

NOVEMBER 7, 2008

QUALITY CONTROL REVIEW REPORT

OFFICE OF AUDITS

QUALITY CONTROL REVIEW OF THE
HOWARD, WERSHBALE & COMPANY AUDIT OF THE
GLENN RESEARCH CENTER EXCHANGE FINANCIAL
STATEMENTS FOR THE FISCAL YEAR ENDED
SEPTEMBER 30, 2007

OFFICE OF INSPECTOR GENERAL



National Aeronautics and
Space Administration

Acronyms

AICPA	American Institute of Certified Public Accountants
CPA	Certified Public Accountant
CPE	Continuing Professional Education
FY	Fiscal Year
GAGAS	Generally Accepted Government Auditing Standards
GAO	Government Accountability Office
GRC	Glenn Research Center

National Aeronautics and
Space Administration

Office of Inspector General
Washington, DC 20546-0001



November 7, 2008

Stanley J. Olejarski, CPA
Howard, Wershbale & Company

SUBJECT: Quality Control Review of the Howard, Wershbale & Company Audit of the Glenn Research Center Exchange Financial Statements for the Fiscal Year Ended September 30, 2007 (Report No. IG-09-005; Assignment No. A-08-017-00)

The audit firm of Howard, Wershbale & Company performed an audit of the Glenn Research Center (GRC) Exchange financial statements for the fiscal year ended September 30, 2007 (FY 2007). The Inspector General Act of 1978, as amended, section 4, paragraph (b)(1)(C), directs each Inspector General, with respect to the organization within which the office is established, to take appropriate steps to ensure that any work performed by non-Federal auditors complies with the standards established by the Comptroller General.

Our quality control review was to determine whether Howard, Wershbale & Company performed its audit in accordance with the Government Accountability Office's (GAO) "Government Auditing Standards, 2003 Revision" (often referred to as generally accepted government auditing standards, or GAGAS), issued by the Comptroller General of the United States. The standards are for use by auditors of Government entities and entities that receive Government awards and by audit organizations performing GAGAS audit and attestation engagements. GAGAS prescribes general standards (including independence, professional judgment, competence, and quality control and assurance requirements), fieldwork standards, and reporting standards. Additionally, GAGAS incorporates the generally accepted auditing standards of the American Institute of Certified Public Accountants (AICPA) for fieldwork and reporting.¹ See Enclosure 1 for details on the scope and methodology of our review, requirements for reviews of exchange and morale support activities, and our summary of the latest peer review of Howard, Wershbale & Company. See Enclosure 2 for the results of the Howard, Wershbale & Company audit of the GRC Exchange for FY 2007.

¹ The AICPA is the national professional organization for all certified public accountants (CPAs). According to the AICPA, its mission is to provide members with the resources, information, and leadership that enable the members to provide valuable services in the highest professional manner to benefit the public as well as employers and clients. In fulfilling its mission, the AICPA works with state CPA organizations and gives priority to those areas where public reliance on CPA skills is most significant.

Background. The GRC Exchange exists to contribute to the welfare, efficiency, and effectiveness of the people who work at GRC. The Exchange maintains two stores on the GRC campus and subcontracts the operation of one cafeteria. Profits realized from those operations are used to support a variety of activities benefiting the GRC community. As of September 30, 2007, GRC Exchange net sales totaled approximately \$198,000 and assets totaled approximately \$72,000. Howard, Wershbale & Company maintains an office in Cleveland, Ohio.

Review Results. Howard, Wershbale & Company's audit work on the FY 2007 audit of the GRC Exchange financial statements substantially met GAGAS. We found no exception with audit planning, audit supervision, or audit reporting. However, we noted one exception related to an auditor's qualifications (continuing professional education [CPE] credits were not adequately supported) and one exception related to audit fieldwork that was not adequately documented. This report makes recommendations relating to each exception.

