

**QUALITY
CONTROL
REVIEW
REPORT**

**LEATHERBURY-BROACHE & CO., P.C.,
AUDITS OF NATIONAL AERONAUTICS AND
SPACE ADMINISTRATION WOLLOPS FLIGHT
FACILITY EXCHANGE AND MORALE
ASSOCIATION FINANCIAL STATEMENTS
FOR FISCAL YEARS ENDED
SEPTEMBER 30, 1998, 1999, AND 2000**

December 20, 2001



National Aeronautics and
Space Administration

OFFICE OF INSPECTOR GENERAL

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Acronyms

AICPA	American Institute of Certified Public Accountants
FY	Fiscal Year
GAAP	Generally Accepted Accounting Principles
GAAS	Generally Accepted Auditing Standards
GAGAS	Generally Accepted Government Auditing Standards
NPD	NASA Policy Directive
OIG	Office of Inspector General
WEMA	Wallops Exchange and Morale Association

W

December 20, 2001

TO: Y/Associate Administrator for Earth Science
800/Director, Wallops Flight Facility

FROM: Deputy Assistant Inspector General for Audits

SUBJECT: Report on Quality Control Review of 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
Assignment Number A-01-053-00
Report Number IG-02-006

Enclosed please find the subject final report for your review and information. It contains no recommendations, and a written response is not required. The final report distribution is in Appendix C. **This report will be publicly available.**

We appreciate the courtesies extended to the audit staff. If you have questions concerning the report, please contact Mr. Chester A. Sipsoc, Program Director, Financial Management Audits, Quality and Oversight, at (216) 433-8960, or Ms. Bonnie Armstrong, Auditor-in-Charge, at (321) 867-4073.

[original signed by]
Lee T. Ball

Enclosure

cc:

AB/Associate Deputy Administrator for Institutions

B/Deputy Chief Financial Officer

B/Comptroller

G/General Counsel

BF/Director, Financial Management Division

JM/Director, Management Assessment Division

JR/Director, Contractor Industrial Relations

WFF/803/Chair, Wallops Exchange and Morale Association Council

Office of Inspector General

December 20, 2001

Ms. Rebecca B. Charnock, CPA
Leatherbury-Broache & Co., P.C.
Certified Public Accountants
Drawer Number 240
23307 Courthouse Avenue
Accomac, VA 23301

RE: Report on Quality Control Review of 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
Assignment Number A-01-053-00
Report Number IG-02-006

Dear Ms. Charnock:

Enclosed please find the subject final report for your review and information. It contains no recommendations, and a written response is not required. The final report distribution is in Appendix C. **This report will be publicly available.**

We appreciate the courtesies extended to the audit staff. If you have questions concerning the report, please contact Mr. Chester A. Sipsock, Program Director, Financial Management Audits, Quality and Oversight, at (216) 433-8960, or Ms. Bonnie Armstrong, Auditor-in-Charge, at (321) 867-4073.

[original signed by]

Lee T. Ball
Deputy Assistant Inspector General for Audits

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NASA Office of Inspector General

IG-02-006
A-01-053-00

December 20, 2001

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

Introduction

The NASA Office of Inspector General (OIG) performed a quality control review of the Leatherbury-Broache & Co., P.C. (Leatherbury-Broache), audits of the Wallops Exchange and Morale Association (WEMA) financial statements for fiscal years (FY's) 1998, 1999, and 2000. The WEMA retained Leatherbury-Broache, a public accounting firm licensed to practice in the state of Virginia, to perform the audits. The WEMA is a Government instrumentality operating under NASA's control. It operates and generates revenues from a cafeteria and gift shop, catalog sales, dormitories, and the Rocket Club bar. For the year ended September 30, 2000, WEMA reported a cash balance of \$244,991¹ and a net loss of \$2,264.

The Inspector General Act of 1978, as amended, mandates Inspectors General to ensure that work performed by non-Federal auditors complies with generally accepted government auditing standards² (GAGAS) issued by the Comptroller General of the United States. The GAGAS incorporate, by reference, the American Institute of Certified Public Accountants (AICPA) generally accepted auditing standards (GAAS)³ of field work and reporting. Both GAGAS and GAAS require auditors to provide an opinion as to whether the financial statements present fairly the financial condition and results of operations of the audited organization in accordance with established accounting principles. GAAS also require auditors to (1) address the effect fraud or illegal acts may have on the report of the financial statements and (2) inform appropriate representatives of the audited organization about fraud, illegal acts, and reportable conditions⁴ identified during the audit. In addition to the GAAS requirement, GAGAS require that auditors report the scope of their testing of compliance with laws and regulations and of internal

¹ The cash balance includes certificates of deposit and current investments.

