National Aeronautics and
Space Administration

Office of Inspector General
Washington, DC 20546-0001

JAN 10 2005

Ms. Leslie A. Berardo, Principal
Mir·Fox & Rodriguez, P.C.
One Riverway, Suite 1900
Houston, TX 77056

Re: Final Report on the Quality Control Review of the Mir·Fox & Rodriguez, P.C., Audit of Lyndon B. Johnson Space Center Exchange Financial Statements for the Fiscal Year Ended September 30, 2003
Report No. IG-05-005

Dear Ms. Berardo:

Enclosed is the subject final report. Please refer to the Executive Summary for the overall results. Our evaluation of your response is incorporated into the body of the report. We consider the corrective actions taken sufficient to close the recommendations. No further action is required. The final report distribution is in Appendix F. **The report will be publicly available**.

We appreciate the courtesies extended to the audit staff. If you have questions concerning the report please contact Mr. Karl M. Allen, Project Manager, Financial and Institutional Management, at (202) 358-2595; or Mr. Bret J. Skalsky, Auditor, at (281) 244-1156.

Sincerely,

Evelyn R. Klemstine
Assistant Inspector General for Auditing

Enclosure

QUALITY CONTROL REVIEW REPORT IG-05-005

Report Recipients:
HQ/Office of Institutions & Management, Infrastructure, Management, and Headquarters Operations, Director Management Systems Division,
JSC/Audit Liaison Representative

MIR·FOX & RODRIGUEZ, P.C., AUDIT OF LYNDON B. JOHNSON SPACE CENTER EXCHANGE FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2003

January 10, 2005

cc:
HQ/Space Operations, Audit Liaison Representative
HQ/Office of Institutions & Management, Infrastructure, Management, and Headquarters Operations, Logistics Management Office, Director
JSC/Director
JSC/Johnson Exchange, Exchange Operations Manager
JSC/Johnson Exchange, Chairman
JSC/Legal Office

National Aeronautics and Space Administration

OFFICE OF INSPECTOR GENERAL

Released by: Evelyn R. Klemstine

Evelyn R. Klemstine, Assistant Inspector General for Auditing

IG-05-005
A-04-028-00

January 10, 2005

Mir·Fox & Rodriguez, P.C., Audit of Lyndon B. Johnson Space Center Exchange Financial Statements for the Fiscal Year Ended September 30, 2003

Executive Summary

The Inspector General Act of 1978, as amended, mandates that the Inspectors General ensure work performed for the Federal Government by non-Federal auditors complies with generally accepted government auditing standards (GAGAS) issued by the Comptroller General of the United States. GAGAS incorporates the generally accepted auditing standards (GAAS) of the American Institute of Certified Public Accountants (AICPA) for field work and reporting. As part of our continuing oversight of non-Federal audit work at NASA Exchanges, we reviewed the Mir·Fox & Rodriguez, P.C., (Mir·Fox & Rodriguez) audit of the Lyndon B. Johnson Space Center (Johnson) Exchange financial statements for the fiscal year (FY) ended September 30, 2003. We performed our review to determine whether the audit work was performed in accordance with GAGAS.

Mir·Fox & Rodriguez issued an unqualified opinion on the audit of the Johnson Exchange financial statements for FY 2003. In performing our quality control review of Mir·Fox & Rodriguez, we found that controls were generally in place for ensuring compliance with applicable auditing standards. However, we identified four instances where the audit work of Mir·Fox & Rodriguez did not completely comply with applicable auditing standards for the audit of the Johnson Exchange financial statements for FY 2003. Specifically, we found that Mir·Fox & Rodriguez did not:

- take all necessary steps to ensure the independence of its staff in accordance with GAGAS;
- monitor continuing professional education (CPE) requirements for ensuring compliance with GAGAS CPE and quality control requirements;
- require that the Johnson Exchange state, in its management representation letter, that it had not violated any laws or regulations whose effects should be considered for disclosure in the financial statements; and
- request that the Johnson Exchange send a letter of inquiry to lawyers with whom management has consulted concerning litigation, claims, and assessments.

Mir Fox & Rodriguez took action responsive to our recommendations. All recommendations are now closed.

