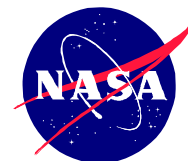


National Aeronautics and  
Space Administration

**Headquarters**  
Washington, D.C. 20546-0001



Reply to Attn of: W

April 4, 2002

TO: A/Administrator

FROM: W/Counsel to the Inspector General

SUBJECT: Headquarters Exchange Activities, G-00-006

The Office of Inspector General (OIG) conducted a review of the NASA Headquarters Exchange.<sup>1</sup> The purpose of our review was to determine whether the Exchange is managing operations and activities in accordance with NASA Policy Directive (NPD) 9050.6F, *NASA Exchange Activities*, other applicable statutes and regulations, and sound business and management practices.<sup>2</sup>

The Headquarters Exchange, an instrumentality of the Government, is responsible for operating activities that contribute to the efficiency, welfare, and morale of Headquarters employees. The Exchange's activities and operations are primarily funded with nonappropriated funds<sup>3</sup>. The Headquarters Exchange operates an Exchange Store to sell goods and services and receives commissions from concessionaire contracts with vendors for events sponsored by the Exchange. In general, the Headquarters Exchange offered many and varied programs and activities to benefit the Headquarters workforce. We made recommendations intended to improve the Headquarters Exchange business practices and compliance with governing guidelines.

We identified the need to develop Exchange policies and procedures, improve financial and accounting procedures, obtain better sales documentation from vendors, and better define the roles and responsibilities of the Exchange Store managers. NASA management also needs to ensure that appropriated funds, rather than Exchange funds, are used to pay for official Agency and mission or program activities. We found some similar concerns regarding the use

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<sup>1</sup> The OIG inspections unit is conducting comprehensive reviews of Headquarters and Center Exchange operations, activities, business practices, procedures, and policies. The OIG auditors are performing quality control reviews of the Exchange's mandatory external audits. The review of the Headquarters Exchange external audit for fiscal years 1998 and 1999 was issued on July 30, 2001.

<sup>2</sup> NPD 9050.6F is applicable to Headquarters and Center Exchanges, including component facilities.

<sup>3</sup> Nonappropriated funds are monies not appropriated by the United States Congress. The Exchange funds are derived primarily from the sale of goods and services to Headquarters personnel and visitors.

of Exchange funds in our previous reviews of Center Exchanges. A repetitive issue may indicate an agency-wide misunderstanding of an area.

Management concurred with all of the recommendations contained in the report.

[original signed by]

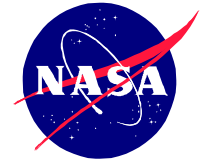
Francis P. LaRocca

Enclosure

Headquarters Exchange Activities, G-00-006

National Aeronautics and  
Space Administration

**Office of Inspector General**  
Headquarters  
Washington, D.C. 20546-0001



Reply to Attn of: W

April 4, 2002

TO: C/Acting Assistant Administrator for Headquarters Operations

FROM: W/Director, Program and Management Inspections Division

SUBJECT: Headquarters Exchange Activities (G-00-006)

The Office of Inspector General (OIG) conducted a review of the NASA Headquarters Exchange (Exchange).<sup>1</sup> The purpose of our review was to determine whether the Exchange is managing operations and activities in accordance with NASA Policy Directive (NPD) 9050.6F, *NASA Exchange Activities*,<sup>2</sup> other applicable statutes and regulations, and sound business and management practices. The Headquarters Exchange inspection is the fifth in our series of NASA Center Exchange reviews.<sup>3</sup>

We provided a discussion draft of this report on January 24, 2002. Your preliminary written comments, dated January 31, 2002, were discussed with Exchange staff on February 8, 2002. We made changes to the draft report, where appropriate, based on your written comments and subsequent discussions. In the course of conducting our review, management implemented corrective action for three of our observations. These observations and corrective actions are described in Appendix C.

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<sup>1</sup> The OIG inspections unit is conducting comprehensive reviews of Headquarters and Center Exchange operations, activities, business practices, procedures, and policies. The OIG auditors are performing quality control reviews of work done by external auditing firms to perform an audit or compilation and review of Exchange annual financial statements. On July 30, 2001, the OIG auditors issued a final report entitled "Reviews of the NASA Headquarters Exchange Financial Statements for Fiscal Years Ending September 30, 1998, and 1999" (Report IG-01-031). See Appendix A for a summary of the audit findings and recommendations.

<sup>2</sup> NPD 9050.6F (Appendix B), effective January 11, 2001, rescinded NPD 9050.6E, same title, and is applicable to Headquarters and Center Exchanges. Both NPDs were in effect during our review.

<sup>3</sup> In a separate report, we will address issues associated with the Executive Dining Room and the Continuous Improvement and Reinvention Conference.

## **BACKGROUND**

As an instrumentality of the Government, the Exchange was established to operate programs and events that contribute to the efficiency, welfare, and morale of Headquarters employees. The Exchange is subject to Headquarters management oversight and uses primarily nonappropriated funds<sup>4</sup> for its operations, activities, and events.

The Associate Administrator for Headquarters Operations maintains ultimate responsibility for overall management of Exchange operations and activities. The Exchange Council (Council) plans and approves requests for Exchange events, conducts Exchange operational duties, and performs Exchange oversight responsibilities. During our review, the Council included individuals from Headquarters program offices and four Council managers.<sup>5</sup>

The Exchange generates revenues derived primarily by the Exchange Store from the sale of goods and services to NASA employees, visitors, and NASA Building tenant organizations.<sup>6</sup> Other major revenues are derived from Exchange events and sales commissions from vendors selling retail goods in the Headquarters Building lobby.<sup>7</sup> The Exchange uses its modest profits to fund a variety of Headquarters activities designed to promote the welfare and morale of Headquarters employees.

## **EXCHANGE OPERATING PROCEDURES AND BUSINESS PRACTICES**

### **A. Policies and Procedures**

The Council does not maintain adequate policies and procedures for Exchange operations and activities. Council members and Exchange employees do not have formal policies and procedures or similar documents, such as a handbook or guidelines, on Exchange operations. As discussed in subsequent sections of this report, our review disclosed that formal procedures are needed to improve management of the Exchange, including key areas such as financial, procurement, and business operations.

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<sup>4</sup> Nonappropriated funds are monies not appropriated by the United States Congress.

<sup>5</sup> The Council consisted of 14 civil service employees, including the 4 managers; all served on a volunteer basis with formal appointment by the Associate Administrator for Headquarters Operations. The Chair was on an extended detail assignment to the Office of Headquarters Operations from the Office of Procurement; the Treasurer was in the Office of Headquarters Operations; one Co-Manager was in the Office of Headquarters Operations; and one Co-Manager was in the Office of Earth Science.

<sup>6</sup> Tenants included employees of the Department of Agriculture and the Department of Housing and Urban Development.

<sup>7</sup> The Exchange allows private sector business vendors to use lobby space near the Exchange Store to offer for sale a wide range of products, such as educational books, musical recordings, jewelry, and attire accessories.

**Recommendation 1:** The Council Chair should ensure the development of a policies and procedures document on overall management of Council operations for distribution to each Council member and Exchange employee.

## **B. Annual Audit and Financial Statements**

In lieu of an annual audit, the Council contracted with a certified public accountant (CPA) to perform a compilation and review service for the Headquarters Exchange.<sup>8</sup> As a compilation service, the CPA prepared Exchange financial data to develop the Headquarters Exchange financial statements for fiscal years 1998 and 1999. The OIG auditors concluded that users could not fully rely on Exchange financial statements.<sup>9</sup> Results of our inspection are consistent with the results and conclusions reported by the OIG auditors.

Although not fully reliable, the Council appropriately used the financial statements as a primary document for management oversight and decision-making purposes. Our review of the financial statements for fiscal years (FYs) 1996 through 1999 disclosed indicators of accounting problems and improvements needed in financial statements.<sup>10</sup> We believe the Council would benefit from a full-scope audit of fiscal year 2002 Exchange financial statements and operations, as well as from technical accounting expertise provided by a CPA.<sup>11</sup> An audit opinion and professionally sound financial statements should provide a supportable and reliable baseline of Exchange account balances for the Council to use for financial management and decision purposes. Our inspection results provide increased

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<sup>8</sup> NPD 9050.6F, paragraph 5.c.(5), requires an Exchange to obtain by December 31 a report for an annual audit or a compilation and review for "some of the smaller Exchanges." Under a compilation and review, the contracted CPA prepared annual financial statements from various Exchange records, such as minutes and accounting records. The same CPA prepared the Exchange financial statements for 1996 through 1999 included in our inspection review.

<sup>9</sup> The OIG auditors concluded in the quality control review report that the CPA did not follow required professional standards and did not document any analytical work or review procedures performed to prepare the annual financial statements and to review the management and financial controls over Exchange operations (Report IG-01-031 issued July 30, 2001).

<sup>10</sup> Our review was limited to analysis of the financial statements because transaction records to support account balances were not available. Although repeatedly requested by the Chair for use and retention by the Council, the CPA did not provide the system database used to prepare the financial statements and, during our review, did not return Exchange files and records provided each year. The financial statements were not consistent with standard accounting practices, as shown by the following examples of problems that we found: the balance sheets did not include an Exchange annual income or loss, and the profit and loss statements did not include revenue and expense accounts needed to identify the income or loss for individual Exchange events or activities.

<sup>11</sup> NPD 9050.6F, paragraph 5.c.(5), states "...the annual audit report shall be submitted ...by December 31," and paragraph 1.i. states "...Examples of activities for which appropriated funds may be used include providing for ...and audits of Exchanges." With an audit report due by December 31, 2002, sufficient time remains to obtain appropriated funds for a contracted CPA audit of FY 2002 Exchange activities.

emphasis and support for a similar recommendation made by the OIG auditors.<sup>12</sup> Additional details from our review of the Exchange financial statements are provided as Appendix D.

Headquarters employees should have access to Exchange financial statements. The Exchange Web site provides an established, effective method for publishing annual financial statements.<sup>13</sup> As an instrumentality, the Exchange is established for the benefit of employees. As such, employees have a direct financial interest in Exchange operations and benefits. Providing employee access to financial statements serves as an accountability control over Council responsibilities to manage funds for welfare and morale activities.

**Recommendation 2:** The Council Chair should obtain a full-scope audit of Exchange annual financial statements for fiscal year 2002 and obtain technical support from the contracted CPA on accounting changes needed to develop reliable financial statements in the future.

**Recommendation 3:** The Council Chair should include the Exchange annual financial statements on the Exchange Web site to ensure access by all Headquarters employees.

### **C. Financial and Accounting Procedures**

The Council needs to improve accounting procedures related to the reconciliation process, inventory practices, petty cash and sales receipts controls, and check signing authorities to develop reliable and useful Exchange annual financial statements. Improved accounting procedures should also enhance the ability of the Council and management to perform oversight of Exchange operations and activities.