² Government auditing standards are broad statements of the auditors' responsibilities, promulgated by the Comptroller General of the United States. The standards apply to audits of government organizations, programs, activities, and functions. They prescribe the minimum hours of continuing education requirements and additional standards for field work and reporting.

³ Generally accepted auditing standards, promulgated by the AICPA, are general guidelines to aid auditors in fulfilling their professional responsibilities. The standards apply to audits of non-governmental organizations.

⁴ Reportable conditions represent significant deficiencies in the design or operation of internal control, which could adversely affect an organization's ability to record, process, summarize, and report financial data.

control over financial reporting, including whether the tests they performed provided sufficient evidence to support an opinion on compliance or internal control and whether the auditors are providing such opinions.

WEMA contracted with Leatherbury-Broache to conduct audits of WEMA's FY's 1998 and 1999 financial statements in accordance with GAAS. An agreement between NASA management and the OIG required that Exchange audits be conducted in accordance with GAGAS beginning with FY 1999. Although WEMA inappropriately requested that the FY 1999 audit be conducted in accordance with GAAS, WEMA correctly requested that Leatherbury-Broache conduct the FY 2000 audit in accordance with GAGAS.

Objectives

The review objective was to determine whether the independent external auditors performed the audits in accordance with applicable auditing standards. We also determined whether WEMA corrected control deficiencies identified during the audits. Appendix A contains additional details on our objectives, scope, and methodology.

Results of Review

Leatherbury-Broache's audit work complied with GAAS for FY's 1998 and 1999. For FY 2000, the firm's audit work complied with GAGAS. We concluded that the WEMA Council appropriately responded to the audit firm's recommendations for improvement. Leatherbury-Broache's work papers showed that WEMA had corrected all significant deficiencies. Appendix B contains details on Leatherbury-Broache's audit results and recommendations for improvement and on WEMA's corrective actions.

Background

NASA Policy Directive (NPD) 9050.6E,⁵ "NASA Exchange Activities," dated December 2, 1997, authorizes Center Directors to establish an Exchange to contribute to the efficiency, welfare, and morale of NASA personnel. Center Directors are required to appoint an Exchange Council to oversee the Exchange operations. The Council must consist of at least five Center employees who perform their duties without pay from the Exchange. Exchange-operated activities are generally self-sustained (that is, supported by nonappropriated funds⁶). The Directive also requires annual audits of the Exchange's financial statements and the submission of the statements and the audit reports to the Center Chief Financial Officer by December 31 annually.

⁵ NASA revised NPD 9050.6E in September 2001. However, we used the previous version of the directive because it relates to the time period under review.

⁶ Nonappropriated funds are those received from sources other than congressional appropriations.

Appendix A. Objectives, Scope, and Methodology

Objectives

The quality control review objective was to determine whether the Leatherbury-Broache & Co., P.C. (Leatherbury-Broache), audit work for the Wallops Exchange and Morale Association (WEMA) was performed in accordance with applicable auditing standards. We also determined whether the WEMA Council had taken corrective actions in response to recommendations resulting from the audits.

Scope and Methodology

In performing the quality control review, we used an internal work program that incorporated the auditing standards issued by the American Institute of Certified Public Accountants (AICPA). Based on those standards, we developed and organized the work program according to the general, field work, and reporting standards for financial audits. Our review focused on the auditors' qualifications, independence, peer review report, audit programs for appropriate procedures, and working paper documentation to include the results of the control risk assessment,⁷ fraud risk assessment,⁸ and controls testing. We also assessed plans and actions taken by the WEMA Council to implement the auditors' recommendations.