Findings and Recommendations

Affidavit of Independence Did Not Include GAGAS Independence Requirement

Mir·Fox & Rodriguez identified in its Independent Auditors' Report that the audit was conducted in accordance with GAGAS. However, during the annual completion of their Affidavit of Independence, the staff of Mir·Fox & Rodriguez identified compliance with AICPA standards but did not identify compliance with GAGAS. Mir·Fox & Rodriguez stated that it did not include the GAGAS requirement for independence in the Affidavit because the requirement is similar to the AICPA general standard and therefore not necessary. However, GAGAS has its own independence standard, which states "In all matters relating to the audit work, the audit organization and the individual auditor, whether government or public, should be free both in fact and appearance from personal, external, and organizational impairments to independence." That requirement is different from the AICPA standard, which states, "In all matters relating to the assignment, an independence in mental attitude is to be maintained by the auditor or auditors." During our review, Mir·Fox & Rodriguez revised its Affidavit of Independence form used for identifying independence to comply with GAGAS.

System Not Established to Monitor Compliance With GAGAS Continuing Professional Education and Quality Control Requirements

GAGAS requires that the staff assigned to perform the audit should complete, every 2 years, at least 80 hours of CPE that directly enhance the auditor's professional proficiency to perform audits. At least 24 of the 80 hours of CPE should be in subjects directly related to government auditing, the government environment, or the specific or unique environment in which the audited entity operates. Furthermore, the GAGAS general standard for quality control and assurance, which includes monitoring CPE, states that each audit organization performing audits in accordance with GAGAS should have an appropriate internal quality control system in place.

Mir·Fox & Rodriguez did not have a process in place to ensure compliance with the GAGAS CPE requirement. Rather than GAGAS 2-year standards, the firm tracked CPE requirements following AICPA professional standards for CPEs, which require an independent evaluation once every 3 years. As a result, Mir·Fox & Rodriguez could not readily determine if its staff met the GAGAS 2-year/80-hour CPE requirement and incurred a risk of being in noncompliance with GAGAS. Our examination of the firm's available CPE records did not identify any discrepancies, although the lack of a process for tracking CPE as the GAGAS standards require created a risk that Mir·Fox & Rodriguez may not meet GAGAS CPE standards for future audits.

Management Representation Letter Did Not Identify if Laws or Regulations Were Violated

The Johnson Exchange did not state in its management representation letter to Mir·Fox & Rodriguez that it had not violated any laws or regulations. Mir Fox & Rodriguez

personnel stated that this was a result of an inadvertent omission. AICPA field work standards require that written representations from management should be obtained for all financial statements and periods covered by the audit report and should identify information about violations or possible violations of laws or regulations whose effects should be considered for disclosure in the financial statements.

Inquiry Not Made Concerning Litigation, Claims, and Assessments

Mir·Fox & Rodriguez did not request that the Operations Manager for the Johnson Exchange send a letter of inquiry to lawyers with whom management consulted concerning litigation, claims, and assessments against the Johnson Exchange. AICPA field work standards state that the auditor should request that the client's management send a letter of inquiry to those lawyers with whom management consulted concerning litigation, claims, and assessments. The lawyers' responses along with audit procedures specified in the AICPA field work standards provide evidence concerning the accounting for and reporting of pending and threatened legal actions. In addition, a letter of audit inquiry to the client's lawyer is the auditor's primary means of obtaining corroboration of the information furnished by management concerning litigation, claims, and assessments. Mir·Fox & Rodriguez officials stated that they did not initiate an inquiry because they did not expect that the Johnson Legal Office would respond to such an inquiry.

Recommendations for Corrective Action, Management's Response, and Evaluation of Management's Response

1. **Mir·Fox & Rodriguez should complete independence certifications for the audit of the Johnson Exchange financial statements for FY 2003 to confirm that the staff members who performed work were in compliance with GAGAS independence standards.**

Management's Response. Concur. Mir·Fox & Rodriguez revised its Affidavit of Independence form to comply with requirements under GAGAS. In addition, Mir·Fox & Rodriguez employees were in compliance with GAGAS independence requirements for the audit of the Johnson Exchange financial statements for the fiscal year ended September 30, 2003.

Evaluation of Management's Response. Mir·Fox & Rodriguez's action is responsive to the recommendation, and the recommendation is closed.

2. **Mir·Fox & Rodriguez should develop a system of tracking and monitoring CPE to ensure compliance with GAGAS CPE and quality control requirements.**

Management's Response. Concur. Mir·Fox & Rodriguez established a process for monitoring CPE that will ensure compliance with GAGAS CPE and quality control requirements. In addition to having conducted several training courses, Mir·Fox &

Rodriguez developed and now uses a report that verifies staff compliance with CPE requirements.

Evaluation of Management's Response. Mir·Fox & Rodriguez's action is responsive to the recommendation, and the recommendation is closed.