#### *1. Reconciliation of Financial Transactions*

During our review, the Council automated financial records and performed the first reconciliation of Exchange financial transactions to information on credit union statements. The process disclosed a \$6,566.62 discrepancy that was expensed and thereby reduced the Exchange net income for fiscal year 2001. Prior to the first reconciliation process, the Council had not maintained a general ledger<sup>14</sup> or similar consolidated record of all Exchange

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<sup>12</sup> The OIG auditors included a recommendation in the quality control review report to contract for audits of the Headquarters Exchange FY 2001 and subsequent years' financial statements or obtain approval to contract for reviews (Report IG-01-031 issued July 30, 2001). NASA management agreed and planned to obtain a one-time, full-scope audit of the FY 2001 statements, as long as costs were considered reasonable and funding was available; management also stated that in subsequent years, a review might be performed in accordance with NPD 9050.6F. However, for FY 2001, the CPA performed an audit of a statement similar to a balance sheet and a review of a statement similar to a profit and loss statement. In accordance with professional auditing standards, a CPA could not provide a full-scope audit of the FY 2001 financial statements. To do such, a CPA is required to observe and verify the physical count of ending inventory for two consecutive fiscal years

<sup>13</sup> The Exchange Web site is at <http://www.hq.nasa.gov/exchange>.

<sup>14</sup> A general ledger is a fundamental accounting record needed to maintain oversight of each financial transaction and to provide the ability extract transactions for each revenue source to evaluate the profit or loss from individual revenue producing activities.

financial transactions. Although the Council maintained other essential accounting records, none provided a comprehensive listing of all Exchange transactions. Without a general ledger, the Exchange had not previously performed a reconciliation of each Exchange transaction with credit union monthly statements.<sup>15</sup> A reconciliation of transactions for each month is an essential accounting procedure to ensure the accuracy of Exchange account balances and financial statements.

The Council Chair recognized the lack of a general ledger and a reconciliation process as a major financial control weakness and purchased a *Quicken 2000* software package for the Exchange. The Chair and Treasurer used various Exchange accounting records to input transactions into the software package to develop a database as a general ledger to use for the reconciliation process. The initial input included transactions from October 1, 1998 through December 31, 2000. The database of 27 months of transactions was used to perform the first reconciliation, and one accounting entry was made to expense the total discrepancy disclosed by the reconciliation.

The decision to expense the reconciliation discrepancy was reasonable. Accounting errors could be nearly impossible to detect because a general ledger did not exist for prior years. The Council Chair and Treasurer could not identify reasons for the discrepancy based on the transactions entered into the *Quicken* system. They believed accounting errors could have occurred since the establishment of the Exchange, because they could not confirm that errors occurred since October 1, 1998, the start date of the initial database.

However, considering the relatively high dollar amount of the \$6,566.62 discrepancy in relationship to income for the Exchange, the Council should take additional efforts to identify reasons for the discrepancy. Only a few transactions could have caused most or possibly all of the discrepancy. If so, the total discrepancy could be reduced by correction of existing accounting entries. Additional efforts are also warranted to provide Exchange management and the Council with sufficient assurance that potential pilferage, loss, or fraud-related activities are not reasons for the financial discrepancy.

The Council Chair and Treasurer were not totally familiar with *Quicken* capabilities, and they did not realize the need to print reconciliation reports and associated financial statements each month. During our review, we discussed *Quicken* capabilities with the Treasurer, who plans to maintain reconciliation reports and associated records.<sup>16</sup> Such records are essential to resolve reconciliation discrepancies and to prepare reliable, accurate Exchange annual

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<sup>15</sup> A reconciliation is a basic accounting procedure done on a monthly basis to ensure the accuracy of accounting records maintained by a business activity. Each general ledger transaction is compared to deposits and checks reported on a monthly statement from a financial institution (bank, credit union, etc.). By comparison of each general ledger transaction to a monthly statement, the reconciliation process identifies discrepancies between a business (the Exchange) and a financial institution monthly statement (the NASA Credit Union).

<sup>16</sup> A reconciliation report is a historical, detailed accounting document that can be printed only immediately upon completion of the reconciliation process for the month. *Quicken* capabilities do not include the capability to retrieve and print a reconciliation report for a previous month. Financial statements associated with each reconciliation process include a balance sheet and a profit and loss statement for the month.

financial statements. Improvements in financial controls that inherently result from using a *Quicken* database, or similar financial system, should reduce the time and resources needed for a CPA to perform an annual audit or compilation and review.

**Recommendation 4:** The Council Chair should request assistance from the Headquarters CFO to identify possible methods to resolve the discrepancy from the first reconciliation and advise the CPA that conducts the annual audit or compilation and review for fiscal year 2001 about the situation.

**Recommendation 5:** The Council Chair should establish procedures to perform a reconciliation at each month-end and provide associated monthly reports to the CPA to expedite completion of the annual audit or compilation and review for each fiscal year.

## 2. *Inventory Practices*

For fiscal year 1997, the Council performed a physical count of each Exchange Store retail item remaining in inventory as of September 30, 1997. The profit and loss statement for fiscal year 1997 accurately reflected the ending inventory balance derived from the physical count records. However, the Council did not perform a physical count of inventory items to ensure inventory balances were accurate on Exchange annual financial statements for fiscal years 1996 and 1998, 1999, and 2000. For each of these years, the Council provided the CPA an internal inventory report from the *Peachtree* system maintained by the Exchange Store manager.<sup>17</sup>

During 1998, the Store Operations Manager<sup>18</sup> prepared an informal procedures document for a "spot check inventory process" that stated the process "was set up to eliminate the necessity" to conduct a "wall-to-wall inventory every year." The procedure is not consistent with prudent management or standard accounting practices. A physical count of year-end inventory serves as an essential control to confirm the Exchange Store retail items are properly safeguarded, financial statements are accurate, and internal inventory records are correct. In addition, discrepancies between the physical inventory results and the internal inventory reports highlight the need for possible improvements in inventory accounting procedures for Exchange Store operations.

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<sup>17</sup> The *Peachtree* reports did not include the total cost of inventory items at the end of the fiscal year. Although the reports included the cost and quantity of items, calculating the ending inventory cost required manual computation for each of the 400 retail items on the *Peachtree* reports. In contrast, a physical inventory provides an ending inventory dollar value that is readily available for a CPA to use to audit or compile financial statements. Also, the *Peachtree* report provided to the CPA for fiscal year 2000 was for a 1-month period, from April 1 to April 30, 2000. Consequently, the fiscal year 2000 financial statements could not accurately reflect inventory as of fiscal year-end, September 30, 2000.

<sup>18</sup> During our review, the Council membership changed and the previous Store Operations Manager became one of two Store Operations Co-Managers.



NPD 9050.6F on NASA Exchange Activities addresses the requirement for “periodic inventories” of Exchange assets, properties, and supplies.<sup>19</sup> However, the NPD requirement does not appear to be applicable to Exchange Store retail item inventories. For example, “assets” are fixed equipment, such as fixtures and furniture, used for Exchange operations; “properties” are real properties, such as buildings, used for Exchange activities; and “supplies” are expendable items, such as office or other supplies, used for daily or routine Exchange operations.

Regardless, the NPD does not specify the method to use for an inventory of retail items. We recognize flexibility is needed regarding methods to accomplish inventories, because the total number of retail items available at Exchange Stores can vary significantly between different NASA Exchange Activities. However, considering the small number of retail items at the Headquarters Exchange Store and the minimal time required to count each item, we believe a wall-to-wall physical count is the most efficient method that should provide the most accurate ending inventory results.<sup>20</sup>

**Recommendation 6:** The Council Chair 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 results and the Exchange Store inventory records.

### *3. Petty Cash and Sales Receipts Controls*

The Exchange has not maintained a petty cash or equivalent account for real-time cash payments, including reimbursements to employees or Council members, for Exchange Store inventory purchases or other expenses. For any such expense less than \$50.00, cash is taken from the Exchange Store cash register and the funds are recorded as an account number "0.00" transaction. The same "0.00" account code is used to write-off old or obsolete retail items that are not expected to sell. Consequently, Exchange financial records do not provide the Council Chair or Treasurer acceptable oversight of petty cash transactions.

In addition, the actual date of a sale is not recorded on individual sales receipts or the daily summary of sales from the Exchange Store cash register. Exchange Store employees and Council members do not know how to set the cash register to record the actual date, and the

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<sup>19</sup> NPD 9050.6F, paragraph 5.c.(4) states “Establish a system of management controls that will provide reasonable assurance regarding the financial data, compliance with applicable laws and regulations, and prevention of, or prompt detection of, unauthorized acquisition, use, or disposition of exchange assets. Controls over assets include safeguards for the protection of the Exchange’s property and supplies to prevent pilferage or unnecessary loss and periodic inventories.” The NPD is silent on a potential need for a wall-to-wall inventory of retail items; such a method should be an efficient and prudent management practice for use by the Headquarters Exchange. However, a wall-to-wall inventory method may not be appropriate for all Exchanges, depending on the management and size of the Exchange Stores at different NASA Centers.

<sup>20</sup> For example, a team of four or five Council members completed within 2 to 4 hours a wall-to-wall physical count of each retail item for the 1997 fiscal year-end inventory. During that time, the team also concurrently documented physical count results in an appropriate manner that was readily usable for use by the contracted CPA to compile the annual financial statements.

operating manual is not available. The actual date of each sales transaction is an essential element needed to properly account for daily sales from the Exchange Store.

**Recommendation 7:** The Council Chair should establish a petty cash account and procedures to maintain the account balance at an appropriate amount of cash.

**Recommendation 8:** The Council Chair should take action to ensure gift shop receipts record the accurate date of each sales transaction.

#### *4. Check Signing Authorities*

The Council maintained three separate Exchange accounts with the NASA Credit Union to deposit daily revenues and to issue checks for expenses.<sup>21</sup> Each of the four Council managers possessed signatory authority to issue checks for the Exchange Store, and expenses were paid using one signature only on checks.<sup>22</sup> The Exchange should establish policies to require two signatures on all checks, which is a common business practice to establish financial and management controls over the disbursement of funds. The requirement for two signatures provides immediate and historical documentary evidence that expenditures are effectively controlled and serves as a deterrent to error or mismanagement of Exchange funds.

**Recommendation 9:** The Council Chair should establish policies and procedures to ensure that the signatures of two Council managers or members are required for all checks.