Management Comments. In response to a draft of this report, Howard, Wershbale & Company concurred with our recommendations and described actions to be taken (see Enclosure 3 for the full text of management comments). We consider the comments responsive and have closed the recommendations.

Finding A

CPE Credits Not Adequately Supported. Howard, Wershbale & Company did not maintain adequate documentation supporting the CPEs reported for one of the firm's three auditors who audited the GRC Exchange financial statements for FY 2007.

GAO issued "Guidance on GAGAS Requirements for Continuing Professional Education," dated April 2005, to provide guidance to auditors and audit organizations in implementing the CPE requirements found in GAGAS (2003 Revision). Paragraphs 35 and 36 state, in part, that the audit organization is responsible for maintaining documentation for the CPE hours completed by each auditor subject to the CPE requirements and that the audit organization should maintain a certificate or other evidence of completion from the CPE provider.

Howard, Wershbale & Company documented the names of CPE courses taken by its employees, the titles of the courses, number of CPE hours earned, and dates of course attendance. However, the firm did not maintain copies of the certificates of course completion for an auditor who performed the audit of the GRC Exchange financial statements for FY 2007. The Howard, Wershbale & Company audit manager for the GRC Exchange financial statements audit advised us that the auditor removed his course completion certificates when he left the firm and later destroyed the certificates. Since Howard, Wershbale & Company did not maintain copies of the auditor's certificates of

course completion, the firm did not fully comply with GAO's guidance on maintaining CPE documentation.

Recommendation 1. Howard, Wershale & Company should maintain copies of CPE certificates of completion for all audit staff members who work on GAGAS audits.

Management's Response. Howard, Wershale & Company stated that it has complied with CPE regulations, stating that the firm monitors CPEs through its time and billing system and an annual review by the Principal in charge of CPE. However, for personnel involved in audits performed in accordance with GAGAS, the firm will maintain certificates of completion provided by the CPE provider.

Evaluation of Management's Response. Management's planned corrective action is responsive, and we have closed the recommendation.

Finding B

Fieldwork Not Adequately Documented. In April 2005, the GRC Exchange awarded a contract to outsource its cafeteria and catering operations. Total revenues from those operations in FYs 2000 through 2004 averaged about \$776,000 per year. However, the Exchange operated with net losses that averaged \$97,000 during that same period. Under the terms of the contract, the Exchange is to share, through commissions, in the contractor's gross receipts or profits from cafeteria and catering sales. We found that Howard, Wershale & Company did not prepare audit workpapers that adequately evidenced its work in assessing the reasonableness of cafeteria and catering sales reported by the Exchange's contractor during the FY 2007 audit.

GAGAS (2003 Revision), paragraph 4.03c, states, "Sufficient competent evidential matter is to be obtained through inspection, observation, inquiries, and confirmations to afford a reasonable basis for an opinion regarding the financial statements under audit." Additionally, paragraph 4.22 states, "The standard related to audit documentation for financial audits performed in accordance with GAGAS is: Audit documentation related to planning, conducting, and reporting on the audit should contain sufficient information to enable an experienced auditor who has had no previous connection with the audit to ascertain from the audit documentation the evidence that supports the auditors' significant judgments and conclusions. Audit documentation should contain support for findings, conclusions, and recommendations before auditors issue their report."

The firm completed an audit procedure to determine whether cafeteria and catering commissions were reasonable. According to a Principal at Howard, Wershale & Company, the firm reviewed the contractor's financial statements; however, it did not verify the accuracy of the contractor's reported cafeteria and catering sales because the

amount of commissions due to the GRC Exchange would not be material. (The GRC Exchange financial statements for FY 2007 reported commissions from cafeteria and catering sales totaling \$1,324.) The Principal acknowledged that the audit workpapers did not fully describe the firm's work relative to the contractor's sales. As a result of inadequate documentation, an experienced auditor who had no previous connection with the audit could not ascertain the evidence that supported the firm's conclusion regarding the amount of commissions reported in the GRC Exchange financial statements.