3. **Mir·Fox & Rodriguez should evaluate the impact that the management representation letter for the Johnson Exchange financial statements audit for FY 2003 did not contain the required management representation that no laws or regulations were violated. If the representation is identified as necessary, have the Johnson Exchange complete a new management representation letter that includes the omitted representation.**

Management's Response. Concur. Mir·Fox & Rodriguez evaluated the impact and concluded that no laws and regulations were violated. As such, no reason exists for the Johnson Exchange to complete a new management representation letter. Future management representation letters will include a reference to compliance with laws and regulations.

Evaluation of Management's Response. Mir·Fox & Rodriguez's action is responsive to the recommendation, and the recommendation is closed.

4. **Mir·Fox & Rodriguez should request the Operations Manager for the Johnson Exchange to send a letter of inquiry to lawyers with whom management has consulted concerning litigation, claims, and assessments; evaluate the response and apply other procedures as necessary; and determine any impact on the FY 2003 financial statement audit.**

Management's Response. Concur. Mir·Fox & Rodriguez sent a letter of inquiry regarding any litigation, claims, and assessments related to the Johnson Exchange, to the Johnson Legal Office. The Johnson Deputy Chief Counsel responded that during FY 2003 the Johnson Exchange was not involved in any pending or threatened litigation, claims, and assessments in any amount.

Evaluation of Management's Response. Mir·Fox & Rodriguez's action is responsive to the recommendation, and the recommendation is closed.

Appendixes

Among the appendixes, note that Appendix B contains objectives, background, scope, and methodology requirements related to the quality control review of the Johnson Exchange; Appendix C contains regulations, policies, and guidance used for the audit of the NASA Exchange; Appendix D contains the audit scope and results from Mir·Fox & Rodriguez's audit of the Johnson Exchange financial statements; Appendix E contains management's response to this report in its entirety; and Appendix F contains the final report distribution.

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Appendix F - Report Distribution

Acronyms Used in this Report

AICPA	American Institute of Certified Public Accountants
CPE	Continuing Professional Education
FY	Fiscal Year
GAAP	Generally Accepted Accounting Principles
GAAS	Generally Accepted Auditing Standards
GAGAS	Generally Accepted Government Auditing Standards
OIG	Office of Inspector General

Appendix A. Status of Recommendations

Recommendation No.	Resolved	Unresolved	Open/ECD*	Closed
1	Yes			10/5/2004
2	Yes			10/5/2004
3	Yes			10/5/2004
4	Yes			10/18/2004

*ECD - Estimated Completion Date.

Appendix B. Objectives, Background, Scope, and Methodology

Objectives

The quality control review objective was to determine whether the Mir·Fox & Rodriguez, P.C., (Mir·Fox & Rodriguez) audit of the Lyndon B. Johnson Space Center (Johnson) Exchange financial statements for the fiscal year (FY) ended September 30, 2003, was performed in accordance with generally accepted government auditing standards (GAGAS) issued by the Comptroller General of the United States. GAGAS incorporates the generally accepted auditing standards (GAAS) of the American Institute of Certified Public Accountants (AICPA) for field work and reporting.

Background

The Johnson Exchange retained Mir·Fox & Rodriguez, a public accounting firm licensed to practice in the state of Texas, to perform the audit of the Johnson Exchange financial statements for FY 2003. The Exchange is operated as a Government instrumentality and is entitled to all the immunities and privileges normally associated with a Government instrumentality. The Exchange engages in several activities to accomplish its mission. The Exchange operates and generates revenues from two cafeterias, two exchange stores, and a recreation center. For the FY ending September 30, 2003, the Exchange reported a cash and cash equivalents balance of $1,121,465, operating income of $38,829, and total other income of $60,103.

Scope and Methodology

In performing the quality control review, we used an internal work program that incorporated the auditing standards issued by the Comptroller General of the United States and the AICPA. Based on those standards, we developed and organized the work program according to the general, field work, and reporting standards for financial audits. Our review focused on the auditors' qualifications, independence, peer review report, audit programs for appropriate procedures, and working paper documentation to include the results of the control risk assessment, fraud risk assessment, and controls testing. We also assessed prior year findings addressed in a management letter and followup on those corrective actions taken by the Johnson Exchange Council to implement the auditors' recommendations.