### **D. Disaster Relief Fund**

The Exchange program includes a Disaster Relief Fund consisting of different types of assistance available to employees. The Temporary Solution assistance was used at times to provide a new NASA employee an advanced salary when receipt of the first payroll check was delayed. The Exchange Web site describes the three assistance provisions as follows and defines "employees" as NASA Headquarters civil servants, contractors, and their families.<sup>23</sup>

- Under Permanent Assistance provisions, an employee may be provided up to \$500 of Exchange funds, not to be repaid, based upon requests for funding due to a personal "severe catastrophe."
- Under Exchange Umbrella provisions, an employee may be provided assistance to acquire donations of basic items needed for daily living based upon a personal or family "catastrophe." No Exchange monetary assistance is provided.

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<sup>21</sup> The Exchange maintained separate accounts for the store (Exchange Store), the CIC, and the golf events.

<sup>22</sup> Recognizing the need for controls, the Treasurer provides a listing of checks she plans to issue to the recently appointed Store Operations Co-Manager for review and approval. However, the Treasurer does not issue all checks for Exchange expenses.

<sup>23</sup> For complete details on the Disaster Relief Fund, see the Exchange Web site at <http://www.hq.nasa.gov/exchange/disaster.html>

- Under Temporary Solution provisions, an employee may be provided Exchange funds, as a loan to be repaid, based upon "unexpected financial difficulties" and "under the most severe circumstances." A maximum amount of Exchange funds is not specified.

We recognize the desire to provide a benevolent type of assistance for the welfare of employees. However, the Council inadvertently did not request the Headquarters, Associate General Counsel for General Law to review the appropriateness of the Disaster Relief Fund provisions.<sup>24</sup> We question whether the use of Exchange funds, which are non-appropriated monies only, for a non-repayable assistance or a repayable loan is valid and acceptable from a legal standpoint.<sup>25</sup>

**Recommendation 10:** The Associate Administrator for Headquarters Operations or the Council Chair should obtain a legal opinion from the Headquarters, Associate General Counsel for General Law on the appropriateness of Exchange payments for non-repayable assistance or repayable loans, both non-appropriated funds, under the Permanent Assistance and the Temporary Relief provisions of the Disaster Relief Fund.

#### **E. Appropriated Fund Activities**

The Exchange often expends its limited nonappropriated funds on activities more properly supported by appropriated funds.<sup>26</sup> As examples, the Exchange supported the Combined Federal Campaign kickoff reception, a Secretary's Day reception, Black History and Heritage events, and NASA's 40<sup>th</sup> birthday party. These types of activities are NASA Agency initiatives and mission or program activities that should be accomplished using appropriated funds of cognizant Headquarters program offices. In addition, official reception and representation expenses are more properly paid for from appropriated funds, such as the NASA Administrator's Fund.<sup>27</sup> The use of monies for these types of expenditures from the Administrator's Fund or other appropriated funds is consistent with recently revised General

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<sup>24</sup> NDP 9050.6F, paragraph 5.e. states "The Center Chief Counsel, or for Headquarters, the Associate General Counsel (General Law) shall be responsible for providing guidance on legal and regulatory matters to the Exchange Council...." The Exchange Council had not considered the need for a legal review of the Disaster Relief Fund provisions, especially in view of the use of Exchange non-appropriated funds.

<sup>25</sup> With no Exchange funding assistance, the Exchange Umbrella provisions appear to be beneficial and appropriate.

<sup>26</sup> The Council Chair has initiated efforts to reduce Exchange activities more properly accomplished with appropriated funds. As an example, the Chair eliminated Exchange funding support for the fiscal year 2001 Heritage on the Rooftop event. Appropriated funds of the cognizant NASA Headquarters program office will be used to accomplish the event.

<sup>27</sup> NPD 9050.4F, *Administrator's Fund*, dated March 2, 2000, establishes policy and procedures governing the use of the funds provided by annual NASA Authorization and Appropriations Acts. The Administrator's Funds may be used for expenses incurred for official reception and representation (see Appendix E). The Associate Administrator for Headquarters Operations issued guidelines on November 21, 2000, relating to Center use of the Administrator's Fund for official reception and representational expenses.

Services Administration (GSA) regulations governing the purchase of refreshments at Government-sponsored conferences.<sup>28</sup>

**Recommendation 11:** The Associate Administrator for Headquarters Operations and the Council Chair should ensure appropriated funds, rather than Exchange funds, are used to pay for official Agency and mission or program office activities and events.

## **F. Concession Contracts and Vendor Sales Receipts**

The Exchange awards concession contracts to vendors to sell merchandise and pay the Exchange a commission based on their total sales for an event. Concession contracts are to be competed and negotiated in general accordance with the Federal Acquisition Regulation, unless doing so would not be in the best interest of the Exchange.<sup>29</sup> Contracts or other procurement instruments and agreements should be documented and retained in Exchange records.<sup>30</sup> As a sound business practice, the Exchange should also document its relationship with each vendor. In addition, a clause should be included in each Exchange contract to state that the contractor will indemnify and hold harmless the United States, its agents, any instrumentality (including the Exchange), and others from claims and liabilities caused by the contractor or its agents.<sup>31</sup>

We found two concession vendors that sold books during fiscal year 1999 events that did not have written contracts with the Exchange. The Council manager responsible for the events acknowledged that no contracts existed with the two vendors and provided no reason for the situation. The Treasurer, other Council members, and the Exchange Store manager were not involved with book sale events and, therefore, could not explain why or how the two events were held without a written contract. The one Council manager exercised sole responsibility for performance of tasks related to Exchange book sale events.<sup>32</sup> For each concession vendor event, the Exchange receives a typical commission of 20 percent of total merchandise sales. However, a written contract or other procurement instrument, as appropriate, for each event is advisable for the Exchange to pursue legal remedies should a vendor fail to comply with commission agreements and terms for an event.

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<sup>28</sup> Prior to the GSA regulation, there was no express regulation permitting agencies to provide light refreshments for employees at Government expense. Under the new regulation, Government agencies can provide, under certain restrictions, light refreshments at Government expense.

<sup>29</sup> NPD 9050.6F, paragraph 1.i.

<sup>30</sup> NPD 9050.6F, paragraph 1.j.

<sup>31</sup> NPD 9050.6F, paragraph 1.k.

<sup>32</sup> The cognizant Council manager, the Store Operations Manager during 1999, became one of the two Store Operations Co-Managers during 2001. The Co-Manager was not available throughout our review due to higher priority position responsibilities. As suggested by Exchange management, we attempted to obtain explanations from other Council members and employees.

Procedures are also needed to ensure the Exchange receives accurate and appropriate commission amounts from individual vendor sales. We observed several Exchange-sponsored vendor events held in the lobby of the Headquarters Building. Examples of inadequate vendor business practices we observed that could have resulted in adverse impacts on Exchange revenues included the following situations.

- Vendors sold goods on a cash basis only or by accepting 50 percent cash with the balance by personal check or credit card. In either type of transaction, the commission fees paid to the Exchange may have been understated if the vendor did not maintain or provide the Exchange with accurate records of actual sales.
- Vendors did not provide sales receipts on cash purchases, as they were "too busy" answering questions from potential customers or completing other sales transactions. The commission fees paid to the Exchange could have been understated due to the lack of sales receipts.

The Exchange Store manager receives commissions from vendors at the closing time of sales events. However, vendors do not provide copies or duplicates of customer receipts for vendor concession events. Without proper documentation or sales receipts, the Exchange Store manager cannot validate total sales and cannot determine the accurate commissions due to the Exchange. Commissions from concession vendors are received on an honor system only.

**Recommendation 12:** The Council Chair should ensure that written contracts or other procurement instruments, with required indemnification clauses, are used for each vendor event and retained in Exchange records.

**Recommendation 13:** The Council Chair should establish procedures to obtain adequate documentation from vendors on their total sales to ensure the Exchange receives the accurate commission for each event.

## **G. Exchange Store Operations, Procedures, and Coordination**

The Exchange Store is the primary operation used by the Council to raise funds for all Exchange events. The Council needs to develop formal policies and procedures for the Exchange Store, improve the inventory system, clarify the roles of Operations Co-Managers, appropriately establish purchasing authority of the Exchange Store manager, and enhance coordination and communications with the Store Manager. Accomplishment of such initiatives by the Council would improve the efficiency of the Exchange Store operations and enhance opportunities to increase funds for Exchange events.

### *1. Policies and Procedures*

The manager of the Headquarters Exchange Store developed on her own initiative working documents on a few operations that were suitable for her own personal use. With over 10 years tenure, the Exchange Store manager acquired an in-depth personal knowledge of procedures needed to successfully perform all Exchange Store operations. However, without

the expertise of the current Exchange Store manager, another individual probably would not readily understand procedures needed to operate the Exchange Store effectively.

**Recommendation 14:** The Council should develop, with primary involvement by the Exchange Store manager, formal policies and procedures suitable to ensure continuity of operations in the absence of Exchange Store employees.

## 2. *Inventory System*

Procedures used for Exchange Store purchases, sales transactions, and inventory controls create a duplication of effort and increase the risk of human error. For example, when an order arrives in the Exchange Store, items are entered into the *Peachtree* inventory record, an extremely dated word processing system with no spreadsheet capabilities. Each day a printed inventory record is placed beside the cash register. At the time of each sale, Exchange Store employee manually marks the record to note each specific item sold. On a regular basis, each inventory item is updated in the *Peachtree* system by using the marked, printed inventory record for each day.

We discussed with the Council Chair the potential need for a fully automated point-of-sale (POS) system<sup>33</sup>. The Council previously considered a POS system, but believed the systems then available were too costly with a total price of about \$25,000 or \$30,000. We found a POS system that appears to be suitable for the Exchange Store needs for a total price of about \$10,000. A POS real-time, fully integrated inventory and sales system would provide a value-added benefit to the Exchange Store operations by reducing the labor-intensive approach of the *Peachtree* inventory, eliminating the duplication of effort, and minimizing the risk of inventory record errors. The Council should explore obtaining approvals to use appropriated funds to purchase a POS system, as a fixed asset or operations equipment.

**Recommendation 15:** The Council should seek funding to acquire a point-of-sale system or other fully integrated inventory and sales system.

## 3. *Operations Co-Managers*

During our review, the previous Store Operations Manager became one of two Store Operations Co-Managers. The previous Manager coordinated and approved Exchange Store activities, while also managing critical projects in a key NASA program.<sup>34</sup> When the Manager was not available on a daily or as-needed basis, no arrangements existed for the Exchange Store manager to discuss operational needs or obtain purchase approvals from another Council member. The lack of an alternate contact may have prevented the Exchange

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<sup>33</sup> A point-of-sale system (POS) consists of personal computers or specialized terminals that are combined with cash registers, bar code readers, optical scanners, and magnetic strip readers to accurately record, on a real-time basis, each individual sales transaction and the corresponding inventory adjustment. A POS system operates on a real-time basis as a fully integrated inventory, sales, and financial accounting system for retail activities.

<sup>34</sup> The Exchange operated with only one Operations Manager for approximately 10 years until a Co-Manager was appointed in to serve as the primary manager to coordinate operations, decisions, and approvals with the Exchange Store manager.

