

## Report of Independent Accountants

To the Inspector General of the  
National Aeronautics and Space Administration:

We were engaged to audit the accompanying consolidated balance sheet of the National Aeronautics and Space Administration (NASA) as of September 30, 2001, and the related consolidated statements of net cost and changes in net position and the combined statements of budgetary resources and financing for the year then ended. These financial statements are the responsibility of NASA's management. The financial statements of NASA as of September 30, 2000, and for the year then ended were audited by other independent accountants whose report, dated February 6, 2001, expressed an unqualified opinion on those statements.

For the year ended September 30, 2001, NASA reported obligations incurred of \$14.9 billion in its combined statements of budgetary resources and financing and total program expenses of \$14.9 billion in its consolidated statement of net cost. To obtain reasonable assurance about whether those amounts were fairly stated, we selected for testing statistical samples of individual obligation and cost transactions from general ledger accounts comprising obligations incurred and expenses. NASA did not provide sufficient documentary evidence in support of transactions included in our samples to determine the accuracy of the reported obligations and expenses.

NASA capitalized approximately \$5.8 billion in costs for the International Space Station (ISS) during the year ended September 30, 2001. NASA did not provide sufficient documentary evidence to determine the accuracy and completeness of those capitalized costs. As discussed in Note 1 to the financial statements, NASA recorded in its fiscal year 2001 consolidated statement of changes in net position a prior period adjustment, increasing the amount of costs capitalized to the ISS for space shuttle launches made during fiscal year 2000 by \$636 million. NASA did not provide sufficient documentary evidence in support of this adjustment to determine if the additional amount capitalized fairly presents shuttle launch costs attributable to the ISS.

As discussed in Note 6 to the financial statements, NASA changed its accounting for certain assets held by contractors and used in the space shuttle program, reclassifying them from depreciable property, plant, and equipment to materials that will be expensed as they are consumed. This change was effected through the reporting of assets held by NASA's contractors on the annual form 1018 reports. Included among the assets reclassified are certain space shuttle components, such as engines, that generally are refurbished and reused, rather than consumed in a single mission. Thus, the acquisition costs of these components would not be attributed to the periods of their use. The information provided by NASA did not contain

sufficient documentary evidence to determine the appropriateness or the effect of this accounting change.

As of September 30, 2001, NASA reported in its consolidated balance sheet approximately \$4.7 billion of NASA-owned materials that are held by contractors. The contractors reported materials using a definition that commingles the Federal Accounting Standards Advisory Board's (FASAB) definition of inventory and its definition of equipment, impairing NASA's ability to classify these assets in conformity with generally accepted accounting principles. The information provided by NASA did not contain sufficient documentary evidence to determine how much of the reported contractor-held materials balance should have been presented as materials, and how much should have been presented as property, plant, and equipment in the consolidated balance sheet as of September 30, 2001.

FASAB's Statement of Federal Financial Accounting Standards No. 4, *Managerial Cost Accounting Concepts and Standards for the Federal Government*, requires federal agencies to report within the financial statements the full cost of their programs. Office of Management and Budget (OMB) Bulletin No. 97-01, *Form and Content of Agency Financial Statements*, requires that costs incurred during a fiscal year that are capitalized on the balance sheet be reported in the statement of financing and notes that such costs do not result in expenses in the statement of net cost in that period. NASA reported \$8.5 billion of capitalized costs as operating expenses of the programs, while depreciation expense of \$2.5 billion was not reported as an operating expense of the programs. We believe the elimination of capitalized costs from each program's operating expenses and the allocation of depreciation expense to each program are necessary for the fair presentation of the fiscal year 2001 consolidated statement of net cost in conformity with generally accepted accounting principles.

As discussed above, NASA did not provide the sufficient evidence needed to support the accuracy and the classification of amounts reported as obligations, expenses, property, plant, and equipment, and materials in the consolidated and combined financial statements as of and for the year ended September 30, 2001, thereby limiting the scope of our work such that we are not able to express, and we do not express, an opinion on these financial statements.

The management's discussion and analysis, required supplementary stewardship information, and required supplementary information are not required parts of the financial statements but are supplementary information required by the Federal Accounting Standards Advisory Board and OMB Bulletin No. 97-01. This information has not been subjected to auditing procedures; accordingly, we express no opinion on this information.

The accountability report includes other information, in addition to the financial statements, management's discussion and analysis, required supplementary stewardship information, and required supplementary information, which is presented for the purpose of additional analysis and is not a required part of the financial statements. This information has not been subjected to auditing procedures; accordingly, we express no opinion on this information.

In accordance with *Government Auditing Standards*, we have also issued reports dated February 22, 2002, on our consideration of NASA's internal control and on its compliance with laws and regulations. Those reports, which disclose a material weakness and reportable conditions in internal control and non-compliance with the Federal Financial Management Improvement Act, are integral parts of a report prepared in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our work.

*PricewaterhouseCoopers LLP*

Washington, D.C.  
February 22, 2002