To determine whether Mir·Fox & Rodriguez had established and implemented an adequate quality control system, we reviewed the October 10, 2001, report on the most recent peer review of the audit firm performed by McElroy, Quirk & Burch, P.C. A peer review is a certified public accounting firm's review of another certified public accounting firm's compliance with its quality control system. The purpose of a peer review is to determine and report whether a certified public accounting firm developed adequate policies and procedures of quality control and complied with them in

performing accounting and auditing services for clients. McElroy, Quirk & Burch, P.C., performed a peer review of the system of quality control for the accounting and auditing practice of Mir·Fox & Rodriguez, in effect for the year ended June 30, 2001. McElroy, Quirk & Burch, P.C., found that the system had "been designed to meet the requirements of the quality control standards for an accounting and auditing practice established by the AICPA and was complied with during the year then ended to provide the firm with reasonable assurance of conforming with professional standards."

Review

We performed the quality control review from March through June 2004. A discussion draft report was issued on July 27, 2004, requesting management's informal comments. A draft report was issued on September 2, 2004. Management submitted its formal response, took corrective action, and satisfactorily addressed all recommendations by October 5, 2004.

Appendix C. Criteria Applicable to Audits of NASA Exchanges

Generally accepted government auditing standards (GAGAS) are broad statements of auditors' responsibilities, as set forth and established by the Comptroller General of the United States. The standards apply to audits of government organizations, programs, activities, and functions. They prescribe general standards (includes independence, professional judgment, competence, quality control, and assurance requirements), field work standards, and reporting standards. GAGAS incorporates the generally accepted auditing standards (GAAS) of the American Institute of Certified Public Accountants (AICPA) for field work and reporting. The AICPA general standards are not incorporated into GAGAS.

The GAGAS general standard related to independence states that in all matters relating to the audit work, the audit organization and the individual auditor, whether government or public, should be free both in fact and appearance from personal, external, and organizational impairments to independence. The AICPA general standard for independence states that in all matters relating to the assignment, an independence in mental attitude is to be maintained by the auditor or auditors.

The GAGAS general standard for competence, which includes continuing professional education (CPE) requirements, states that the staff assigned to perform the audit should collectively possess adequate professional competence for the tasks required. In addition, each auditor performing work under GAGAS should complete, every 2 years, at least 80 hours of CPE that directly enhance the auditor's professional proficiency to perform audits. At least 24 of the 80 hours of CPE should be in subjects directly related to government auditing, the government environment, or the specific or unique environment in which the audited entity operates. At least 20 hours of the 80 should be completed in any 1 year of the 2-year period. Furthermore, the GAGAS general standard for quality control and assurance, which includes monitoring CPE, states that each audit organization performing audits in accordance with GAGAS should have an appropriate internal quality control system in place.

The AICPA professional standards for performing and reporting on peer reviews state that firms in the AICPA peer review program have an independent peer review of their accounting and auditing practices at least once every 3 years. The peer review program is based on the principle that a systematic monitoring and education process is the most effective way to attain high-quality performance through the profession. A firm that has been reviewed is expected to take appropriate actions in response to deficiencies. Disciplinary actions are taken only for a failure to cooperate or for deficiencies that are so serious that remedial or corrective actions are not suitable.

Appendix C

AICPA field work standards require, as a part of an audit of financial statements, that an independent auditor obtain written representations from management. In addition, AICPA provides guidance on the representations to be obtained and disclosed. Management representation letters should identify information about violations or possible violations of laws or regulations whose effects should be considered for disclosure in the financial statements. In addition, AICPA acknowledges that auditors ordinarily do not possess legal skills and, therefore, cannot make legal judgments concerning information coming to his/her attention. Accordingly, the auditor should request that the client's management send a letter of inquiry to those lawyers with whom management consulted concerning litigation, claims, and assessments.

Appendix D. Mir·Fox & Rodriguez, P.C., Audit of the Lyndon B. Johnson Space Center Exchange Financial Statements

Audit Scope. Mir·Fox & Rodriguez, P.C., (Mir·Fox & Rodriguez) conducted the audit of the Lyndon B. Johnson Space Center (Johnson) Exchange financial statements for the fiscal year (FY) ended September 30, 2003, in accordance with generally accepted government auditing standards (GAGAS), reported on internal controls and compliance with laws and regulations, and opined on the fair presentation of the financial statements.

