November 15, 2010

TO: Charles F. Bolden, Jr.
Administrator

Elizabeth Robinson
Chief Financial Officer

FROM: Paul K. Martin
Inspector General

SUBJECT: Audit of the National Aeronautics and Space Administration’s Fiscal Year 2010 Financial Statements (Report No. IG-11-006; Assignment No. A-10-005-00)


The audit resulted in a qualified opinion on NASA’s fiscal year (FY) 2010 financial statements (Enclosure 1) due to the valuation of property, plant, and equipment (PP&E) and materials in prior years and the possible effects to the current year statements of net cost and changes in net position. A qualified opinion means that except for the effects of the matter to which the qualification relates, the financial statements present fairly, in all material respects, the financial position and the results of the entity’s operations in conformity with U.S. generally accepted accounting principles. The results of the FY 2010 audit were a notable improvement over FY 2009 when the Agency received a disclaimer of opinion due to continued weaknesses in internal controls over accounting for legacy PP&E.

EY also issued its reports on internal control and compliance with laws and regulations (Enclosures 2 and 3, respectively). For FY 2010, EY identified two significant deficiencies in financial reporting internal controls involving NASA’s (1) controls over PP&E records maintained by contractors and (2) process for estimating environmental remediation costs. While the Agency has made significant progress addressing PP&E issues relating to the valuation and completeness of legacy assets, internal controls can still be enhanced for property managed by contractors and with respect to the Agency’s potential environmental liabilities. During the audit, EY identified no instances of significant noncompliance with applicable laws and regulations.
In fulfilling our responsibilities under the Chief Financial Officers Act of 1990, we monitored the progress of the audit, reviewed EY’s reports and related documentation, inquired of its representatives, and ensured that EY 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, the Federal Financial Management Improvement Act of 1996.

EY is responsible for each of the enclosed reports and the conclusions expressed therein. Our review, while still ongoing, disclosed no instances where EY did not comply in all material respects with the Government Accountability Office’s Government Auditing Standards.

Please contact us if you have any questions about the enclosed reports.

3 Enclosures
Report of Independent Auditors

To the Administrator and the Inspector General
of the National Aeronautics and Space Administration

We have audited the accompanying consolidated balance sheet of the National Aeronautics and Space Administration (NASA) as of September 30, 2010, and the related consolidated statements of net cost and changes in net position and the combined statement of budgetary resources for the fiscal year then ended. We were engaged to audit the consolidated balance sheet of NASA as of September 30, 2009, and the related consolidated statements of net cost and changes in net position and the combined statements of budgetary resources for the fiscal year then ended. These financial statements are the responsibility of NASA’s management. Our responsibility is to express an opinion on these financial statements based on our audits.

Except as discussed in the following paragraph, we conducted our audit in accordance with auditing standards generally accepted in the United States, the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, and Office of Management and Budget (OMB) Bulletin No. 07-04, Audit Requirements for Federal Financial Statements, as amended. Those standards and bulletin require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of NASA’s internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of NASA’s internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

During fiscal year 2009, NASA continued its focused efforts to resolve legacy issues identified in its financial management processes and systems. Although significant progress had been made, internal controls related to the accounting for property, plant and equipment (PP&E) and operating materials and supplies (OM&S) were determined to be ineffective in fiscal year 2009. As a result of these deficiencies in internal control, we were unable to obtain sufficient competent evidential support for the amounts presented in the consolidated balance sheet as of September 30, 2009, and the related consolidated statements of net cost and changes in net position and the combined statements of budgetary resources for the fiscal year then ended.
Furthermore, these scope limitations affected our ability to audit the following amounts in the accompanying FY 2010 consolidated statements of net costs and changes in net position: (i) the beginning balance of cumulative results of operations; (ii) the cumulative effect of a change in accounting principle for OM&S at October 1, 2009; and (iii) depreciation, PP&E and OM&S related amounts arising from fiscal year 2009 and prior activity, which enter into the determination of amounts included in the net cost of operations for fiscal year 2010.

Because of the matters discussed in the preceding paragraph, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on the consolidated balance sheet as of September 30, 2009, and the related consolidated statement of net cost, consolidated statement of changes in net position, and combined statement of budgetary resources for the fiscal year then ended.

