

National Aeronautics and  
Space Administration



**Office of Inspector General**  
Washington, DC 20546-0001

September 10, 2010

Mr. Jeffrey Ira, Partner  
C.G. Uhlenberg, LLP  
333 Twin Dolphin Drive, Suite 230  
Redwood City, California 94065

Mr. Roy Williams, Chair  
NASA Exchange Council – Ames Research Center  
Ames Research Center  
Mail Stop 158-1  
Moffett Field, California 94035

**SUBJECT:** Initial Review of C.G. Uhlenberg LLP Audit Report on the NASA Ames  
Exchange for the Fiscal Year Ended September 30, 2009  
(Report No. ML-10-008; Assignment No. D-10-005-00)

Dear Mr. Ira and Mr. Williams:

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 C.G. Uhlenberg LLP audit report of the NASA Exchange – Ames Research Center's (Ames 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 of the United States.

Our initial review was to determine whether C.G. Uhlenberg LLP's audit report met reporting standards of the Government Accountability Office's *Government Auditing Standards*, 2007 Revision, issued by the Comptroller General. 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*. However, we noted the following

exceptions that should be considered by the Ames Exchange and C.G. Uhlenberg LLP regarding compliance with a Federal regulation and the presentation of the financial statements.

Noncompliance with the Department of the Treasury’s Treasury Financial Manual (TFM) in regards to Securing Public Monies.<sup>1</sup> The notes to the financial statements disclosed that the Ames Exchange held \$1,339,786 of cash on deposit with one financial institution; however, the balance exceeded the Federal insurance limit of \$250,000. 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. In addition, the notes to the financial statements disclosed that the Ames Exchange maintains its cash balance in a credit union covered by the Federal Deposit Insurance Corporation (FDIC). Because the depository is a credit union, the National Credit Union Administration and not the FDIC insures the funds.

We will accept the current report on the condition that the Ames Exchange requests that its depository 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. Additionally, the Ames Exchange should ensure that the notes to future financial statements disclose that the funds are insured by the appropriate Federal agency.

Improper Tax Exempt Citation. The notes to the financial statements disclosed that the Ames Exchange is a not-for-profit U.S. Government instrumentality and as such is exempt from Federal and state taxes under Internal Revenue Code Section 501(c)(1) (26 U.S.C. § 501[c][1]) and the California Revenue and Taxation Code Section 23701(d). However, a February 6, 1973, ruling by the Internal Revenue Service concluded that the NASA Employees Club (i.e., the NASA Exchange) was a wholly owned instrumentality of NASA (i.e., a subdivision of the U.S. Government) and, accordingly, was not subject to Federal income tax. Further, that ruling terminated a previous ruling dated November 9, 1971, which identified the NASA Employees Club as exempt from Federal income tax as an organization described in Internal Revenue Code Section 501(c)(4).

We will accept the current report on the condition that the Ames Exchange ensures that the notes to future financial statements disclose that they are an instrumentality of the U.S. Government only, not an organization exempt from Federal income tax under the Internal Revenue Code.

“High Quality” Classification of the Financial Institution Used by the Exchange Is Questionable. The notes to the financial statements disclosed that the Ames Exchange maintains deposits in excess of federally insured limits at one credit union. However, as the note continued to state, this concentration of credit risk is managed by maintaining all deposits in “high quality” financial institutions. Because the credit union was named in the notes to the financial statements, we attempted to research the quality of the credit union at [Bankrate.com](http://Bankrate.com). According to the Web site, [Bankrate.com](http://Bankrate.com) uses a proprietary credit union rating model that analyzes

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<sup>1</sup> 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.”

capitalization, asset quality, earnings, and liquidity to produce composite and component ratings that can be used as a measure of the rated entity's financial safety and soundness. The Ames Exchange's credit union received a rating in a report dated March 31, 2010, indicating that it was performing below its peer group. Therefore, based on this research, we question whether it is fair to state that the credit union is a high quality financial institution.

We will accept the current report on the condition that the Ames Exchange ensures that the notes to future financial statements fairly characterize the quality of its financial institutions when describing how credit risk is managed.

If you or your staff would like to meet with us to further discuss this review, please contact Mark Jenson, Financial Management Director, at 202-358-0629 or [mark.jenson@nasa.gov](mailto:mark.jenson@nasa.gov).

Sincerely,

A handwritten signature in black ink that reads "Jim Morrison". The signature is written in a cursive, flowing style.

Jim Morrison  
Assistant Inspector General for Audits

cc: James Brass  
Treasurer, NASA Exchange Council – Ames Research Center

Janet Carson  
Exchange Operations Manager – Ames Research Center

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