

JULY 28, 2008

QUALITY CONTROL REVIEW REPORT

OFFICE OF AUDITS

QUALITY CONTROL REVIEW OF THE
L.F. HARRIS & ASSOCIATES, CPA, P.A. AUDIT OF
THE KENNEDY SPACE 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
FY	Fiscal Year
GAGAS	Generally Accepted Government Auditing Standards
KSC	Kennedy Space Center
TFM	Treasury Financial Manual

National Aeronautics and
Space Administration

Office of Inspector General
Washington, DC 20546-0001



July 28, 2008

TO: Luis F. Harris, CPA
Chief Financial Officer, Kennedy Space Center
Chair, Kennedy Space Center Exchange Council

FROM: Assistant Inspector General for Auditing

SUBJECT: Quality Control Review of the L.F. Harris & Associates, CPA, P.A. Audit of the Kennedy Space Center Exchange Financial Statements for Fiscal Year Ended September 30, 2007 (Assignment No. A-08-012-00)

The audit firm of L.F. Harris & Associates, CPA, P.A. performed an audit of the Kennedy Space Center (KSC) 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 L.F. Harris & Associates performed its audit in accordance with the Government Accountability Office's "Government Auditing Standards, 2007 Revision" (often referred to as generally accepted government auditing standards, or GAGAS), issued by the Comptroller General of the United States. The standards are for use by auditors of Government entities and entities that receive Government awards and by audit organizations performing GAGAS audit and attestation engagements. GAGAS prescribes 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) for fieldwork and reporting.¹ See Enclosure 1 for details on the scope and methodology of our review, requirements for reviews of exchange and morale support activities, and our summary of the latest peer review of L.F. Harris & Associates.

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.

See Enclosure 2 for the results of the L.F. Harris & Associates audit of the KSC Exchange for FY 2007.

Background. The KSC Exchange contributes to the efficiency, welfare, and morale of NASA KSC personnel. It operates five retail stores, two barbershops, a service station, a child development center, and two recreational parks. As of September 30, 2007, KSC Exchange revenues and other support totaled approximately \$3.4 million and assets totaled approximately \$1.3 million. L.F. Harris & Associates maintains an office in Orlando, Florida.

Review Results. L.F. Harris & Associates' audit work on the FY 2007 audit of the KSC Exchange financial statements substantially met GAGAS. We found no exception with the auditors' qualifications, audit planning, audit supervision, or conduct of the audit fieldwork. However, we noted one exception related to audit reporting; specifically, the firm did not report the Exchange's failure to comply with a Federal regulation. In a draft of this report, issued June 18, 2008, we made recommendations to both L.F. Harris & Associates and NASA to address our finding.

Management Comments. L.F. Harris & Associates concurred with our finding and recommendation and described actions to be taken in response to the draft report. NASA also concurred and described appropriate corrective actions. (See Enclosure 3 for the full text of L.F. Harris & Associates and NASA comments.) We consider the comments responsive and have closed the recommendations.

Finding

Noncompliance with a Federal Regulation Was Not Reported. The KSC Exchange's FY 2007 financial statements included a disclosure, "Note 2 – Concentration of Credit Risk." According to the note, the KSC Exchange maintained bank and credit union cash balances that exceeded federally insured limits by \$341,051 as of September 30, 2007.

The Department of the Treasury's Treasury Financial Manual (TFM) contains a requirement to ensure that funds in excess of the federally insured limits are collateralized. TFM Volume 1, Part 6, Section 9040, "Securing Agency Accounts," states:

All public money² deposited in a depository must be fully secured at all times. The current Federal deposit insurance limit per insured account is \$100,000. . . . When an agency deposits public money exceeding the recognized deposit insurance limit (generally \$100,000), the agency must request that the depository pledge eligible

² TFM, Section 9010, states that public money includes "revenue and funds of the United States and any funds the deposit of which is subject to the control or regulation of the United States or any of its officers, agents or employees." Section 9020 states: "A financial institution is defined as any bank, savings bank, savings and loan association, credit union, or similar institution. Financial institutions may be designated as depositories."

collateral to secure the uninsured amount. . . . This collateral requirement applies to total agency deposits at a depository that exceed the applicable insurance limit.

The KSC Exchange should have requested that its depositories pledge eligible collateral to secure the uninsured amount of the Exchange's cash deposits in those institutions, in accordance with TFM Part 6, Section 9040. This condition was not reported by L.F. Harris & Associates in its "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 a result, KSC Exchange management had taken no action to comply with the TFM requirement.