In our opinion, the fiscal year 2010 financial statements referred to above present fairly, in all material respects, the financial position of NASA as of September 30, 2010, and its budgetary resources for the year then ended, and except for the effects of such adjustments, if any, on the consolidated net cost of operations and consolidated changes in net position of the matters described above in the third paragraph related to PP&E and OM&S balances, its consolidated net cost and consolidated changes in net position for the year ended September 30, 2010, in conformity with accounting principles generally accepted in the United States.

As discussed in Note 6 to the accompanying financial statements, NASA has elected to change its method of accounting for OM&S from the consumption method to the purchases method as allowed under Statement of Federal Financial Accounting Standards No. 3, Accounting for Inventory and Related Property, as of October 1, 2009.

In accordance with Government Auditing Standards and OMB Bulletin No. 07-04, Audit Requirements for Federal Financial Statements, as amended, we have also issued our reports dated November 15, 2010, on our consideration of NASA’s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, and other matters. The purpose of those reports is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. Those reports are an integral part of an audit performed in accordance with Government Auditing Standards and OMB Bulletin No. 07-04, as amended, and should be considered in assessing the results of our audit.
Our audits were conducted for the purpose of forming an opinion on the 2010 and 2009 basic financial statements taken as a whole. The information presented in Management’s Discussion and Analysis, required supplementary stewardship information, required supplementary information, and other accompanying information, is not a required part of the basic financial statements but is supplementary information required by OMB Circular No. A-136. The other accompanying information has not been subjected to the auditing procedures applied in our audit of the basic financial statements and, accordingly, we express no opinion on it. For the remaining information, we have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

November 15, 2010
McLean, VA
Report on Internal Control Over Financial Reporting Based on an Audit of the Financial Statements Performed in Accordance with Government Auditing Standards

To the Administrator and the Inspector General of the National Aeronautics and Space Administration

We have audited the financial statements of the National Aeronautics and Space Administration (NASA or the Agency) as of and for the year ended September 30, 2010, and have issued our report thereon dated November 15, 2010. That report noted certain matters that resulted in a qualification of our opinion on the consolidated statements of net cost and changes in net position for the year ended September 30, 2010. Except for the matters discussed in the third paragraph of the Report of Independent Auditors, we conducted our audit in accordance with auditing standards generally accepted in the United States; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 07-04, Audit Requirements for Federal Financial Statements, as amended.

In planning and performing our audit, we considered NASA’s internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of NASA’s internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of NASA’s internal control over financial reporting. We limited our internal control testing to those controls necessary to achieve the objectives described in the OMB Bulletin No. 07-04, as amended. We did not test all internal controls relevant to operating objectives as broadly defined by the Federal Managers’ Financial Integrity Act of 1982 (FMFIA), such as those controls relevant to ensuring efficient operations.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity’s financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be deficiencies, significant deficiencies or material weaknesses and, therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. We did not identify any deficiencies in internal control that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described below, that we consider to be significant deficiencies in internal control over financial reporting.
A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies related to Enhancements Needed for Controls over Property, Plant & Equipment Records Maintained by Contractors and Enhancements Needed for Recognition of Environmental Remediation Costs to be significant deficiencies.

**Significant Deficiencies**

**Enhancements Needed for Controls over Property, Plant & Equipment Records Maintained by Contractors (new deficiency)**

Prior-year audit reviews of NASA’s legacy property, plant & equipment (PP&E) identified serious weaknesses in the design of internal controls over the completeness and accuracy of legacy assets, particularly in relation to the International Space Station (ISS) and Space Shuttles, which prevented material misstatements from being detected and corrected in a timely manner by NASA. During FY 2009 and FY 2010, NASA management undertook a systematic process to address the valuation and completeness issues related to the ISS and Space Shuttle assets as well as other PP&E in connection with the release of the Federal Accounting Standards Advisory Board (FASAB) Statement of Federal Financial Accounting Standards (SFFAS) No. 35, *Estimating the Historical Cost of G-PP&E*. This standard permits use of estimate approaches, which substantially improved NASA’s ability to account for these assets in accordance with generally accepted accounting principles (GAAP) in FY 2010. Also assisting in remediation of this finding was that Space Shuttle assets have been fully depreciated in FY 2010 as they have reached the end of their estimated useful lives and this timing reasonably coincides with the Space Shuttle Transition and Retirement program. In addition, NASA reassessed and concluded that certain property classified as operating materials and supplies should be accounted for by the purchases method and not reflected on the NASA balance sheet as an asset. Adoption of changes in the internal control process associated with new contracts implemented in prior years also assisted in resolution of legacy property issues. Notwithstanding this significant progress, internal controls related to PP&E can continue to be enhanced, with particular emphasis on the approaches used to validate property managed by contractors. With many of the most intractable issues resolved through implementation of SFFAS No. 35, the remaining matters merit continued focus.