Recommendation 2. For any future audits of the GRC Exchange, Howard, Wershbale & Company should document in the audit workpapers the work that it performed to determine the reasonableness of the contractor's cafeteria and catering gross receipts and profits and, in turn, the Exchange's reported commissions.

Management's Response. Howard, Wershbale & Company stated its belief that the audit procedures were adequate given the materiality of the commissions income and that procedures related to the verification of the contractor's income would not be cost-effective or possible to perform. Additionally, the firm expressed the opinion that GRC management is responsible for verifying whether the commissions income is reasonable and in accordance with contract provisions. Notwithstanding its position on this matter, Howard, Wershbale & Company stated that it will expand its procedures to include confirmation of the commissions income with the contractor and will review any documentation received by the GRC Exchange to verify the commissions received. Also, the firm will compare the income to the contractual terms, prior year amounts, and any budgeted amounts.

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

We appreciate the courtesies extended to the staff during our review. For additional information on this report, please contact Mr. David L. Gandrud, the Project Manager, at 650-604-2672. See Enclosure 4 for the report distribution. The review team members are listed on the inside back cover of this report.

signed

Evelyn R. Klemstine
Assistant Inspector General for Auditing

4 Enclosures

QUALITY CONTROL REVIEW PROCESS

Scope and Methodology

We performed a quality control review of the Howard, Wershbale & Company audit of the GRC Exchange financial statements for FY 2007. We performed our review from July 30 through August 19, 2008, at the office of Howard, Wershbale & Company in Cleveland, Ohio. Our review covered areas related to Howard, Wershbale & Company's compliance with GAGAS. We focused the review on auditor qualifications, audit planning, audit supervision, conduct of the audit fieldwork, and audit reporting.

In conducting our review, we assessed the documentation gathered and prepared by Howard, Wershbale & Company, including documentation used to support the audit report, and discussed our review with Howard, Wershbale & Company personnel. We confirmed the license status of the company and its personnel who worked on the GRC Exchange audit by querying the Web site of the Ohio License Center. We determined that Howard, Wershbale & Company held a current "Employers" license and its applicable Principal and Audit Manager held active CPA licenses. We consider the Web site a reliable source of information, based on prior usage; we did not use any other computer-processed data in performing our review.

Exchange and Morale Support Activities

Inspector General Act. The Inspector General Act of 1978, as amended, requires an agency's Inspector General to take appropriate steps to ensure that any work performed by non-Federal auditors complies with the standards established by the Comptroller General.

NASA Requirement. NASA Policy Directive 9050.6I, "NASA Exchange and Morale Support Activities," November 10, 2004, authorizes Center Directors to operate activities to contribute to the efficiency, welfare, and morale of NASA personnel. The Directive requires that financial records be maintained and that an annual audit be conducted. The Directive also requires the Center Chief Financial Officer to monitor compliance with the Directive and to review financial statements and audit reports to ensure that the Center's exchange and morale support activities are operated in a financially sound and responsible manner.

External Peer Review

We reviewed the most recent peer review report on Howard, Wershale & Company, which was prepared by Reed & Company of Mayfield, PSC, for the year ended April 30, 2007. The report, issued on September 13, 2007, stated that the system of quality control for the accounting and auditing practice of Howard, Wershale & Company was designed to meet the requirements of the quality control standards for an accounting and auditing practice established by the AICPA. The report further stated that Howard, Wershale & Company complied with the system during the year then ended, providing the firm with reasonable assurance of conforming with professional standards. The peer review report identified no deficiencies.

**RESULTS OF THE HOWARD,
WERSHBALE & COMPANY AUDIT
OF THE GRC EXCHANGE
FOR FY 2007**

Howard, Wershbale & Company Audit Report

Howard, Wershbale & Company issued its December 11, 2007, report on the audit of the GRC Exchange's balance sheet as of September 30, 2007, and the related statements of income and equity and cash flows for the year then ended, to the GRC Exchange Council. Howard, Wershbale & Company reported that it had performed the audit in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in "Government Auditing Standards," issued by the Comptroller General of the United States. It further stated that the financial statements presented fairly, in all material respects, the financial position of the GRC Exchange as of September 30, 2007, and the results of its operations and its cash flows for the year then ended.

