Headquarters Exchange Council should instruct officials responsible for bank reconciliations to familiarize themselves with the basic objective and format of preparing bank reconciliations and ensure that the bank and book balances reconcile to the correct balance at the end of each period.*

Deleted draft Recommendation 2; revised (and renumbered) draft Recommendation 3

Deleted

Management's Response: Non-concur.

We disagree with the recommendation and have provided detailed bank reconciliations to the OIG for the months ending February 2006, May 2006, and June 2006. These reconciliations demonstrate that monthly reconciliations are performed in both an accurate and timely manner. Consequently, we request that this recommendation be closed for reporting purposes.

Recommendation 3: *The Headquarters Exchange Council should establish an imprest fund at a financial institution.*

Management's Response: Non-concur.

The Headquarters Exchange has greatly reduced the amount of purchases made by the membership, primarily through the use of a credit card obtained specifically for the purpose of making Exchange Council purchases. Additionally, the benefit of this method balanced against the risk of misuse had been considered and it has been determined that the Exchange Council needs to maintain this practice. These purchases are reviewed to assure appropriate use of Council funds. Consequently, we request that this recommendation be closed for reporting purposes.

Recommendation 4: *The Headquarters Exchange Council should properly account for inventory.*

Management's Response: Concur.

The HQ Exchange Council conducts an annual wall-to-wall inventory and will continue to do so. This inventory will not be conducted more frequently than annually. Additionally, the council is in the process of procuring (through the Office of Infrastructure and Administration) a new cash register system for the store that would facilitate the inventory process. The Exchange will, however, value the inventory at cost and provide that information in the annual balance sheet before providing the financial data to the auditor for appropriate review. The Exchange has accepted an offer of assistance from the OCFO to review and adjust any annual inventory reporting. As a result of the actions taken, we request that this recommendation be closed for reporting purposes.

Recommendation 5: *The President, Headquarters Exchange Council, should submit annual activities reports, including a business plan for the next fiscal year, and audited financial statements to the OCFO and the Headquarters Office of Institutions and Management by December 31 of each year.*

Revised and
renumbered
as Recom-
mendation 2

Renumbered
as Recom-
mendation 3

Renumbered
as Recom-
mendation 4

Management's Response: Concur

An annual report is under development and will be completed by the end of February 2007. The business plan content of the report will define the activities to be conducted during the upcoming fiscal year that were approved by the Council in accordance with its policies and procedures. This report and the audited financial statements will be provided to the CFO for Headquarters vice the OCFO (in accordance with NPD 9050.6I). The individual that currently performs these duties is the CFO at the Goddard Space Flight Center. We request that this recommendation be closed for reporting purposes.

Recommendation 6: *The President, Headquarters Exchange Council, should obtain audits rather than reviews of the Exchange's financial statements, or obtain OCFO and OIA approval to contract for reviews.*

Management's Response: Concur.

The Exchange Council conducted two full audits in FY 2001 and 2002 with no substantive findings. The FY 2001 audit was done at the recommendation of the Inspector General (see audit G-00-006). The full audit in FY 2002 was done at the behest of the Exchange to provide a full inventory cycle for review under full audit procedures to assure a healthy system. As part of this process, and in agreement with the Inspector General, the Exchange then conducted reviews rather than full audits. The Exchange, however, neglected the administrative requirement to file the required request as stated in the NPD. Given the size of the HQ Exchange, reviews will continue to be pursued with appropriate approvals being requested. As a result of the actions taken, we request that this recommendation be closed for reporting purposes.

Recommendation 7: *We recommend that the Assistant Administrator for OIA review the Headquarters Exchange annual activities report.*

Management's Response: Concur.

NPD 9050.6I(5)(c)(6) requires that each Exchange submit an annual report of activities for the next fiscal year to their Center Director within 90 days of the end of the fiscal year. A copy of the annual report must also be forwarded to the Office of Infrastructure and Administration and the Office of the Chief Financial Officer, NASA Headquarters. Therefore, the requirement already exists for the review recommended. A letter was sent to all Exchanges in November 2006 reminding them of this requirement (copy attached). Based on the actions taken, we request that this recommendation be closed for reporting purposes.