Audit Results. In its audit report dated November 17, 2003, Mir·Fox & Rodriguez rendered an unqualified opinion on the Johnson Exchange FY 2003 Statements of Financial Position, Statements of Activities, and Statements of Cash Flows. An unqualified opinion means that the auditors determined that the financial statements present fairly the organization's financial position, activities, and cash flows in conformity with generally accepted accounting principles (GAAP). GAAP is a technical accounting term that encompasses the conventions, rules, and procedures necessary to define accepted accounting practice at a particular time. It includes not only broad guidelines of general application, but also detailed practices and procedures. Those conventions, rules, and procedures provide a standard by which to measure financial presentations.

Recommendations. No matters were identified relating to compliance with certain provisions of laws, regulations, contracts and grants, or other matters involving internal control over financial reporting which would have been reported to the Johnson Exchange management.

Mir&Fox
Rodriguez, P.C.
Certified Public Accountants

October 5, 2004

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

Re: Mir·Fox & Rodriguez, P.C., Audit of Lyndon B. Johnson Space Center Exchange Financial Statements for the Fiscal Year Ended September 30, 2003
Assignment Number A-04-028-00

This letter is in reference to the Office of Inspector General, National Aeronautics and Space Administration (NASA) quality control review of the Mir·Fox & Rodriguez, P.C. (MFRPC), audit of the NASA Exchange – Lyndon B. Johnson Space Center (JSC) financial statements for the fiscal year ended September 30, 2003. Regarding the recommendations of the above stated audit, our responses are summarized as follows:

1. Steps to Ensure Auditor Independence

   Mir·Fox & Rodriguez, P.C. concurs with the recommendation. MFRPC revised its Affidavit of Independence form to comply with requirements under generally accepted government auditing standards (GAGAS). In addition, MFRPC and all of its employees were in compliance with GAGAS independence requirements for the audit of Johnson Exchange's financial statements for the fiscal year ended September 30, 2003.

2. System Not Established to Ensure Compliance with GAGAS Continuing Professional Education and Quality Control Requirements

   Mir·Fox & Rodriguez, P.C. concurs with the recommendation. MFRPC has established a system for monitoring CPE to ensure compliance with GAGAS CPE and quality control requirements.

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Houston, TX 77056
Off. (713) 622-1120
Fax (713) 961-0625

3. Management Representation Letter Obtained From the Johnson Exchange Did Not Identify if Laws or Regulations Were Violated

   Mir•Fox & Rodriguez, P.C. concurs with the recommendation. MFRPC evaluated the impact of not including this representation in the fiscal year 2003 management representation letter concluding that no laws and regulations were violated in 2003 as such not requesting Johnson Exchange to complete a new management representation letter for 2003 but will include a reference to compliance with laws and regulations on future management representation letters.

4. Inquiry Not Made Concerning Litigation, Claims, and Assessments

   Mir•Fox & Rodriguez, P.C. concurs with the recommendation. MFRPC has sent a letter of inquiry letter regarding any litigation, claims and assessment as it relates to JSC to the Johnson Legal Office. In addition, MFRPC will send an inquiry letter regarding any litigation, claims and assessment as it relates to JSC to any lawyers with whom management has consulted.

If you have any questions concerning this letter, please contact me at (713) 353-8216.

Very truly yours,

Mir•Fox & Rodriguez, P.C.

Juan M. Padilla
Principal

JMP/mb

Appendix F. Report Distribution

Independent Audit Firm

Mr. Juan M. Padilla, Principal
Mir·Fox & Rodriguez, P.C.
One Riverway, Suite 1900
Houston, TX 77056

National Aeronautics and Space Administration (NASA) Headquarters

Chief Financial Officer
General Counsel
Assistant Administrator for Legislative Affairs
Audit Liaison Representative, Space Operations Directorate
Director Management Systems Division, Office of Infrastructure, Management, and Headquarters Operations
Audit Liaison Representative, Management Systems Division, Office of Infrastructure, Management, and Headquarters Operations
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JSC/Johnson Exchange, Exchange Operations Manager
JSC/Audit Liaison Representative

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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 Mr. Lee T. Ball, Director, Quality Control Division, at Lee.T.Ball@nasa.gov or call (757) 864-3269.

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, (800) 535-8134 (TDD), or at www.hq.nasa.gov/office/oig/hq/hotline.html#form; or write to the NASA Inspector General, P.O. Box 23089, L'Enfant Plaza Station, Washington, DC 20026. The identity of each writer and caller can be kept confidential, upon request, to the extent permitted by law.

Major Contributors to the Report

David L. Gandrud, Acting Director, Financial and Institutional Management Directorate

Karl M. Allen, Project Manager

Sandra L. Laccheo, Team Lead

Bret J. Skalsky, Auditor