NASA is heavily dependent on activities at its contractors to recognize assets created at its contractors and the contractors’ reporting of property transactions via the Contractor Held Asset Tracking System (CHATS) and quarterly reporting detail. All NASA contractors have their own procedures and systems for maintaining, valuing, inventorying and accounting for NASA property. Certain contractors report contractor-held property balances maintained on NASA’s
behalf monthly/quarterly via CHATS. These transactions are then recorded in the Asset Accounting module of SAP by NASA to reflect the capitalized balances associated with contracts that have been determined to meet NASA’s capitalization policy. The remaining contractors report their NASA-owned properties annually.

Over the past several years, NASA has developed a suite of overarching detect controls to assist in mitigating the risk of a material financial statement error in the property accounts. An example of these detect controls is the Continuous Monitoring Program conducted by center and agency-level personnel on a routine basis to assist NASA in identifying and correcting errors and discrepancies in a timely manner, as well as confirming that ongoing management reviews and validations of financial data and internal controls are taking place. Another example includes the validation procedures over property amounts reported by the contractors via CHATS as well as a reconciliation of CHATS property balances to those recorded by NASA in the Asset Accounting module of SAP, such that contracts and property deemed by NASA to be research and development are excluded from NASA’s balance sheet. These overarching monitoring controls coupled with agency-wide budgetary controls were established to detect errors of significance to the financial statements. While relatively less direct NASA involvement has been devoted to ensuring that contractor controls are functioning as designed, the broad requirements for contractor property management systems are reflected in contract terms. NASA has some visibility into how individual contractors design and operate their property management systems through the Defense Contract Management Agency (DCMA) reviews and the activities of property administrators, as well as through limited Defense Contract Audit Agency (DCAA) reviews. The timing and scope of these reviews do not always facilitate timely recognition of issues, or provide NASA with a basis of reliance on the procedures absent further efforts by NASA.

Most notable of NASA’s contractor-held related property is the ISS, which at September 30, 2010, represented approximately $6.3 billion or 66% of NASA’s total property balance. The majority of the ISS costs capitalized is derived from one contractor. During the current fiscal year, this contractor reported inaccuracies in its quarterly submissions of data to NASA via CHATS. Specifically, in the second quarter reporting submission, upon delivery of the final ISS components to NASA (the United States On-Orbit Segment), the contractor reported a decrease in its work-in-process, but did not appropriately reflect a corresponding increase in its other property balances as submitted to NASA. NASA management discovered and questioned the contractor regarding these unusual relationships as part of their validation and monitoring process, and elected to not record changes to their property records in the general ledger for the questioned items, pending further review. In the contractor’s third quarter reporting submission, the contractor reported a $1.1 billion adjustment. NASA was unaware of the details and justification for this adjustment at the time of submission. Again, NASA elected to not record changes to their property records pending further review and validation with the contractor. During the fourth quarter, NASA recorded a $644 million adjustment to account for the second
quarter error and NASA management invalidated the $1.1 billion adjustment reported by the contractor in the third quarter. The process NASA used to correct such items validates the effectiveness of some of the financial management review processes to detect errors of financial statement significance. However, identification of a further potential adjustment initially proposed by a contractor late in FY 2010 and ultimately not made, highlights the need for NASA to continue to work with contractors to develop robust controls to prevent errors in the underlying records and the initial submission of data from its contractors, such that items of significance are agreed to by NASA and the contractors prior to submission in CHATS and can be recorded by NASA in a timely manner to facilitate the preparation of quarterly financial statements and other reports.