To determine whether Leatherbury-Broache had established and implemented an adequate quality control system, we assessed the May 11, 1999, report on the most recent peer review of Leatherbury-Broache performed by Eggleston Smith P.C., Certified Public Accountants & Consultants (Eggleston Smith). Peer review is a certified public accounting firm review of another certified public accounting firm's compliance with its quality control system. The purpose of a peer review is to determine and report whether a certified public accounting firm developed adequate policies and procedures of quality control and complied with them in performing accounting and auditing services for clients. Eggleston Smith performed a peer review of the system of quality control for the accounting and auditing practice of Leatherbury-Broache in effect for the year ended April 30, 1999. Eggleston Smith found that the system had "been 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 to provide the firm with reasonable assurance of complying with professional standards."

Audit Field Work

We performed the quality control review in September and October 2001.

⁷ According to AICPA Codification of Statements on Auditing Standards, Section 319, "Consideration of Internal Control in a Financial Statement," auditors are required to document the basis for concluding that control risk is below the maximum level.

⁸ AICPA Codification of Statements on Auditing Standards, Section 316, "Fraud in a Financial Statement Audit," states that auditors are required to specifically assess the risk of material misstatement of the financial statements due to fraud and to document in the working papers evidence of their assessment.

Appendix B. Leatherbury-Broache & Co., P.C., Audits of the Wallops Exchange and Morale Association Financial Statements

We performed a review of the Leatherbury-Broache & Co., P.C. (Leatherbury-Broache), audits of the Wallops Exchange and Morale Association (WEMA) financial statements. Our summary follows of the audit firm's scope, results, and recommendations; WEMA's corrective actions; and the auditors' evaluation of corrective actions:

Audit Scope. The audit firm, Leatherbury-Broache, conducted the fiscal years (FY's) 1998 and 1999 audits in accordance with generally accepted auditing standards⁹ (GAAS), which are promulgated by the American Institute of Certified Public Accountants (AICPA). In accordance with GAAS, the audit firm opined on the fair presentation of the financial statements only. For the FY 2000 financial statements, Leatherbury-Broache performed an audit in accordance with generally accepted government auditing standards¹⁰ (GAGAS) and reported on internal controls and compliance with laws and regulations, in addition to opining on the fair presentation of the financial statements.

Audit Reports. In its audit reports dated December 2, 1998; December 13, 1999; and December 11, 2000, Leatherbury-Broache rendered unqualified opinions on the FY's 1998, 1999, and 2000 Statements of Financial Position, Changes in Net Assets, Activities, and Cash Flows for WEMA. An unqualified opinion means that the auditors determined that the financial statements present fairly the organization's financial position, changes in net assets, and cash flows in conformity with generally accepted accounting principles (GAAP). GAAP are a common set of accounting standards and procedures established by the accounting profession as a general guide to accounting theory and practice. GAAP include financial accounting standards, interpretations, and concepts set forth in the pronouncements of the Financial Accounting Standards Board and its predecessor agencies. During its FY 2000 audit, Leatherbury-Broache did not identify any material weaknesses in internal control or noncompliance.

Recommendations. In separate communications to the Executive Council of WEMA, Leatherbury-Broache reported several control deficiencies identified during audits of FY's 1998 and 1999 financial statements and recommended improvements to correct the deficiencies. During Leatherbury-Broache's initial audit of WEMA's FY 1998 financial statements, the WEMA bookkeeper admitted to embezzling a total of about \$20,000 from WEMA during 1996 and 1997. The bookkeeper pled guilty to embezzlement and was sentenced to probation and ordered to pay restitution of \$17,167. Leatherbury-Broache recommended improvements to help prevent and detect embezzlement and other

⁹ See footnote 3.

¹⁰ See to footnote 2.

improvements to correct internal control weaknesses. The recommendations are described below:

- Separate the duties related to collecting and depositing cash receipts, reconciling bank statements, and recording transactions.
- Perform physical inventory of all equipment at all locations occupied by WEMA and associated clubs,¹¹ separating the equipment owned by NASA from that owned by WEMA.
- Implement a system to track meal costs to more accurately evaluate whether meal prices are comparable to costs.
- Report activity of all clubs to the Morale Activities Committee Treasurer to provide a review procedure over the use of WEMA funds transferred to clubs.
- Establish an accounting procedures manual specific to the functions of the WEMA bookkeeper.
- Prepare budgets, and compare budget information to actual results.