Howard, Wershbale & Company Report on Internal Control and Compliance and Other Matters

Howard, Wershbale & Company's "Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards," December 11, 2007, stated that Howard, Wershbale & Company did not identify any deficiencies in internal control over financial reporting considered to be material weaknesses and did not identify any instances of noncompliance or other matters required to be reported under GAGAS. The report noted that Howard, Wershbale & Company reported certain other matters to GRC Exchange management in a separate letter, dated December 11, 2007. That letter identified deficiencies in internal control relating to the lack of segregation of duties for the store manager and suggested that the GRC Exchange consider strengthening its controls over the Exchange store.

MANAGEMENT COMMENTS


Howard, Wershale & Co.
CPAs & Advisors

October 20, 2008

Ms. Evelyn R. Klemstine
Assistant Inspector General for Auditing
Office of Inspector General
Washington DC, 20546-0001

Re: Quality Control Review of the Glenn Research Center Exchange Financial Statements for the fiscal year ended September 30, 2007

Dear Ms. Klemstine:

This letter is our response to your draft report of the above-mentioned review. We have addressed each of the findings listed in your draft review report dated September 19, 2008. Our responses are as follows:

Finding A – CPE Credits Not Adequately Supported

The firm monitors Continuing Professional Education (CPE) through its time and billing system and through an annual review by the Principal in charge of CPE. Our records clearly indicate compliance with the CPE regulations. Each individual professional is responsible for maintaining their own CPE documentation. We believe our policy in this area is adequate, however for personnel involved in audits performed in accordance with Governmental Audit Standards we will maintain certificates of completion provided by the CPE provider.

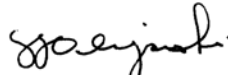
Finding B – Fieldwork Not Adequately Documented

We feel our audit procedures were adequate given the materiality of the commissions income. Many of the procedures related to the verification of this contractor's income would not be cost-effective or would be impossible to perform. In our opinion, it is the responsibility of the management of Glenn Research Center Exchange to verify commissions income received is reasonable and in accordance with contract provisions. We will expand our procedures to include confirmation of the commissions income with the contractor and review any documentation received by Glenn Research Center Exchange to verify the commissions received. Also, we will compare the income to the contractual terms and to prior years and any budgeted amounts.

Please contact me directly with any further questions regarding these matters.

Sincerely,

HOWARD, WERSHBALE & CO.



Stanley J Olejarski, CPA
Principal

Service
&
Solutions

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REPORT DISTRIBUTION

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Major Contributors to the Report:
Mark Jenson, Director, Financial Statement Audits
David Gandrud, Project Manager
Bobbie Wells, Auditor



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COMMENTS ON THIS REPORT

In order to help us improve the quality of our products, if you wish to comment on the quality or usefulness of this report, please send your comments to Ms. Jacqueline White, Director of Special Projects and Quality Assurance, at Jacqueline.White@nasa.gov or call 202-358-0203.

SUGGESTIONS FOR FUTURE AUDITS

To suggest ideas for or to request future audits, contact the Assistant Inspector General for Auditing. Ideas and requests can also be mailed to:

Assistant Inspector General for Auditing
NASA Headquarters
Washington, DC 20546-0001

NASA HOTLINE

To report fraud, waste, abuse, or mismanagement, contact the NASA OIG Hotline at 800-424-9183 or 800-535-8134 (TDD). You may also write to the NASA Inspector General, P.O. Box 23089, L'Enfant Plaza Station, Washington, DC 20026, or use <http://oig.nasa.gov/hotline.html#form>. The identity of each writer and caller can be kept confidential, upon request, to the extent permitted by law.