At our request, NASA performed high-level analytic reviews and then deconstructed FY 2010 property-related activity and critically assessed whether the interrelationships within the recorded amounts comported with management’s understanding of expected results based on the activities executed during the year, which might reasonably have been expected to give rise to accounting entries. This effort, which highlighted a number of anomalies, including previously unexplained variations in depreciation and accumulated depreciation amounts, and differences between estimates of contractor-held property activity reflected in accrual estimates and actual amounts as reflected in subsequent contractor reporting, was useful in correcting misstatements before issuance of the FY 2010 financial statements and in assessing the largely offsetting impacts of differences on prior reported amounts. The interactions with Centers, contractors and property management personnel required to understand the flows reflected were useful in enhancing NASA’s understanding of its recorded amounts and proposed adjustments. These efforts were complicated by NASA processes which do not facilitate identification of net property addition or deletion activity, with transfers between line item classifications, between contractors, and between contractors and the government each recorded in the detail records. Customized reporting is not yet sufficiently refined to facilitate the analysis. Management acknowledges that these overarching analytical techniques are under development, and will be critical aspects of NASA’s ability to report and interpret property-related activities.

**Recommendation**

Based on the significant reliance placed on contractor systems, we suggest that management revisit the extent to which such systems merit improvement in controls and revisit the extent of independent testing performed to assist in reducing the possibility that errors that are other than inconsequential may occur and not be detected by the system of overarching detect controls NASA has put in place.
We recommend that NASA:

1. Continue to enhance its understanding of the design, implementation and functioning of control activities in place at its contractors and assess the extent to which further refinement is needed to assist in preventing errors or their early detection and correction within the contractors.

2. Revisit the extent of evaluation and testing of property-related systems under the OMB Circular No. A-123 process, DCAA activities or potentially other constructs, including assessing the merits of obtaining more timely and comprehensive assurance regarding contractor systems of internal control in light of the significance of the amounts processed in relation to the financial statements and assets of NASA.

3. Develop preventative controls with its contractors on items of significance prior to the contractors’ submissions of property data to NASA. Co-developing thresholds for validation and concurrence prior to the submission process with the contractor is key to the development of an effective control.

4. Continue to refine the PP&E analytic tools developed late in FY 2010 to assist in conducting reasonableness reviews and further assessing the fair presentation of NASA property activity on at least a quarterly basis. This effort should include developing customized reporting tools to access and summarize in readily interpreted formats the information reflected in NASA’s property records.

Enhancements Needed for Recognition of Environmental Remediation Costs (modified repeat deficiency)

NASA’s environmental liability is estimated at $1,041 million as of September 30, 2010, including the estimated environmental cleanup cost associated with PP&E. We noted that the NASA Office of the Chief Financial Officer (OCFO) and the Office of Strategic Infrastructure (OSI) invested resources to enhance internal controls for its contingent environmental remediation liabilities. The joint review process, a key control, further matured in FY 2010 by improving training and consistency to the environmental remediation estimation process. NASA also retained a third-party consultant to develop an estimate of the environmental cleanup costs for PP&E not related to the Space Shuttle Program (SSP). While NASA continues to make progress, we noted weaknesses in NASA’s ability to generate a consistent estimate of its contingent environmental remediation costs and its environmental cleanup costs associated with PP&E. Specifically:

1. NASA lacks an ongoing validation program to assess the accuracy of remedial estimates generated through the use of the Integrated Data Evaluation and Analysis Library (IDEAL) tool. NASA uses algorithms in the IDEAL tool to develop remediation estimates when detailed user-defined engineering estimates are not available. The algorithms were checked against actual results in a series of studies conducted in 2007
and 2008. Differences were noted in these studies and recommendations were made to improve the tool’s performance. However, NASA has not developed and implemented a process to periodically validate and update the model based on actual costs.

2. Reasonably possible and estimable and reasonably possible and non-estimable disclosures can be enhanced by the joint review process: The joint review process does not consistently include documentation of the review and classification of costs other than those that are probable and estimable.

3. SFFAS No. 6 costs are categorized in SFFAS No. 5 data sets: In FY 2009, NASA updated its environmental liability process to differentiate those liabilities that are remedial in nature and recognized in accordance with SFFAS No. 5 *Accounting for Liabilities of the Federal Government*, and those environmental cleanup liabilities that are known when the asset is placed in service and recognized in accordance with SFFAS No. 6. Certain landfill operations, storage tanks and the decommissioning of Plum Brook nuclear reactor are environmental cleanup and closure obligations. NASA has not reclassified these estimates, in some cases because the cleanup has historically been included in the SFFAS No. 5 environmental liability but has elements of a SFFAS No. 6 liability as well.