Store manager from maintaining proper inventory levels, which could have resulted in lost retail sales revenues.<sup>35</sup>

The recently appointed Store Operations Co-Manager is routinely available for discussions and decisions needed by Exchange Store employees. The Co-Manager views her role as a temporary assignment, but expressed a desire to continue the Council role as the primary contact for the Exchange Store manager to discuss and approve purchases and operations. Exchange Store operations typically involve a need for immediate or real-time decisions, which is more feasible with two Store Operations Co-Managers. To continue the improved coordination of Exchange Store operations, we believe the Council should maintain two Operations Co-Managers.

**Recommendation 16:** The Council should define responsibilities of the two Store Operations Co-Managers, in coordination with the Exchange Store manager, to maintain the improved coordination of Exchange Store operations.

#### *4. Purchasing Authority*

The Exchange Store manager was recently provided, on a verbal basis only, purchasing authority for orders of \$1,000 or less, which she held during several prior years.<sup>36</sup> We believe the level of authority is appropriate and beneficial to enable the Exchange Store manager to acquire a variety of retail items, to purchase small quantities and evaluate the demand for new or different retail items, and to maintain an adequate level of retail inventory. Although purchasing authority for the Exchange Store manager was reinstated, written authority to the manager was not issued. A written document for procurement authority is essential as a prudent business practice and as a management control to ensure personal accountability for adherence to government and Exchange procurement requirements.

**Recommendation 17:** The Council Chair should provide the Exchange Store manager a document similar to a delegation of procurement authority to formally authorize the Exchange Store manager to expend Exchange funds for purchases or other payments.

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<sup>35</sup> As one of several examples, wholesale representatives often visited the Exchange Store to offer new product lines of retail items at reduced purchase costs. However, such opportunities required an on-the-spot decision. The Exchange Store manager did not have decision or purchase authorities and frequently missed opportunities to purchase retail items that she believed to be highly marketable. Another example occurred when the Exchange Store manager experienced delays with ordering commemorative shirts for the NASA 100<sup>th</sup> Mission. With a delayed approval of the purchase order, the Exchange Store nearly failed to obtain any shirts due to vendor deadlines for orders. The delayed purchase also impacted the amount of potential sales; additional customers requested shirts after the inventory was depleted, and the reorder date had lapsed. The Exchange Store manager obtained approval for the initial order only after sending the purchase request to the Council Chair with concerns that sales for the widely advertised, important NASA event would be foregone unless shirts were ordered immediately.

<sup>36</sup> From 1993 to early 2000, the store manager had purchasing authority for orders of \$1,000 or less, as explained by the Exchange Store manager, and noted in a Council memorandum dated February 23, 1993. During March 2000, the manager was advised verbally that she had no purchasing authority. During May 2001, the Exchange Store manager was again advised verbally that her prior level of purchasing authority was reinstated. The Exchange Store manager and the Council Treasurer maintain accounting procedures for purchases made by the Exchange Store manager.

### *5. Coordination and Communications*

Improved communications are needed between the Exchange Store manager and the Council managers and members. In the past, the Exchange Store manager routinely received copies of Council minutes because Exchange Store business practices were generally discussed during Council meetings. However, the practice was discontinued during 1996, and Council minutes did not include any discussions about Exchange Store operations. The experience and knowledge of the Exchange Store manager about operations should be considered by the Council to increase sales revenues and reduce expenses. The Chair should consider various alternative methods to improve the coordination and communications between the Exchange Store manager and the Council members. Examples include obtaining input from the Exchange Store manager for Council meetings, providing minutes of Council meetings to the Exchange Store manager, and/or inviting the Exchange Store manager to periodically attend Council meetings to discuss Exchange Store activities and potential methods to increase sales revenues or decrease expenses.<sup>37</sup>

**Recommendation 18:** The Council should implement procedures to increase coordination and the flow of information between the Council and the Exchange Store manager.

## **SUMMARY AND EVALUATION OF NASA MANAGEMENT RESPONSE**

We received and evaluated NASA management's response to the draft report (Appendix F). Management completed corrective actions for recommendations 5, 12, and 18 of this report, and we consider these recommendations closed. NASA management also concurred with the remaining 15 recommendations and provided planned actions that are responsive to the recommendations. We consider these 15 recommendations resolved pending verification of corrective actions.

## **CONCLUSION**

The NASA Headquarters Exchange operates activities that contribute to the efficiency, welfare, and morale of employees. In general, Headquarters management and the Exchange provide many varied programs and activities that benefit the Headquarters workforce. Implementation by Exchange management and the Council of the recommendations included in this report will enhance Exchange oversight and strengthen management controls. A summary of our recommendations is provided as Appendix G.

[original signed by]

Robert J. Wesolowski

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<sup>37</sup> The Exchange Store manager does not attend Council meetings in an ex officio capacity. Attendance at Council meetings by the Exchange Store manager, as a non-voting attendee, is not precluded by NPD 9050.6F, paragraph 5.c. that states, "No paid Exchange employee may be an Exchange Council member."



## 9 Enclosures:

- Appendix A: Summary of Audit Findings and Recommendations from Quality Control Review Report Entitled “Reviews of the NASA Headquarters Exchange Financial Statements for Fiscal Years Ending September 30, 1998, and 1999” (Report IG-01-031, dated July 30, 2001)
  - Appendix B: NPD 9050.6F, *NASA Exchange Activities*, effective January 11, 2001
  - Appendix C: Corrective Actions Taken by Headquarters Management in Response to Recommendations Made During the Inspection
  - Appendix D: Details from Review of Exchange Financial Statements for Fiscal Years 1996 through 1999
  - Appendix E: NPD 9050.4F, *Administrator’s Fund*, effective March 2, 2000
  - Appendix F: NASA Management Response
  - Appendix G: Summary of Report Recommendations
  - Appendix H: Report Distribution
- NASA Office of Inspector General Reader Survey

**MAJOR CONTRIBUTORS TO THIS REPORT**

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Karen L. Wolfe, Technical Information Specialist

## **Appendix A**

**Summary of Audit Findings and Recommendations from  
Quality Control Review Report Entitled “Reviews of the  
NASA Headquarters Exchange Financial Statements  
for Fiscal Years Ending September 30, 1998, and 1999”  
(Report IG-01-031, dated July 30, 2001)**

## Findings

The NASA Headquarters Exchange is a Government instrumentality operating under NASA's control for the benefit of Agency employees. The NASA Office of Inspector General completed a quality control review of the reviews of the Exchange's financial statements for the fiscal years (FY's) ended September 30, 1998, and 1999. We found that the accountant who performed the reviews did not follow standards<sup>1</sup> for documenting review procedures, did not prepare required working papers, and issued the review reports after the required due date. Without the required documentation, we could not determine whether the accountant obtained sufficient evidence to support his review conclusions and users cannot fully rely on the financial statements. Further, the Headquarters Exchange obtained reviews instead of audits of its financial statements. Reviews provide less assurance than audits that financial statements are fairly presented.<sup>2</sup>

## Recommendations

We recommended that the NASA Headquarters Exchange Council obtain audits of its FY's 1998 and 1999 financial statements that are in accordance with applicable standards, contract with only certified public accountants (CPA's) eligible to perform audits or reviews in the District of Columbia, contract for audits of FY 2001 and subsequent years' financial statements or obtain approval to contract for reviews,<sup>3</sup> and specify in agreements with auditors that financial statements and reports will be submitted by the December 31 due date. We also recommended that the accountant document the inquiries and analytical procedures performed during his reviews at no additional cost to the Exchange.

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<sup>1</sup> The reviews should have been conducted in accordance with Statements on Standards for Accounting and Review Services promulgated by the American Institute of Certified Public Accountants.

<sup>2</sup> The difference between an audit and a review is in the degree of assurance provided by the two types of engagement. Audits result in an opinion on the fair presentation of financial statements, while reviews result in limited assurance that generally accepted accounting principles were followed in preparing the statements.

<sup>3</sup> NASA Policy Directive 9050.6F allows smaller Exchanges to obtain reviews of their financial statements instead of audits with proper justification and advance written approval from the Chief Financial Officer and the Office of Management Systems.

## **Appendix B**

**NPD 9050.6F, *NASA Exchange Activities*,  
Effective January 11, 2001**

**NASA  
POLICY  
DIRECTIVE**

Directive: NPD 9050.6F  
Effective Date: January 11, 2001  
Expiration Date: January 11, 2006

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Responsible Office: J / Office of Management Systems

Subject: NASA Exchange Activities

1. POLICY

a. Exchanges are instrumentalities of the United States, with associated privileges, rights, and immunities. To ensure this status, Exchanges must be under NASA's control, and ownership interests must be with the Government. Therefore, all organizations using NASA or Exchange facilities shall be determined to be either an Exchange element (instrumentality) or independent. Instrumentalities shall be under Exchange control; independent organizations and their equipment and facilities shall be separated from and not controlled by the Exchange. Approval for use of NASA or NASA Exchange facilities by independent organizations shall be based upon activities proposed and the organization's ability to satisfy requirements such as insurance. Approval will not establish an independent organization as an instrumentality. Exchanges will not manage or supervise independent organizations.

b. Center Directors may establish at NASA Centers and Component Facilities under their jurisdiction a NASA Exchange and branches to operate activities contributing to the efficiency, welfare, and morale of NASA personnel. For this purpose, the Associate Administrator for Headquarters Operations, NASA Headquarters, has corresponding authority for Headquarters.

c. Exchanges may, by contract or otherwise, perform the following:

(1) Operate food services.

(2) Operate vending machines within Center buildings and grounds, to the extent that such operation is not inconsistent with law and regulations.

(3) Promote activities, including clubs or recreation associations, contributing to the efficiency, welfare, and morale of NASA employees.

(4) Use and acquire real property and facilities to achieve Exchange objectives (subject to subparagraphs g. and h.).