Recommendation 8: *We recommend that the Assistant Administrator for OIA monitor Headquarters Exchange Council Activities to ensure timely implementation of Recommendations 1 through 6.*

Renumbered
as Recommendation 5

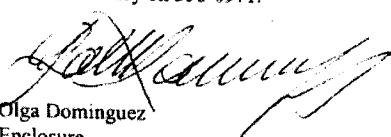
Renumbered
as Recommendation 6

Renumbered
as Recommendation 7
1 through 5

Management's Response: Concur.

A series of monthly meetings between Carl Poleskey, Industrial Relations Officer, Thomas Green, Office of Chief Financial Officer, and Betsy Edwards, President of HQ Exchange Council will be set to discuss the progress by the HQ Exchange regarding each recommendation. The first meeting will be held in February 2007 with meetings to continue until each recommendation is implemented. As result of proposed corrective action, we request that this recommendation be closed for reporting purposes.

Thank you again for the opportunity to respond to your draft memorandum, and for the critical insight into the management of the Headquarters Exchange. If you have any questions regarding this response, do not hesitate to contact Betsy Edwards on 358-4639, or Carl Poleskey on 358-0971.


Olga Dominguez
Enclosure

cc:
Associate Administrator for Institutions and Management/Mr. Scales
Deputy Associate Administrator for Infrastructure and Administration/Mr. Jedrey
Director (Acting), Logistics Management Division/ Mr. Hupp
Director, Management Systems Division/ Mr. Werner
Headquarters Exchange Council Members

National Aeronautics and
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Washington, DC 20546-0001



November 30, 2006

Reply to Airmail

Logistics Management Division

TO: Exchange Council Chairpersons/Presidents
FROM: Industrial Relations Officer, Logistics Management Division
SUBJECT: Reporting Schedule/Exchange Council Conference

I am writing to you in my role as Agencywide coordinator of NASA's Exchange Councils to remind you of the schedule of annual reports due from each Exchange Council as detailed in NPD 9050.6I, NASA Exchange and Morale Support Activities. I also would like to begin the preparation for the upcoming Exchange Council conference in March 2007, to be hosted at the Johnson Space Center.

As you know, NPD 9050.6I lists various reports that each Exchange Council must prepare and submit during the course of the year. Following are the reports and the deadlines for submission.

NPD 9050.6I (5)(a)(4) -- An annual report of activities regulated by the Randolph-Sheppard Act Amendments of 1974 must be completed and forwarded to the Office of Infrastructure and Administration (I&A) by January 15 of each year.

NPD 9050.6I(5)(c)(5) -- An annual financial audit report including copies of consolidated September 30 balance sheets and income statements must be submitted to Center Chief Financial Officers by December 31 of each year. Please note that under the NPD if an Exchange wants to have a review performed rather than an audit, such exception must be requested of, and approved in writing in advance by NASA's Office of the Chief Financial Officer (CFO) and the Office of I&A.

NPD 9050.6I (5)(c)(6) -- An annual report of Exchange Council activities, including a business plan for the next fiscal year, must be submitted to the Center Director within ninety days of the end of the fiscal year. A copy of the annual report and business plan also must be forwarded to the Office of I&A and the Office of the CFO, NASA Headquarters.

All reports due to the Office of I&A should be forwarded directly to me, Suite 4B60, Room 4B70. Reports due to the NASA Headquarters CFO should be forwarded to Bruce Ward, Suite 8K39. If you have any questions about these reports, please contact me at 202-358-0971 or by email at <carl.poleskey-1@nasa.gov>.

Finally, I would like to take this opportunity to request that you begin to think about the topics that you would like to discuss at the upcoming Exchange Council conference. This should also include a reexamination of NPD 9050.6I. I plan to conduct a series of teleconferences beginning in January to come to a consensus on what we need to address at the conference.

Thank you for your attention to the matters discussed above. I look forward to your input and to our future discussions regarding these matters.



Carl J. Polesky

Exchange Council Chairpersons/Presidents:

ARC/210-14/Ms. Haines
DFRC/2701/Ms. Reukauf
GRC/3-16/Mr. Lawrence
GSFC/408.0/Mr. Kalshoven
HQ/7L70/Ms. Edwards
JSC/AH1Z/Ms. Conder
KSC/AA-B/Mr. Hattaway
LaRC/266/Mr. Russell
MSFC/DE01/Ms. Henderson
SSC/AA00/Ms. Dawson
WFF/803/Mr. Marsh

cc:

HQ/4C74/Mr. Parker
HQ/8K39/Mr. Ward