Recommendation 1. L.F. Harris & Associates should ensure it tests compliance with the requirements found in TFM Volume 1, Part 6, Section 9040, and communicate any noncompliance discovered in future financial statement audits in accordance with the applicable generally accepted government auditing standards.

Management's Response. Mr. Luis Harris concurred with our finding and recommendation and stated that the firm will take the actions we recommended.

Evaluation of Management's Response. Management's action is responsive to the intent of our recommendation. We consider the recommendation closed.

Recommendation 2. The KSC Exchange Council Chair should request that the Exchange's depositories pledge eligible collateral to secure the uninsured amount of KSC Exchange cash deposits in accordance with TFM Volume 1, Part 6, Section 9040.

Management's Response. The KSC Exchange Council Chair concurred. The KSC Exchange fully insured its cash deposits by allocating its cash to multiple institutions insured by either the Federal Deposit Insurance Corporation or the National Credit Union Share Insurance Fund.

Evaluation of Management's Response. Management's action is responsive to the intent of our recommendation. We reviewed the supporting documentation and verified that the cash deposits held by the KSC Exchange's financial institutions were within federally insured limits. We consider the recommendation closed.

Recommendation 3. We recommend that the Kennedy Chief Financial Officer monitor the Exchange Council's activities to ensure the appropriate corrective action is taken in response to Recommendation 2.

Management's Response. The Kennedy Chief Financial Officer concurred. She reviewed the Exchange Council's activities and determined that appropriate corrective action was taken.

Evaluation of Management's Response. Management's action is responsive to the intent of our recommendation. 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) A. Dahnelle Payson for

Evelyn R. Klemstine

4 Enclosures

QUALITY CONTROL REVIEW PROCESS

Scope and Methodology

We performed a quality control review of the L.F. Harris & Associates audit of the KSC Exchange financial statements for FY 2007 at the office of L.F. Harris & Associates in Orlando, Florida, from April 28 through May 5, 2008. Our review covered areas related to L.F. Harris & Associates' compliance with GAGAS. We focused the review on auditor qualifications, audit planning, audit supervision, conduct of the audit fieldwork, and audit reporting. We obtained and examined TFM, Volume 1, Part 6, Chapter 9000.

In conducting our review, we assessed the documentation gathered and prepared by L.F. Harris & Associates, including documentation used to support the audit report, and discussed our review with L.F. Harris & Associates personnel. We confirmed the license status of the company and its personnel who worked on the KSC Exchange audit by querying the Web site of the Florida Department of Business and Professional Regulation. We determined that L.F. Harris & Associates held a current "firm" license and its applicable personnel held active CPA licenses. We consider the Web site a reliable source of information, based on prior usage; we did not use any other 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 L.F. Harris & Associates, which was prepared by David Ramos, CPA, for the year ended June 30, 2004. The report, issued on February 1, 2005, stated that the system of quality control for the accounting and auditing practice of L.F. Harris & Associates was designed to meet the requirements of the quality control standards for an accounting and auditing practice established by the AICPA. The report further stated that L.F. Harris & Associates complied with the system during the year then ended, providing the firm with reasonable assurance of conforming with professional standards. The peer review report identified no significant deficiencies that would affect the opinion expressed in the report.

**RESULTS OF THE L.F. HARRIS &
ASSOCIATES AUDIT OF THE
KSC EXCHANGE FOR
FY 2007**

L.F. Harris & Associates Audit Report

L.F. Harris & Associates issued its January 14, 2008, report on the audit of the KSC Exchange's statement of financial position as of September 30, 2007, and the related statements of activities and cash flows for the year then ended, to the KSC Exchange Council. L.F. Harris & Associates 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 KSC Exchange as of September 30, 2007, and the changes in the KSC Exchange's net assets and cash flows for the year then ended.

**L.F. Harris & Associates Report on Internal Control and
Compliance and Other Matters**

L.F. Harris & Associates' "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," January 14, 2008, stated that L.F. Harris & Associates "identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies and other deficiencies that we consider to be material weaknesses." The audit firm noted material weaknesses relating to cash management, inventory, fixed assets and equipment, the existing accounting system, payroll, and cash register sales. It noted other deficiencies relating to documentation of an accounting manual and fiscal monitoring. The Exchange Council's responses to the deficiencies, which are included in the L.F. Harris & Associates report, appear to be responsive.