- (5) Sell goods and provide services approved by the Center Director, so long as they do not unduly compete with local merchants.
- (6) Conduct other activities authorized by the Center Director with the prior concurrence of the Center Chief Counsel and the Center Public Affairs Officer, when activities involve the public and are clearly in NASA's and its employees' interests.
- d. Exchanges shall sell goods or services at the lowest prices, consistent with operation costs and financial needs.
- e. Participation in activities may include NASA employees and retirees, their family members and guests, Government contract employees, and official visitors.
- f. Store privileges may be denied to a patron who resells purchased merchandise.
- g. A Center Director may authorize use of NASA-controlled real property and existing facilities for Exchange activities, provided use does not interfere with official business.
- h. Proposals for real property acquisition for Exchange activities by lease, purchase, or otherwise shall have the concurrence of the Center Director and Center Chief Counsel and be forwarded for concurrence by the Director, Facilities Engineering Division, NASA Headquarters, prior to approval by the Exchange Operations Manager. Proposed expenditures for new Exchange facilities or proposed expenditures in excess of \$50,000 for modification of existing Exchange facilities shall also be forwarded for concurrence by the Director, Facilities Engineering Division. The Exchange Operations Manager, with the Center Director's concurrence, may approve normal maintenance and repair of facilities or replacement of equipment.
- i. Activities shall generally be supported by nonappropriated funds under the Exchange's sole jurisdiction. Center Directors may authorize use of appropriated funds where available, with the prior concurrence of the Center Chief Counsel and Chief Financial Officer. Examples of activities for which appropriated funds may be used include providing for cafeterias and other facilities, purchase and maintenance of cafeteria equipment necessary for Exchange activities, and audits of the Exchanges.
- j. Exchange procurement of materials, supplies, or services with nonappropriated funds is not subject to procurement statutes and regulations applicable to NASA, except as made applicable by statute or regulation. As practicable, however, Exchange procurement practices shall conform to NASA's practices. In any case, Exchange procurement procedures should be documented and approved by the Center Director. All Exchange procurements and other acquisitions should be documented and retained in Exchange records.
- k. Unless it would be inappropriate due to the nature of an Exchange contract, a clause shall be included in each Exchange contract stating that the contractor will indemnify and hold harmless the United States, its agents and instrumentalities (including the Exchange), and representatives, officers, and employees thereof, from any and all claims, demands, actions,

debts, liabilities, judgements, and costs arising out of, claimed on account of, or in any manner predicated upon, the loss of or damage to property, or injury to or death of any person(s), in any manner caused or contributed to by any action or omission of the contractor, its agents, representatives, or employees.

l. Concession contracts shall be competed and negotiated by the Exchange in general accordance with the Federal Acquisition Regulation (FAR) and NASA FAR Supplement, unless doing so would not be in the best interests of the Exchange. Center procurement staff shall assist in such procurements. The Center Chief Counsel shall concur and the Center Director shall approve the contract. A copy will be forwarded to the Office of Management Systems, NASA Headquarters.

m. Exchanges shall obtain liability insurance, as determined by the Exchange Council and Center Director. The United States shall be named as an additional insured.

n. Exchanges shall collect, pay, and report applicable Federal taxes. By authority of Congress, a State may impose and collect tax on sales made by an Exchange concessionaire located on a Federal area. A State may not levy and collect such a tax on sales made by the Exchange itself (4 U.S.C. Sections 105-107). Exchanges shall collect and pay State and local use and sales taxes only after determining applicability. Withholding and paying Federal and State income taxes on Exchange employees shall conform to policy applicable to appropriated fund employees of NASA at the same location. Exchange employees are subject to 5 U.S.C. 8501-8508, Unemployment Compensation.

o. If an Exchange is terminated, its assets become the property of the United States Government.

## 2. APPLICABILITY

This NPD is applicable to NASA Headquarters and NASA Centers, including Component Facilities.

## 3. AUTHORITY

42 U.S.C. 2473(c) Section 203(c) of the National Aeronautics and Space Act of 1958, as amended.

## 4. REFERENCES

a. 28 U.S.C. 1346, 1491.

b. 20 U.S.C. 107 et seq.

c. 4 U.S.C. 105-107.



## 5. RESPONSIBILITY

a. Center Directors are responsible for the following:

- (1) Establishing policy and procedures appropriate to Exchange management.
- (2) Operating the Exchange and its elements in a business-like manner.
- (3) Authorizing Exchange use of NASA-controlled real property and facilities and submitting real property acquisitions and facility projects to NASA Headquarters, in accordance with paragraph 1.h.
- (4) Ensuring that Exchanges observe Department of Education and cognizant State Licensing Agency regulations in implementing the Randolph-Sheppard Act Amendments of 1974, 20 U.S.C. 107 et seq. An annual report of activities must be completed and forwarded to the Office of Management Systems by January 15 of each year.
- (5) Appointing an Exchange Council of no less than five Center employees and designating one member as Chairperson, one as Treasurer, and one as Exchange Operations Manager. A listing of the Council Members will be forwarded to the Office of Management Systems, NASA Headquarters.

b. The Exchange Operations Manager shall direct management of the Exchange within this policy and rules and recommendations of the Exchange Council as approved by the Center Director.

c. Exchange Council members perform their duties without compensation from the Exchange. No paid Exchange employee may be an Exchange Council member. The Exchange Council shall meet on a regular basis to review and approve activities of the Exchange and additionally as necessary at the Chairperson's discretion. Minutes of its meetings shall be kept on file. The Exchange Council shall perform the following:

- (1) Promote Exchange objectives and determine the extent of Exchange support of welfare and morale activities.
- (2) Ensure that operation of organizations established with its permission and under its control conforms with this NPD.
- (3) Change policies, organizational structure, scope of activity, rules, or business practices, with the Center Director's approval. The Office of Management Systems, NASA Headquarters, will be advised of significant changes prior to their implementation.
- (4) Establish a system of management controls that will provide reasonable assurance regarding the financial data, compliance with applicable laws and regulations, and prevention of, or prompt detection of, unauthorized acquisition, use, or disposition of exchange assets.

Controls over assets include safeguards for the protection of the Exchange's property and supplies to prevent pilferage or unnecessary loss and periodic inventories.

(5) Review financial statements, activity budgets, and all other appropriate reports including those of the Office of Inspector General to ensure operation of a sound, business-like organization, and provide for an annual audit of books and records of the Exchange and its elements. Financial records will be maintained in accordance with generally accepted accounting principles promulgated by the American Institute of Certified Public Accountants. Audits should be conducted by a licensed party, independent of NASA, in accordance with Government Auditing Standards (GAS) issued by the Comptroller General of the United States. In some of the smaller Exchanges, it may be appropriate to audit in compliance with the American Institute of Certified Public Accountants Standards for Accounting and Review Services. Such exceptions should be fully justified and approved in writing, in advance, by the Chief Financial Officer (CFO) and the Office of Management Systems at NASA Headquarters. Copies of consolidated September 30 Exchange balance sheet and income statement, with supporting financial statements for each element, and the annual audit report shall be submitted to the Center CFO by December 31.

(6) Submit an annual report on Exchange Council activities to the Center Director, including plans for the next fiscal year, within 90 days of fiscal year end. A copy of the annual report will also be forwarded to the Office of Management Systems and the Office of Financial Management, NASA Headquarters.

d. The Center CFO shall monitor Exchange adherence to this NPD and review financial statements and audit reports to ensure that the Exchange is financially sound and that responsible business practices are being followed.

e. The Center Chief Counsel, or for Headquarters, the Associate General Counsel (General Law) shall be responsible for providing guidance on legal and regulatory matters to the Exchange Council, including matters pertaining to the applicability of Government procurement statutes and regulations to Exchange procurements, and matters pertaining to the collection and payment by the Exchange of State and local use and sales taxes. See subsections 1.j. and 1.n. of this directive. Additionally, members of the Exchange Council and other Exchange officials will participate in the annual ethics briefing sessions. The appropriate NASA legal counsel shall also be responsible for concurring on concession contracts and on proposals for acquisition of real property for Exchange activities.

f. The Associate Administrator for Management Systems, or designee, shall be responsible for the following:

(1) Monitoring the Center's adherence to this directive through Sections 1.1, 5.a(5), 5.c(3), and 5.c(6) above and through periodic visits and reviews.

(2) Concurring on proposed exceptions to this directive.

(3) Issuing such supplemental guidelines and procedures as may be necessary to implement this directive.

g. The NASA Office of the CFO shall be responsible for the preparation and distribution of any required consolidated Agency financial reports, as well as oversight of related financial activities.

## 6. DELEGATION OF AUTHORITY

The authority to establish agency policy on Exchange activities is delegated to the Associate Administrator for Management Systems.

## 7. MEASUREMENTS

Exchanges will report on their activities and financial status as stated in paragraph 5.c (5).

## 8. CANCELLATION

NPD 9050.6E dated December 2, 1997

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/s/ Daniel S. Goldin  
Administrator

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## ATTACHMENT A: (TEXT)

None.

(URL for Graphic)

None.

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## **Appendix C**

### **Corrective Actions Taken By Headquarters Management In Response to Recommendations Made During the Inspection**

## **FINDING 1**

### **Insurance Coverage**

The Exchange is required to obtain liability insurance, with the United States named as an additional insured.<sup>1</sup> Historically, the Council incorrectly believed the Exchange, as an instrumentality of the Government, did not require liability insurance. Consequently, Council members, Exchange Store employees and visitors, NASA personnel, or private citizens could be subject to personal liability without the benefit of insurance coverage.<sup>2</sup> The Associate Administrator for Headquarters Operations and the Council Chair agreed such parties could be at risk of legal liability, especially for a personal injury occurrence on Exchange Store premises or during Exchange-sponsored events. The Council plans to research and obtain liability insurance if feasible, considering the coverage needed and associated costs. We believe that acquiring liability insurance should be a priority for the Council given the continuing vulnerability of liability.

### **Recommendation**

The Council Chair should obtain the types of insurance needed to provide sufficient liability coverage to the various parties involved with Exchange operations and participation in Exchange events.

### **Action Taken**

The Exchange has had a business policy (policy #049220390) in place since June 28, 2001.

### **Recommendation**

The Council Chair should ensure that liability insurance policies acquired name the United States as an additional insured.

### **Action Taken**

The Exchange business insurance policy does name the United States as an additional insured.

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<sup>1</sup> NPD 9050.F, paragraph 1.m. states, "Exchange shall obtain liability insurance...The United States shall be named as an additional insured." Other than bonded insurance for the two Exchange Store employees, the Council has not maintained any other type of insurance coverage.

<sup>2</sup> Other private citizens may participate in Exchange events. For example, family members and invited guests of NASA employees routinely participate in picnics sponsored by the Exchange.

## **FINDING 2**

### **Council Meetings and Minutes**

The Council recorded minutes of meetings held on a regular basis to review and approve Exchange activities.<sup>3</sup> However, minutes of meetings in a standard format would be more meaningful for management and audit purposes. Minutes are the official documentary record of Council decisions regarding Exchange activities, business practices, and financial operations. As such, minutes are the primary audit trail relied upon by the CPA to review Council activities that impact Exchange management controls and financial statements.<sup>4</sup>

We reviewed minutes of meetings held during fiscal years 1996 through 2001 and found improvements are needed to rely upon minutes as an official record of Exchange activities and Council operations. Minutes generally did not include sufficient details on Council decisions or individual votes on requests for Exchange support, on follow-up results needed for curtailed decisions, and on funds provided for events or funds available for Exchange operations.