WEMA Corrective Actions. In response to the audit firm’s findings and recommendations, the WEMA Council implemented controls over cash, performed an inventory of equipment, conducted a cost analysis of meal items, required clubs to report activity, established an employee manual that includes written position descriptions, and prepared budgets. The WEMA General Manager considered these issues corrected or insignificant as the result of controls now in effect. We considered the Council’s actions responsive to recommendations.

Leatherbury-Broache Evaluation of Corrective Action. Leatherbury-Broache auditors stated that the WEMA Council had addressed all significant recommendations and implemented corrective actions where required.

¹¹ To promote activities that contribute to the efficiency, welfare, and morale of personnel, WEMA provides financial assistance to several clubs, including aerobics, amateur radio, automobile, basketball, softball, volleyball, black history, fitness, karate, photography, prayer, and hunt clubs.

Appendix C. Report Distribution

Independent Audit Firm

Ms. Rebecca B. Charnock, CPA
Leatherbury-Broache & Co., P.C.
Certified Public Accountants
Drawer Number 240
23307 Courthouse Avenue
Accomac, VA 23301

National Aeronautics and Space Administration (NASA) Headquarters

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AI/Associate Deputy Administrator
AA/Chief of Staff
AB/Associate Deputy Administrator for Institutions
B/Deputy Chief Financial Officer
B/Comptroller
BF/Director, Financial Management Division
G/General Counsel
J/Associate Administrator for Management Systems
JM/Director, Management Assessment Division
JR/Director, Contractor Industrial Relations
Y/Associate Administrator for Earth Science

NASA Centers

Director, Wallops Flight Facility
Chairman, Wallops Exchange and Morale Association, Wallops Flight Facility
Chief Counsel, John F. Kennedy Space Center

Non-NASA Federal Organizations and Individuals

Assistant to the President for Science and Technology Policy
Deputy Associate Director, Energy and Science Division, Office of Management and Budget
Branch Chief, Science and Space Programs Branch, Energy and Science Division, Office of Management and Budget
Managing Director, Acquisition and Sourcing Management Team, General Accounting Office
Senior Professional Staff Member, Senate Subcommittee on Science, Technology, and Space

Chairman and Ranking Minority Member – Congressional Committees and Subcommittees

Senate Committee on Appropriations
Senate Subcommittee on VA, HUD, and Independent Agencies
Senate Committee on Commerce, Science, and Transportation
Senate Subcommittee on Science, Technology, and Space
Senate Committee on Governmental Affairs
House Committee on Appropriations
House Subcommittee on VA, HUD, and Independent Agencies
House Committee on Government Reform
House Subcommittee on Government Efficiency, Financial Management and Intergovernmental Relations
House Subcommittee on Technology and Procurement Policy
House Committee on Science
House Subcommittee on Space and Aeronautics, Committee on Science

Congressional Member

Honorable Pete Sessions, U.S. House of Representatives

NASA Assistant Inspector General for Auditing Reader Survey

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Report Title: 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

Report Number: _____ **Report Date:** _____

Circle the appropriate rating for the following statements.

	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree	N/A
1. The report was clear, readable, and logically organized.	5	4	3	2	1	N/A
2. The report was concise and to the point.	5	4	3	2	1	N/A
3. We effectively communicated the audit objectives, scope, and methodology.	5	4	3	2	1	N/A
4. The report contained sufficient information to support the finding(s) in a balanced and objective manner.	5	4	3	2	1	N/A

Overall, how would you rate the report?

- Excellent Fair
 Very Good Poor
 Good

If you have any additional comments or wish to elaborate on any of the above responses, please write them here. Use additional paper if necessary. _____

How did you use the report? _____

How could we improve our report? _____

How would you identify yourself? (Select one)

- Congressional Staff
- NASA Employee
- Private Citizen
- Government: _____ Federal: _____ State: _____ Local: _____
- Media
- Public Interest
- Other: _____

May we contact you about your comments?

Yes: _____ **No:** _____

Name: _____

Telephone: _____

Thank you for your cooperation in completing this survey.

Major Contributors to the Report

Chester A. Sipsoc, Program Director, Financial Management Audits, Quality and Oversight

Vera Garrant, Program Manager

Karen VanSant, Program Manager

Bonnie Armstrong, Auditor-in-Charge

Nancy Cipolla, Report Process Manager

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