L.F. HARRIS & ASSOCIATES COMMENTS

 L.F. Harris & Associates, CPA, P.A.
Certified Public Accountants

July 22, 2008

National Aeronautics and
Space Administration

Office of Inspector General
Washington, DC 20546-0001
Attn: Evelyn R. Klemstine

Re: Quality Control Review of the L.F. Harris & Associates, CPA, P.A. Audit
Of the Kennedy Space Center Exchange Financial Statements for Fiscal
Year Ended September 30, 2007 (Assignment No. A-08-012-00)

Dear Ms. Klemstine

In response to your finding as stated in your letter dated June 18, 2008, we concur with the finding and recommendation and will ensure that in performing future audits we will test compliance with the requirements found in TFM Volume 1, Part 6, Sections 9040; and will report any non-compliance discovered during our Audit in accordance with generally accepted government auditing standards.

Sincerely,



Luis F. Harris, CPA

Copy: Mr. David Gandrud

NASA COMMENTS

National Aeronautics and
Space Administration
John F. Kennedy Space Center
Kennedy Space Center, FL 32899



July 18, 2008

Reply to Attn of: TA-A1B

TO: NASA Headquarters
Attn: Assistant Inspector General for Auditing

FROM: Chair, Kennedy Space Center Exchange Council

SUBJECT: Draft Audit Report, "Quality Control Review of the L.F. Harris &
Associates, CPA, P.A. Audit of the Kennedy Space Center Exchange
Financial Statements for Fiscal Year Ended September 30, 2007,"
Assignment Number A-08-012-00

We have reviewed the subject draft report and our specific comments are enclosed.
Should you require further information, please call Ms. Rebecca Sharek at
321-867-3170 or send e-mail to <Rebecca.L.Sharek@nasa.gov>.


Tracy Anania

Enclosure

cc:
HQ/Institutions and Management/Internal Controls and Management Systems
Mr. Roberts
Ms. Miller
KSC/Mr. Parsons
Ms. Petro
Mr. Hattaway

RECOMMENDATION 2

The Kennedy Space Center (KSC) Exchange Council Chair should request that the Exchange's depositories pledge eligible collateral to secure the uninsured amount of KSC Exchange cash deposits in accordance with Treasury Financial Manual Volume 1, Part 6, Section 9040.

NASA RESPONSE

Concur. As of July 2008, KSC Exchange Council cash deposits are insured in full in accordance with Treasury Financial Manual Volume 1, Part 6, Section 9040. This was accomplished by allocating cash deposits to multiple institutions insured either by the Federal Deposit Insurance Corporation or the National Credit Union Share Insurance Fund. Cash deposits will be monitored to ensure that they do not exceed the maximum insurance levels. Supporting documentation can be provided upon request.

Based on corrective action and work completed, KSC requests that this recommendation be closed upon issuance of the final report for the subject audit.

Action was completed on July 16, 2007.

Projected Corrective Action Closure Date: Upon issuance of the final report by the Office of Inspector General.

RECOMMENDATION 3

We recommend that the Kennedy Chief Financial Officer monitor the Exchange Council's activities to ensure the appropriate corrective action is taken in response to Recommendation 2.

NASA RESPONSE

Concur. The KSC Chief Financial Officer has reviewed the Exchange Council's activities and has determined that the appropriate corrective action has been taken.

Based on corrective action and work completed, KSC requests that this recommendation be closed upon issuance of the final report for the subject audit.

Action was completed on July 16, 2007.

Projected Corrective Action Closure Date: Upon issuance of the final report by the Office of Inspector General.

Enclosure

REPORT DISTRIBUTION

Independent Audit Firm

Luis F. Harris, CPA
L.F. Harris & Associates, CPA, P.A.
3012 E. Robinson Street
Orlando, Florida 32803

National Aeronautics and Space Administration

Deputy Administrator
Chief of Staff
Chief Financial Officer
Assistant Administrator for Infrastructure and Administration
Director, Kennedy Space Center
Chief Financial Officer, Kennedy Space Center
NASA Exchange – KSC Council Chair
NASA Exchange – KSC Council Vice Chair
NASA Exchange – KSC Council Operations Manager
NASA Exchange – KSC Council Treasurer
NASA Exchange – KSC Council Secretary
NASA Exchange – KSC Council Legal Advisor

Major Contributors to the Report:

Mark Jenson, Director, Financial Statement Audits Directorate

David Gandrud, Project Manager

Aleisha Fisher, Auditor

JULY 28, 2008

REPORT No. IG-08-023



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Visit <http://oig.nasa.gov/audits/reports/FY08> 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://oig.nasa.gov/hotline.html#form>. The identity of each writer and caller can be kept confidential, upon request, to the extent permitted by law.