We found Council decisions and management information difficult to identify or understand because minutes typically included only brief statements about a discussion topic. We discussed statements in minutes with Council members to obtain an understanding of decisions and discussion topics. For several statements, Council members could not recall any details or recalled only a few details about the Council discussion, actions, or decisions regarding the topic mentioned in minutes. We believe the use of a standard format would help ensure that sufficient details are included in Council minutes. A format could include categories such as planned actions and approved events, Exchange funding or other resources provided, and the status of follow-up actions needed to reach decisions on proposed activities.

### **Recommendation**

The Council Chair should develop a standard format for comprehensive meeting minutes to include minimum content requirements, such as detailed information on accomplishments; activity or event requests denied, approved, or pending approval; and Exchange funding or other resources provided for approved and accomplished activities and events.

### **Action Taken**

A standard template has been established. Further, the Exchange Council has established a new position of Secretary that will aide in preparing complete and standardized minutes that reflect all of the business and decisions of the Council.

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<sup>3</sup> NPD 9050.6F, paragraph 5.c.

<sup>4</sup> The Headquarters Council provides all minutes to the CPA contracted to perform the annual audit or compilation and review of annual financial statements. As noted in our report on the Ames Research Center Exchange Activities (G-00-003), the external auditors contracted to audit the annual financial statements for the Ames Exchange identified the lack of sufficient minutes as a record keeping concern and management control weakness.

## **Appendix D**

**Details from Review of Exchange Financial Statements  
For Fiscal Years 1996 through 1999**

We performed a cursory review of the Exchange financial statement for fiscal years 1996 through 1999. Our review disclosed indicators of accounting problems and improvements needed in the financial statements. The Exchange financial statements for each fiscal year (FY) are presented as follows in complete text. Following this text are changes we identified that would improve financial management of the Exchange.

### Headquarters Exchange Annual Financial Statements

<u>Financial Statements</u>	<u>FY 1996</u>	<u>FY 1997</u>	<u>FY 1998</u>	<u>FY 1999</u>
<b><u>Balance Sheet</u></b>				
<b><u>Assets</u></b>				
NFCU Checking 144116	\$ 15,035.62	\$ 14,730.05	\$ 33,985.89	\$ 23,201.46
NFCU Savings 144100	5,452.37	3,346.13	3,447.91	3,815.07
NFCU Checking 3517116	9,592.54	28,378.67	10,615.22	8,483.29
NFCU Savings 3517100	257.90	265.75	273.84	281.58
Certificate of Deposit	8,042.94	8,434.09	8,863.99	9,279.14
Merchandise Inventory	<u>30,203.76</u>	<u>32,496.10</u>	<u>39,626.80</u>	<u>41,178.08</u>
<b>Total Current Assets</b>	<b><u>\$ 68,585.13</u></b>	<b><u>\$ 87,650.79</u></b>	<b><u>\$ 96,813.65</u></b>	<b><u>\$ 86,238.62</u></b>
Furniture and Equipment	5,258.00	5,258.00	5,258.00	5,258.00
Less: Accumulated Depreciation	<u>(5,258.00)</u>	<u>(5,258.00)</u>	<u>(5,258.00)</u>	<u>(5,258.00)</u>
<b>Total Fixed Assets</b>	<b><u>0.00</u></b>	<b><u>0.00</u></b>	<b><u>.00</u></b>	<b><u>0.00</u></b>
<b>Total Assets</b>	<b><u>\$ 68,585.13</u></b>	<b><u>\$ 87,650.79</u></b>	<b><u>\$ 96,813.65</u></b>	<b><u>\$ 86,238.62</u></b>
<b>Total Liabilities</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Total Net Assets</b>	<b><u>\$ 68,585.13</u></b>	<b><u>\$ 87,650.79</u></b>	<b><u>\$ 96,813.65</u></b>	<b><u>\$ 86,238.62</u></b>
<b><u>Profit and Loss Statement</u></b>				
<b><u>Revenue</u></b>				
Store Merchandise Sales <sup>1</sup>	\$ 119,438.47	\$ 138,475.96	\$ 108,166.38	\$ 126,386.82
Photo Processing	29,992.00	29,586.00	30,502.00	30,804.00
Seasonal Product Sales	N/A	N/A	12,480.00	4,216.00
Consignment Sales	N/A	N/A	10,204.00	9,272.00
Restaurant Facility	14,909.00	16,695.00	16,347.00	12,146.00
Special Events	6,883.00	7,708.00	5,549.00	9,131.00
Aerobics Instruction	4,900.00	4,800.00	3,236.00	N/A
Floral Sales	3,848.00	4,283.00	N/A	N/A
Massage Therapy	2,854.00	3,176.00	1,889.00	2,535.00
Exercise Facility	N/A	N/A	522.00	1,332.00
Interest Income	<u>1,136.11</u>	<u>1,124.60</u>	<u>539.77</u>	<u>525.35</u>
<b>Total Revenue</b>	<b><u>\$ 183,960.58</u></b>	<b><u>\$ 205,848.56</u></b>	<b><u>\$ 189,435.15</u></b>	<b><u>\$ 196,348.17</u></b>

***CONTINUED ON NEXT PAGE***



**Financial Statements****FY 1996****FY 1997****FY 1998****FY 1999****Profit and Loss Statement** *(continued)***Cost of Goods Sold**

Inventory @10/01 Prior Year	\$ 17,647.87	\$ 30,203.76	\$ 32,496.10	\$ 39,626.80
Plus: Merchandise Purchased	<u>98,523.64</u>	<u>98,192.74</u>	<u>77,686.70</u>	<u>85,215.63</u>
Goods Available for Sale	\$ 116,171.51	\$ 128,396.50	\$ 110,182.80	124,842.43
Less: Inventory @9/30 Current Year	<u>(30,203.76)</u>	<u>(32,496.10)</u>	<u>(39,626.80)</u>	<u>(41,178.08)</u>
Total Cost of Goods Sold	\$ <u>85,967.75</u>	\$ <u>95,900.40</u>	\$ <u>70,556.00</u>	\$ <u>83,664.35</u>
<b>Total Gross Profit from Sales</b>	<b>\$ <u>97,992.83</u></b>	<b>\$ <u>109,948.16</u></b>	<b>\$ <u>118,879.15</u></b>	<b>\$ <u>112,683.82</u></b>

**Operating Expenses**

Activities - Direct Expenses	\$ 13,616.35	\$ 16,790.34	\$ 23,027.82	\$ 23,232.85
Activities - Reimbursements	4,344.02	5,474.85	2,028.98	1,986.81
Aerobics Instructors	4,286.00	3,113.00	3,122.00	N/A
Credit Card Commissions	2,259.14	1,688.81	1,640.13	2,310.18
Insurance	N/A	N/A	112.00	N/A
Massage Therapists	2,773.00	2,622.00	1,766.15	2,720.00
Office Expenses	585.21	243.95	1,024.47	N/A
Payroll Processing Fees	1,198.20	1,343.03	1,544.74	1,563.98
Photographic Processing	24,407.49	23,916.05	18,615.62	17,848.96
Printing Service	3,170.33	3,231.25	2,624.25	4,221.21
Restaurant Supplies	10,560.00	12,300.00	12,250.00	13,900.00
Staff Salaries	34,619.55	34,004.61	33,329.82	35,979.70
Taxes (Payroll)	3,053.59	3,219.38	2,894.83	3,047.39
Videos-Apollo 13	11,075.32	N/A	N/A	N/A
Reimbursement-Apollo A13 Video	<u>(8,478.77)</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>
<b>Total Expenses</b>	<b>\$ <u>107,469.43</u></b>	<b>\$ <u>107,947.27</u></b>	<b>\$ <u>103,980.81</u></b>	<b>\$ <u>106,811.08</u></b>

<b>Net Income (Loss) from Operations</b>	<b>\$ <u>(9,476.60)</u></b>	<b>\$ <u>2,000.89</u></b>	<b>\$ <u>14,898.34</u></b>	<b>\$ <u>5,872.74</u></b>
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**Other Items**<sup>2</sup>

Conference Fee Proceeds	\$ 34,893.44	\$ 45,770.00	\$ 47,029.45	\$ 31,350.00
Conference Expenses	<u>(27,293.02)</u>	<u>(29,524.98)</u>	<u>(50,678.48)</u>	<u>(47,481.93)</u>
<b>Net Income (Loss) from Conference</b>	<b>\$ <u>7,600.42</u></b>	<b>\$ <u>16,245.02</u></b>	<b>\$ <u>(3,649.03)</u></b>	<b>\$ <u>(16,131.93)</u></b>

<b>Net Income (Loss)</b>	<b>\$ <u>(1,876.18)</u></b>	<b>\$ <u>18,245.91</u></b>	<b>\$ <u>11,249.31</u></b>	<b>\$ <u>(10,259.19)</u></b>
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<sup>1</sup>"Store Merchandise Sales" represents the Headquarters Exchange Store sales of retail items only.

<sup>2</sup>"Other Items" represents solely the Continuous Improvement and Reinvention Conference (CIC).

The following are examples of problems we noted during our review.

**Issues:**

**Balance Sheets.** We noted one significant problem with the balance sheet for each fiscal year. The balance sheet did not include a net income or loss for the year. The net income or loss amount is an essential accounting control to ensure the accuracy of account balances and financial statements. By using accepted accounting procedures, the amounts for the balance sheet and the profit and loss statement are derived separately. If the net income or loss amount is not equivalent on both documents, an accounting error occurred in recording transactions or preparing financial statements. Without the income or loss on the balance sheet, Exchange management cannot be assured that the financial statements or individual account balances are accurate.

**Profit and Loss Statements.** Indicators of potential accounting or financial statement problems and actual problems that we noted are explained by references to specific accounts.

1. The Store Merchandise Sales revenue account, a total for retail sales, is the largest revenue source for the Exchange. The total of other revenues, ranging from 33 to 43 percent of total revenues, is also a considerable revenue source. A separate subtotal of the various other revenues would be beneficial for management purposes to identify trends experienced in revenue sources. For the following comparison, we computed the Other Revenues subtotal; all other amounts are from the Exchange financial statements.

	<b><u>FY 1996</u></b>	<b><u>FY 1997</u></b>	<b><u>FY 1998</u></b>	<b><u>FY 1999</u></b>
Store Merchandise Sales	\$ 119,438.47	\$ 138,475.96	\$ 108,166.38	\$ 126,386.82
Other Revenues	<u>64,522.11</u>	<u>67,372.60</u>	<u>81,268.77</u>	<u>69,961.35</u>
Total Revenue	<b><u>\$ 183,960.58</u></b>	<b><u>\$ 205,848.56</u></b>	<b><u>\$ 189,435.15</u></b>	<b><u>\$ 196,348.17</u></b>

In addition, separate subtotals for Store Merchandise Sales and other revenues is critical to compute an accurate amount for the Total Gross Profit from Sales. For the years reviewed, the Total Cost of Goods Sold, which represents the wholesale cost of retail items sold, was deducted from the Total Revenue, rather than the Store Merchandise Sales revenue only, to compute the Gross Profit from Sales, as shown by the following amounts from the Exchange financial statements.

