



Office of Inspector General
Washington, DC 20546-0001

June 30, 2010

MFR, P.C.
Attn: Mr. Juan Padilla, Principal
One Riverway, Suite 1900
Houston, TX 77059

NASA Exchange Council – Lyndon B. Johnson Space Center
Attn: Ms. Natalie Saiz, Chair
2101 NASA Road 1
Houston, TX 77058-3696

SUBJECT: Initial Review of the MFR, P.C. Audit of the Johnson Space Center Exchange
Financial Statements for the Fiscal Year Ended September 30, 2009
(Report No. ML-10-006; Assignment No. D-10-003-00)

Dear Mr. Padilla and Ms. Saiz:

As part of our continuing oversight of the work performed by non-Federal auditors with respect to NASA, we performed an initial review of the MFR, P.C. audit report of the NASA Exchange – Lyndon B. Johnson Space Center’s (JSC Exchange) financial statements for the fiscal year ended September 30, 2009. 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 initial review was to determine whether MFR, P.C.’s audit report met reporting standards of the Government Accountability Office’s *Government Auditing Standards*, 2007 Revision, issued by the Comptroller General of the United States. We also reviewed the presentation of the financial statements in accordance with the Exchange’s elected basis of presentation. We used a portion of Section 20,600, *Not-for-Profit Audit Engagement Checklist*, published by the American Institute of Certified Public Accountants, to determine whether the financial statements and notes contained the appropriate elements and disclosures. We did not examine the related audit documentation to evaluate the adequacy of the audit work performed.

Based on our review of the reporting package for the fiscal year ended September 30, 2009, we determined that the audit report substantially met the reporting standards of the Government

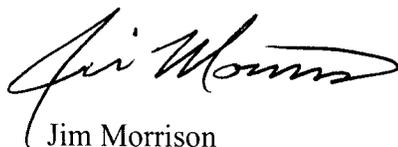
Accountability Office's *Government Auditing Standards* with the following exception:

Non-compliance with the Department of the Treasury's Treasury Financial Manual (TFM) in regards to Securing Public Monies.¹ The notes to the financial statements disclosed that the JSC Exchange held approximately \$899,000 of cash on deposit with several financial institutions; however, several of those balances exceeded the Federal Deposit Insurance Corporation insurance limit. The TFM, Volume 1, Part 6, Section 9040, "Securing Agency Accounts," provides that "all public money deposited in a depository should be secured at all times" and when the deposits of public money exceed the deposit insurance limit, the agency must request that the depository pledge eligible collateral to secure the uninsured amount.

We will accept the report on the condition that the JSC Exchange request that its depositories pledge eligible collateral to secure the uninsured amount of the cash deposits or separate the cash deposits to more depositories to ensure cash balances are within the recognized deposit insurance limit.

If you or your staff would like to meet with us to further discuss this review, please contact Mr. Mark Jenson, Financial Management Director, at 202-358-0629 or via email at mark.jenson@nasa.gov.

Sincerely,



Jim Morrison
Assistant Inspector General for Audits

cc: Dot Swanson
Treasurer, NASA Exchange Council – Lyndon B. Johnson Space Center

Brenda Schmalz
Sincerely, Deputy Exchange Operations Manager – Lyndon B. Johnson Space Center

Susan Kinney
Director, Logistics Management Division, Office of Strategic Infrastructure

¹ TFM, Section 9010, states that public money includes "revenue and funds of the United States and any funds the deposit of which is subject to the control or regulation of the United States or any of its officers, agents or employees." Section 9020 states: "A financial institution is defined as any bank, savings bank, savings and loan association, credit union, or similar institution. Financial institutions may be designated as depositories."