

National Aeronautics and
Space Administration



Office of Inspector General
Washington, DC 20546-0001

November 17, 2008

TO: Administrator
Chief Financial Officer

FROM: Inspector General

SUBJECT: Audit of the National Aeronautics and Space Administration's
Fiscal Year 2008 Financial Statements (Report No. IG-09-006)

Under the Chief Financial Officers Act of 1990, NASA's financial statements are to be audited in accordance with generally accepted government auditing standards. The Office of Inspector General contracted with the independent certified public accounting firm Ernst & Young LLP (E&Y) to audit NASA's financial statements in accordance with the Government Accountability Office (GAO) "Government Auditing Standards" and Office of Management and Budget's Bulletin No. 07-04, "Audit Requirements for Federal Financial Statements," as amended.

In the "Report of Independent Auditors" (Enclosure 1), E&Y disclaimed an opinion on NASA's financial statements for the fiscal years ended September 30, 2008 and 2007. The disclaimer resulted from continued significant weaknesses in NASA's financial management processes and systems, including issues related to internal controls for property accounting.

The E&Y "Report on Internal Control" (Enclosure 2) includes two significant deficiencies, which are considered to be material weaknesses. Material weaknesses were found in NASA's controls for (1) financial systems, analyses, and oversight used to prepare the financial statements, and (2) assuring that property, plant, and equipment and materials are presented fairly in the financial statements. These material weaknesses have been reported for several years.

The E&Y "Report on Compliance with Laws and Regulations" (Enclosure 3) identifies certain instances in which NASA's financial management systems did not substantially comply with the requirements of the Federal Financial Management Improvement Act of 1996 (FFMIA). For example, the report notes that NASA management continued to identify certain transactions that are being posted incorrectly due to improper configuration or design within the Core Financial module.

NASA made progress in improving its internal controls during FY 2008. NASA developed the Comprehensive Compliance Strategy to help NASA focus on ensuring compliance with generally accepted accounting principles (GAAP) and other financial reporting requirements. NASA uses its Continuous Monitoring Program to assess and evaluate internal controls, compliance with GAAP, and evidence that balances and activity reported in its financial statements are accurate and complete. However, NASA

management and E&Y continued to identify weaknesses in Agency-wide internal controls that impair NASA's ability to report accurate financial information on a timely basis.

To address the property, plant, and equipment (PP&E) material weakness, NASA implemented new PP&E capitalization policy and procedures, effective October 1, 2007, to ensure the value of new acquisitions of property will be accurate. NASA also implemented the Integrated Asset Management (IAM)/PP&E module in May 2008 to track and value NASA's capitalized personal property. NASA's challenge will be to ensure its processes and controls are operating effectively to accurately record capitalized property in a timely manner.

NASA should prepare a comprehensive corrective action plan to address the findings detailed in the enclosed reports and to address material weaknesses identified in the Administrator's Statement of Assurance. That plan must be detailed enough to ensure successful implementation with desired results. In addition, NASA must continue to

- ensure that the Office of the Chief Financial Officer is staffed with properly trained personnel who can address the Agency's financial management and accountability challenges;
- ensure that accounting practices are consistent with applicable standards and are consistently applied;
- establish internal controls that provide reasonable assurance that the financial statements are supported, complete, and accurate; and
- implement recommendations made in E&Y's "Report on Internal Control," as well as those made by our office and the GAO.

In fulfilling our responsibilities under the Chief Financial Officers Act of 1990, we monitored the progress of the audit, reviewed E&Y's reports and related documentation, inquired of its representatives, and ensured that E&Y met contractual requirements. Our review was not intended to enable us to express, and we do not express, an opinion on NASA's financial statements; conclusions about the effectiveness of internal controls over financial reporting; or compliance with certain laws and regulations, including, but not limited to, FFMIA.

E&Y is responsible for each of the enclosed reports and the conclusions expressed therein. Our review disclosed no instances where E&Y did not comply, in all material respects, with GAO's "Government Auditing Standards."

signed

Robert W. Cobb

3 Enclosures