	<b><u>FY 1996</u></b>	<b><u>FY 1997</u></b>	<b><u>FY 1998</u></b>	<b><u>FY 1999</u></b>
Total Revenue	\$ 183,960.58	\$ 205,848.56	\$ 189,435.15	\$ 196,348.17
Total Cost of Goods Sold	<u>85,967.75</u>	<u>95,900.40</u>	<u>70,556.00</u>	<u>83,664.35</u>
<b>Total Gross Profit from Sales</b>	<b><u>\$ 97,992.83</u></b>	<b><u>\$ 109,948.16</u></b>	<b><u>\$ 118,879.15</u></b>	<b><u>\$ 112,683.82</u></b>

An accurate Total Gross Profit from Sales, using the Store Merchandise Sales only, is shown by the following comparison that we computed using amounts from the Exchange financial statements.

	<u>FY 1996</u>	<u>FY 1997</u>	<u>FY 1998</u>	<u>FY 1999</u>
Store Merchandise Sales	\$ 119,438.47	\$ 138,475.96	\$ 108,166.38	\$ 126,386.82
Total Cost of Goods Sold	<u>85,967.75</u>	<u>95,900.40</u>	<u>70,556.00</u>	<u>83,664.35</u>
<b>Total Gross Profit from Sales</b>	<b><u>\$ 33,470.72</u></b>	<b><u>\$ 42,575.56</u></b>	<b><u>\$ 37,610.38</u></b>	<b><u>\$ 42,722.47</u></b>

We compared the following amounts from the Exchange Financial Statements that are related to retail sales from the Exchange Store. We noted that for fiscal year 1998, the Total Gross Profit from Sales of \$118,879.15 is greater than the Store Merchandise Sales of \$108,166.38. However, a profit is determined by subtracting the wholesale cost (lower dollar amount) of retail items sold from the total retail sales (higher dollar amount). As the resulting difference is the total gross profit on retail sales, the profit is always less than the total retail sales amount. (If retail items are sold at retail prices that are lower than the wholesale cost, a loss results from retail sales.) With a proper accounting system and accurate procedures for recording transactions, the profit on sales is less than the total sales. The fiscal year 1998 situation indicates a problem with the accuracy of the accounting system or procedures used by the Exchange for retail sales.

	<u>FY 1996</u>	<u>FY 1997</u>	<u>FY 1998</u>	<u>FY 1999</u>
Store Merchandise Sales	\$ 119,438.47	\$ 138,475.96	<b>\$ 108,166.38</b>	\$ 126,386.82
Total Gross Profit from Sales	\$ 97,992.83	\$ 109,948.16	<b>\$ 118,879.15</b>	\$ 112,683.82

2. The various types of Operating Expenses appeared to relate to corresponding Revenue accounts on the Exchange financial statements. However, the revenue and expense account titles typically differed and as a result, assumptions were required to determine the profit or loss for each source of revenue. As one example, the Operating Expense accounts for Activities – Direct Expenses and for Activities – Reimbursements appeared to relate to the Revenue account for Special Events. In addition, further analysis was required to determine the profit or loss from revenue sources because the corresponding expenses were not presented in the same order as the revenues. These types of problems can create unnecessary doubt about the reliability and accuracy of financial statements. The presentation of account information is directly related to the usefulness of the financial statements as a document for Council oversight and financial analysis of individual Exchange operations and events.

## **Appendix E**

**NPD 9050.4F, *Administrator's Fund*,  
Effective March 2, 2000**

**NASA  
POLICY  
DIRECTIVE**

Directive: NPD 9050.4F  
Effective Date: March 2, 2000  
Expiration Date: March 2, 2005

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Responsible Office: AI / Associate Deputy Administrator

Subject: Administrator's Fund

### 1. POLICY

- a. The annual NASA authorization and appropriations acts allow a specified amount of NASA's appropriations to be used for official reception and representation expenses. The aggregate of such funds is identified as the Administrator's Fund.
- b. It is NASA's policy to use the Administrator's Fund primarily to pay the expenses of non-NASA individuals attending official reception and representation activities sponsored by NASA. Under certain circumstances, as outlined in NPG 9050.xx, the Administrator's Fund may be also used for the expenses of NASA employees participating in representational events.
- c. Official reception and representational activities are generally defined as events related to official Agency business and typically characterized by a mixed ceremonial, social, and/or business purpose. Expenses that may be covered by the Administrator's Fund include food, beverages, entertainment, and presentation items.

### 2. APPLICABILITY

This NPD is applicable to NASA Headquarters and NASA Centers, including Component Facilities.

### 3. AUTHORITY

42 U.S.C 2473(c)(1), Section 203(c)(1) of the National Aeronautics and Space Act of 1958, as amended.

#### 4. REFERENCES

- a. Annual Departments of Veterans Affairs and Housing and Urban Development, and Independent Agencies Appropriations Act.
- b. NPG 9050.xx

#### 5. RESPONSIBILITY

- a. The Associate Deputy Administrator, or designee, is responsible for approving payment of expenses from the Administrator's Fund.
- b. The Officials-in-Charge of Headquarters Offices and Center Directors are responsible for requesting use of the Administrator's Fund in accordance with the procedures in NPG 9050.xx.
- c. The Associate Administrator for External Relations is responsible for reviewing and concurring in all requests for use of the Administrator's Fund involving foreign nationals.
- d. The Associate Administrator for Legislative Affairs is responsible for reviewing and concurring in all requests for use of the Administrator's Fund involving Congressional representatives or Congressional staff.
- e. The Associate Administrator for Public Affairs is responsible for reviewing and concurring in all requests for use of the Administrator's Fund involving the media and guest operations for launches.
- f. The Associate Administrator for Headquarters Operations is responsible for providing guidance, advice, and resolution of issues between requesting offices and the Assistant Executive Officer for the Office of the Administrator, Office of Headquarters Operations, that cannot be resolved otherwise.
- g. The General Counsel is responsible for reviewing requests for which the legal propriety of using the Administrator's Fund for the requested purpose is in question.
- h. The Headquarters Accounting Division (located at Goddard Space Flight Center) is the official repository for all official accounting and financial records for the Administrator's Fund.

## 6. DELEGATION OF AUTHORITY

Authority to approve requests for use of the Administrator's Fund is delegated to the Associate Deputy Administrator, with power for further delegation.

## 7. MEASUREMENTS

None.

## 8. CANCELLATION

NMI 9050.4E, dated May 19, 1994.

---

/s/ Daniel S. Goldin  
Administrator

---

## ATTACHMENT A: (TEXT)

Government Forms

(URL for Graphic)

None.

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NODIS

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# **Appendix F**

## **NASA Management Response**



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



March 13, 2002

Reply to Attn of:

C

**TO:** W/Director, Program and Management Inspection Division  
**FROM:** C/Acting Administrator for Headquarters Operations  
**SUBJECT:** Comments on Discussion Draft on the Inspection of the NASA  
Headquarters Exchange Activities, Number G-00-006

My office has reviewed your subject draft report transmitted on February 15, 2002. We concur with your recommendations and have already taken numerous actions. In fact, recommendations 5, and 18, we believe are complete. We are pleased that you recognized that recommendations were completed some time ago.

Our detailed response and associated actions are enclosed. We have also included clarifications where appropriate.

Questions concerning these comments should be directed to Chris Jedrey. He can be reached at (202) 358-0483.

A handwritten signature in cursive script that reads "T.M. Sullivan".

Timothy M. Sullivan

cc: AB/Christensen  
C/ Mr. Jedrey  
CF/Mr. Bridge  
CF/Ms. Smith

**Response to the Office of Inspector General's Inspection of the NASA  
Headquarters Exchange Council, Draft Report for Discussion, G-00-006**

**Report Comments:**

A minor correction is need in the Distribution List. The NASA Exchange Chair is now located in Code C, not HK.

As to the response on specific recommendations the following is offered:

**Recommendation 1:** The Council Chair should ensure the development of a policies and procedures document on overall management of Council operations for distribution to each Council member and Exchange employee.

**Management Response:** Concur. The Headquarters Exchange has recognized the need for this document. In fact, it was a goal in the Council's 2001 Management Plan. Although it was not complete, a substantive draft was complete on September 30, 2001. The document will be finalized by June 1, 2002.

**Recommendation 2:** The Council Chair should obtain a full-scope audit of Exchange annual financial statements for fiscal year 2002 and obtain technical support from the contracted CPA on accounting changes needed to develop reliable financial statements in the future.

**Management Response:** Concur. The Council Chair did initiate a procurement to obtain a full-scope audit for fiscal year 2001. It was not until the full scope audit was to begin that it was discovered that two inventory cycles needed to be monitored for a full scope audit. In coordination with the NASA Inspector General's Office (Ms. Bonnie Armstrong) the auditor performed an audit of the balance sheet and a review of the income and cash flow statements. They did not perform a compilation and review for FY 2001. Subject to availability of funds, the Council will obtain a full scope audit for fiscal year 2002. Procurement request number 10-07225 was issued on 2/7/02 to contract for these services in FY 2002. It should be noted that the fiscal 2001 report was completed timely and had no major issues identified by the auditor.

**Recommendation 3:** The Council Chair should include the Exchange annual financial statements on the Exchange Web site to ensure access by all Headquarters employees.

**Management Response:** Concur.

**Recommendation 4:** The Council Chair should request assistance from the Headquarters CFO to identify possible methods to resolve the discrepancy from the first reconciliation and advise the CPA that conducts the annual audit or compilation and review for fiscal year 2001 about the situation.

**Management Response:** Concur. The Council Chair will request assistance from the Headquarters CFO in this matter. However, it seems apparent that absent a manual review of records and performing a reconciliation for each and every transaction prior to October 1, 1998, there is no easy way to uncover the root of this discrepancy. In fact, since we have automated over three years of records, it has been our experience that many small errors were corrected-- not major items. The IG report recognizes this fact and states: "Accounting errors could be nearly impossible to detect because a general ledger did not exist for prior years." Errors could have occurred many years ago and regularly since there was no general ledger and reconciliation. Some records may now be non-existent since their record retention period may have expired. Consequently, it should be recognized that the complete and final resolution of the discrepancy might never be discovered.

**Recommendation 5:** The Council Chair should establish procedures to perform a reconciliation at each month-end and provide associated monthly reports to the CPA to expedite completion of the annual audit or compilation and review for each fiscal year.

**Management Response:** Concur. The Exchange Council has actually balanced each and every month electronically since the inception of Quicken. However, the Council was unaware of the "reconciliation feature" of Quicken and the report that is generated to document the reconciliation. The Council became aware of this capability and has used it since April 1, 2001. This recommendation has been completed.