4. Environmental control processes are not updated in a timely manner: NASA Procedural Requirement (NPR) 8590.1, *NASA Environmental Compliance and Restoration (ECR) Program*; (effective June 14, 2007 and updated in 2010) does not reference the joint process review, a key control in the review of unfunded environmental liabilities. The joint process reviews have been a critical control in the annual estimation process since FY 2008. Furthermore, NPR 9260.1 *Revenue, Unfunded Liabilities and Other Liabilities* (effective September 30, 2008) does not capture the process used to gather PP&E cleanup costs related to the Space Shuttle or other applicable programs.

The procedures engaged in by the Space Operations Mission Directorate (SOMD) to develop the estimate of SSP PP&E cleanup costs are based on efforts necessary to adhere to annual planning, programming, budgeting and execution (PPBE) requirements. These steps and support are then modified by the SOMD to project probable and reasonably possible environmental liabilities used for financial reporting. Current NASA guidance does not specify the actions to be taken by OCFO to review, recognize, or record the estimate or identify control activities or procedures to aid in ensuring that the recorded amounts are appropriate.

5. NASA has not completed its development of procedures or estimates to record and disclose asbestos cleanup costs. During our testing at the Marshall Space Flight Center (MSFC) we were made aware of an Asbestos Information System database that housed information on both friable and non-friable asbestos located in buildings and equipment throughout MSFC that did not pose an immediate health hazard. NASA’s management has stated that asbestos cleanup costs associated with friable asbestos that constitutes an
immediate health hazard are recognized when identified. NASA indicated that costs for the removal of friable and nonfriable asbestos that does not pose an immediate health hazard but that will be removed in connection with a future demolition or modification have not been recorded. NASA indicated that it will be required to recognize those costs in FY 2012 under applicable guidance. The applicable FASAB guidance deferring recognition of certain asbestos costs that do not pose an immediate health hazard in connection with implementation of SFFAS No. 6 acknowledges the difficulties agencies may have in developing comprehensive inventories of such materials and cleanup estimates. Further refinement of NASA processes in these areas may be required to meet the objectives of SFFAS No. 6.

**Recommendation**

Notwithstanding that progress has been made during FY 2010, we suggest that management revisit the internal controls related to NASA’s ability to generate a consistent estimate of its contingent environmental remediation costs and its environmental cleanup costs associated with PP&E to assist in reducing the possibility that errors that are other than inconsequential may occur and not be detected by the system of overarching detect controls NASA has put in place.

We recommend that NASA:

1. Complete the development and implementation of the application controls that ensure the accuracy of the output (e.g., cost tables, markups, and contingencies). This includes completing and documenting the verification of the IDEAL parametric model output and aggregation functions to validate the reliability of the output.

2. Amend the joint review process documentation to require the classification of costs that are other than probable and estimable into assigned categories (e.g., probable but not-estimable, reasonably possible and estimable, reasonably possible but not estimable, and remote) and retain documentation related to significant judgments regarding responsible parties, classification and components of the estimates.

3. Reclassify environmental liabilities that are managed as contingent environmental liabilities in accordance with SFFAS No. 5 and that are more appropriately managed as environmental cleanup costs in accordance with SFFAS No. 6.

4. Update or develop a separate process for NPR 8590.1, *NASA Environmental Compliance and Restoration (ECR) Program* to reference the joint process review and NPR 9260.1, *Revenue, Unfunded Liabilities and Other Liabilities*, with the process to be developed as pertaining to PP&E cleanup estimation procedures for program transition and retirement efforts, or craft a separate process to capture these concerns.
5. Implement preventative actions (i.e., controls) to address policies, procedures and guidance related to the SSP PP&E cleanup estimation process. Specifically, assign roles and responsibilities for implementation of completeness and valuation testing procedures to relevant OSI and OCFO personnel. Estimation procedures should also be compared to assess compliance with SFFAS No. 6, Technical Release 2 and Technical Release 11 guidance.

6. Facilitate the development of a procedure, in conjunction with other appropriate NASA entities (e.g., Environmental Management Division, Health and Safety, Facilities Management), to identify, estimate and document friable and nonfriable asbestos abatement costs in circumstances in which an immediate health hazard does not exist in accordance with the applicable FASAB guidance prior to its effective date.

