National Aeronautics and Space Administration

Office of Inspector General
Washington, DC 20546-0001

November 13, 2009

TO: Administrator
Chief Financial Officer

FROM: Acting Inspector General

SUBJECT: Audit of the National Aeronautics and Space Administration's Fiscal Year 2009 Financial Statements (Report No. IG-10-002; Assignment No. A-09-006-00)

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 public accounting firm Ernst & Young LLP (E&Y) to audit NASA's financial statements in accordance with the Government Accountability Office's "Government Auditing Standards" and the 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, 2009 and 2008. While the Agency made significant progress in improving its financial processes and systems, the disclaimer resulted from continued weaknesses in internal controls over accounting for legacy property, plant, and equipment (PP&E).

The E&Y "Report on Internal Control" (Enclosure 2) identifies three significant deficiencies, with one considered a material weakness. A material weakness was found in NASA's controls for assuring that property, plant, and equipment and materials are presented fairly in the financial statements. The two significant deficiencies involve NASA's (1) process for estimating environmental liabilities and (2) compliance with the Federal Financial Management Improvement Act of 1996 (FFMIA). E&Y's report contains specific recommendations that are intended to help the Agency in remediating all three deficiencies during FY 2010.

The E&Y "Report on Compliance with Laws and Regulations" (Enclosure 3) identifies certain instances where NASA's financial management systems did not substantially comply with the requirements of FFMIA. Specific issues include information technology controls over the financial systems and the integration of the real property system with the Core Financial module.

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, while still ongoing, disclosed no instances where E&Y did not comply, in all material respects, with the Government Accountability Office's "Government Auditing Standards."

We hope that you find the reports useful. Please contact me if you have questions.

signed

Thomas J. Howard

3 Enclosures