**Recommendation 6:** The Council Chair 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 results and the Exchange Store inventory records.

**Management Response:** Concur. In August of 2001 the Exchange adopted a policy to perform a wall-to-wall inventory of all merchandize in the Exchange Store each year. This decision will be documented in our Policy and Procedures that is being finalized. After each inventory any discrepancies will be reconciled.

**Recommendation 7:** The Council Chair should establish a petty cash account and procedures to maintain the account balance at an appropriate amount of cash.

**Management Response:** Concur. The Council will develop procedures to provide internal controls on the petty cash fund.

**Recommendation 8:** The Council Chair should take action to ensure gift shop receipts record the accurate date of each sales transaction.

**Management Response:** Concur. The Store Manager will ensure that all tape transactions have the proper date recorded. This is being accomplished as of January 31, 2002 on the receipt tape manually. One a new register is acquired this date will be automatically imprinted.

**Recommendation 9:** The Council Chair should establish policies and procedures to ensure that the signatures of two Council managers or members are required for all checks.

**Management Response:** Concur.

**Recommendation 10:** The Associate Administrator for Headquarters Operations or the Council Chair should obtain a legal opinion from the Headquarters, Associate General Counsel for General Law on the appropriateness of Exchange payments for non-repayable assistance or repayable loans, both non-appropriated funds, under the Permanent Assistance and the Temporary Relief provisions of the Disaster Relief Fund.

**Management Response:** Concur.

**Recommendation 11:** The Associate Administrator for Headquarters Operations and the Council Chair should ensure appropriated funds, rather than Exchange funds, are used to pay for official Agency and mission or program office activities and events.

**Management Response:** Concur.

**Recommendation 12:** The Council Chair should ensure that written contracts or other procurement instruments, with required indemnification clauses, are used for each vendor event and retained in Exchange records.

**Management Response:** Concur. Our existing Vendor contracts currently have an indemnification clause and the Exchange will ensure that all Vendors have executed this contract.

**Recommendation 13:** The Council Chair should establish procedures to obtain adequate documentation from vendors on their total sales to ensure the Exchange receives the accurate commission for each event.

**Management Response:** Concur. The Vendor contracts will be modified to include a requirement for documentation of all sales. This will ensure the total amount of sales by a vendor can be verified and the Exchange Store's fee is accurate.

**Recommendation 14:** The Council should develop, with primary involvement by the Exchange Store manager, formal policies and procedures suitable to ensure continuity of operations in the absence of Exchange Store employees.

**Management Response:** Concur. The Store Manager will develop a guidebook that will detail daily responsibilities and procedures for operating the Exchange Store.

**Recommendation 15:** The Council should seek funding to acquire a point-of-sale system or other fully integrated inventory and sales system.

**Management Response:** Concur subject to funding availability. The Council will research the options available and the cost of a point-of-sale system. It is respectfully requested that the information uncovered concerning the point-of-sale system identified in the Report (as costing \$10,000) be provided to the Exchange Council. This will help greatly in our market research efforts.

**Recommendation 16:** The Council should define responsibilities of the two Store Operations Co-Managers, in coordination with the Exchange Store manager, to maintain the improved coordination of Exchange Store operations.

**Management Response:** Concur. It is in our draft Policy and Procedures document dated September 30, 2001.

**Recommendation 17:** The Council Chair should provide the Exchange Store manager a document similar to a delegation of procurement authority to formally authorize the Exchange Store manager to expend Exchange funds for purchases or other payments.

**Management Response:** Concur.

**Recommendation 18:** The Council should implement procedures to increase coordination and the flow of information between the Council and the Exchange Store manager.

**Management Response:** Concur. The Council actively began this practice in October when the Store Manager was invited to the Annual planning retreat. The Store manager is now on the distribution list for meeting minutes and other Council information distributions. The Store Manager has also begun a bi-weekly report of Store activities that will be sent to the Council for information. Further, the Store Manager will be invited to the annual retreat (May 2002) that will focus on the activities of the Exchange Store. This recommendation has been completed.

# **Appendix G**

## **Summary of Report Recommendations**

**Recommendation 1:** The Council Chair should ensure the development of a policies and procedures document on overall management of Council operations for distribution to each Council member and Exchange employee.

**Recommendation 2:** The Council Chair should obtain a full-scope audit of Exchange annual financial statements for fiscal year 2002 and obtain technical support from the contracted CPA on accounting changes needed to develop reliable financial statements in the future.

**Recommendation 3:** The Council Chair should include the Exchange annual financial statements on the Exchange Web site to ensure access by all Headquarters employees.

**Recommendation 4:** The Council Chair should request assistance from the Headquarters CFO to identify possible methods to resolve the discrepancy from the first reconciliation and advise the CPA that conducts the annual audit or compilation and review for fiscal year 2001 about the situation.

**Recommendation 5:** The Council Chair should establish procedures to perform a reconciliation at each month-end and provide associated monthly reports to the CPA to expedite completion of the annual audit or compilation and review for each fiscal year.

**Recommendation 6:** The Council Chair 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 results and the Exchange Store inventory records.

**Recommendation 7:** The Council Chair should establish a petty cash account and procedures to maintain the account balance at an appropriate amount of cash.

**Recommendation 8:** The Council Chair should take action to ensure gift shop receipts record the accurate date of each sales transaction.

**Recommendation 9:** The Council Chair should establish policies and procedures to ensure that the signatures of two Council managers or members are required for all checks.

**Recommendation 10:** The Associate Administrator for Headquarters Operations or the Council Chair should obtain a legal opinion from the Headquarters, Associate General Counsel for General Law on the appropriateness of Exchange payments for non-repayable assistance or repayable loans, both non-appropriated funds, under the Permanent Assistance and the Temporary Relief provisions of the Disaster Relief Fund.

**Recommendation 11:** The Associate Administrator for Headquarters Operations and the Council Chair should ensure appropriated funds, rather than Exchange funds, are used to pay for official Agency and mission or program office activities and events.

**Recommendation 12:** The Council Chair should ensure that written contracts or other procurement instruments, with required indemnification clauses, are used for each vendor event and retained in Exchange records.

**Recommendation 13:** The Council Chair should establish procedures to obtain adequate documentation from vendors on their total sales to ensure the Exchange receives the accurate commission for each event.

**Recommendation 14:** The Council should develop, with primary involvement by the Exchange Store manager, formal policies and procedures suitable to ensure continuity of operations in the absence of Exchange Store employees.

**Recommendation 15:** The Council should seek funding to acquire a point-of-sale system or other fully integrated inventory and sales system.

**Recommendation 16:** The Council should define responsibilities of the two Store Operations Co-Managers, in coordination with the Exchange Store manager, to maintain the improved coordination of Exchange Store operations.

**Recommendation 17:** The Council Chair should provide the Exchange Store manager a document similar to a delegation of procurement authority to formally authorize the Exchange Store manager to expend Exchange funds for purchases or other payments.

**Recommendation 18:** The Council should implement procedures to increase coordination and the flow of information between the Council and the Exchange Store manager.



# **Appendix H**

## **Report Distribution**

## **Distribution**

### **National Aeronautics and Space Administration (NASA) Officials:**

A/Administrator  
AA/Chief of Staff and White House Liaison  
AB/Associate Deputy Administrator for Institutions  
AI/Associate Deputy Administrator  
B/Acting Chief Financial Officer  
B/Comptroller  
F/Assistant Administrator for Human Resources & Education  
G/General Counsel  
H/Assistant Administrator for Procurement  
J/Assistant Administrator for Management Systems  
JM/Director, Management Assessment Division  
L/Assistant Administrator for Legislative Affairs  
M/Associate Administrator for Space Flight  
P/Assistant Administrator for Public Affairs  
Q/Associate Administrator for Safety & Mission Assurance  
R/Associate Administrator for Aerospace Technology  
X/Assistant Administrator for Security Management and Safeguards  
Y/Associate Administrator for Earth Science  
Program Manager, Financial Statement Audit Oversight, Training, and Policy/Marshall  
Space Flight Center

### **NASA Exchange Official and Council Managers:**

C/Acting Assistant Administrator for Headquarters Operations  
C/Chair, NASA Headquarters Exchange Council  
CO/Treasurer, NASA Headquarters Exchange Council

### **NASA Advisory Officials:**

Chairman, NASA Aerospace Safety Advisory Panel  
Chairman, NASA Advisory Committee

### **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  
Budget Examiner, Energy Science Division, Office of Management and Budget  
Associate Director, National Security and International Affairs Division,  
General Accounting Office  
Professional Assistant, Senate Subcommittee on Science, Technology, and Space

**Chairman and Ranking Minority Member of each of the following Congressional Committees and Subcommittees:**

Senate Committee on Appropriations

Senate Subcommittee on VA-HUD-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-Independent Agencies

House Committee on Government Reform and Oversight

House Subcommittee on National Security, International Affairs, and Criminal Justice

House Committee on Science

House Subcommittee on Space and Aeronautics

**Congressional Member:**

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# **NASA Office of Inspector General Reader Survey**

# NASA Office of Inspector General Reader Survey

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## Report: Headquarters Exchange Activities, G-00-006

Please circle the appropriate rating for the following statements.

	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree	N/A
1. The report was clear and readable	5	4	3	2	1	N/A
2. The report was logically organized	5	4	3	2	1	N/A
3. The report was concise and to the point	5	4	3	2	1	N/A
4. The facts were presented fairly and accurately	5	4	3	2	1	N/A
5. The report contained sufficient information to support the finding(s) in a balanced and objective manner	5	4	3	2	1	N/A
6. The recommendation(s) made sense and were relevant	5	4	3	2	1	N/A
7. The recommendation(s) were timely	5	4	3	2	1	N/A

### Overall, how would you rate the report?

- Excellent       Fair  
 Very Good       Poor  
 Good

How could we improve the report? \_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

Are there steps we should have taken, but did not?

\_\_\_\_\_

\_\_\_\_\_

Is there anything else we should have done differently? \_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

**How did you use the report?** \_\_\_\_\_

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**Can you suggest any additional (related or unrelated) issues that the NASA Office of Inspector General should review? (You can also call our anonymous 24-hour Hotline at 1-800-424-9183)** \_\_\_\_\_

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**Additional comments** \_\_\_\_\_

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**Your occupation**

- A.  Congressional Staff  Media  
 NASA Employee  Public Interest  
 Private Citizen  Other: \_\_\_\_\_  
 Government: Federal: \_\_\_\_\_ State: \_\_\_\_\_ Local: \_\_\_\_\_

**May we contact you about your comments?**

**Yes:** \_\_\_\_\_ **No:** \_\_\_\_\_

**Name:** \_\_\_\_\_

**Telephone:**  
\_\_\_\_\_

Thank you for completing this survey.