Other Matters

STATUS OF PRIOR-YEAR FINDINGS

In the reports on the results of the FY 2009 audit of the NASA’s financial statements, a number of issues were raised relating to internal control. The chart below summarizes the current status of the prior year items:

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<tr>
<th>Material Weakness</th>
<th>Summary Control Issue</th>
<th>FY 2010 Status</th>
</tr>
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<tbody>
<tr>
<td>Enhancements Needed for Controls over Legacy PP&amp;E and Materials Contracts, But SFFAS No. 35 Adoption May Aid In Resolving This Longstanding Issue</td>
<td>• Certain legacy issues noted in prior-year audit reports continue to challenge the Agency, particularly in relation to the ISS and Space Shuttles. SFFAS No. 35 is expected to substantially improve NASA’s ability to account for these assets in accordance with GAAP in FY 2010.</td>
<td>Substantially remediated. New observation related to SFFAS No. 35 implementation and contractor-held property reflected herein as a significant deficiency.</td>
</tr>
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### Significant Deficiencies

<table>
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<tr>
<th>Issue Area</th>
<th>Summary Control Issue</th>
<th>FY 2010 Status</th>
</tr>
</thead>
<tbody>
<tr>
<td>Processes in Estimating NASA’s Environmental Liability Continue to</td>
<td>• Design and implementation of controls for NASA’s IDEAL estimating software have not</td>
<td>Significant progress has been noted; but deficiencies still remain as reported as a significant deficiency herein.</td>
</tr>
<tr>
<td>Require Enhancement</td>
<td>been completed.</td>
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<td></td>
<td>• Certain controls surrounding the process to value unfunded environmental liabilities</td>
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<tr>
<td></td>
<td>need further enhancements.</td>
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<tr>
<td>Financial Management Systems Not in Substantial Compliance with Federal</td>
<td>• Real property system not integrated with the Core Financial Module</td>
<td>Substantially remediated. Significant improvements noted with the integration of the real property system to the core financial module and the implementation of SFFAS No. 35 to overcome certain issues within the property area. Certain less significant matters and interrelationships with the work of other auditors have been brought to the attention of management.</td>
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<tr>
<td>Financial Management Improvement Act</td>
<td>• Issues related to IT access and change management identified</td>
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<td></td>
<td>• NASA did not meet certain requirements to ensure compliance with federal accounting standards.</td>
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We have reviewed our findings and recommendations with NASA management. Management generally concurs with our findings and recommendations and will provide a corrective action plan to address the findings identified in this report. We did not audit NASA’s response, and accordingly, we express no opinion on it.
This report is intended solely for the information and use of the management and the Office of Inspector General of NASA, OMB, the Government Accountability Office and Congress, and is not intended to be and should not be used by anyone other than these specified parties.

November 15, 2010
McLean, VA
Report on Compliance and Other Matters Based on an Audit of the Financial Statements
Performed in Accordance with Government Auditing Standards

To the Administrator and the Inspector General
of the National Aeronautics and Space Administration

We have audited the financial statements of the National Aeronautics and Space Administration (NASA) as of and for the year ended September 30, 2010, and have issued our report thereon dated November 15, 2010. That report noted certain matters that resulted in a qualification of our opinion on the consolidated statements of net cost and changes in net position for the year ended September 30, 2010. Except for the matters discussed in the third paragraph of the Report of Independent Auditors, we conducted our audit in accordance with auditing standards generally accepted in the United States, the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, and Office of Management and Budget (OMB) Bulletin No. 07-04, Audit Requirements for Federal Financial Statements, as amended.

As part of obtaining reasonable assurance about whether NASA’s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws and regulations, noncompliance with which could have a direct and material effect on the determination of financial statement amounts, and certain other laws and regulations specified in OMB Bulletin No. 07-04, as amended, including the requirements referred to in the Federal Financial Management Improvement Act of 1996. We limited our tests of compliance to these provisions and we did not test compliance with all laws and regulations applicable to NASA.

The results of our tests disclosed no instances of noncompliance with the laws and regulations discussed in the preceding paragraph or other matters that are required to be reported under Government Auditing Standards or OMB Bulletin No. 07-04, as amended.

Providing an opinion on compliance with certain provisions of laws and regulations was not an objective of our audit and, accordingly, we do not express such an opinion.

This report is intended solely for the information and use of management and the Office of Inspector General of NASA, OMB, the Government Accountability Office, and Congress, and is not intended to be and should not be used by anyone other than these specified parties.

November 15, 2010
McLean, VA