

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



March 24, 2005

TO: Chief Financial Officer

FROM: Assistant Inspector General for Auditing

SUBJECT: Review of Corrections to the NASA FY 2003 Fund Balance With  
Treasury Account

On December 30, 2004, you reported to the House and Senate Committees on Appropriations on the status of NASA's efforts to reconcile and correct a discrepancy of \$1.743 billion in the FY 2003 Fund Balance With Treasury (FBWT) account. This memorandum provides the Office of Inspector General (OIG) assessment of NASA's efforts to reconcile and correct the FBWT account. We considered your February 9, 2005, comments on a draft of this memorandum in preparing this final version.

On January 28, 2004, PricewaterhouseCoopers LLP (PwC) reported that it was unable to render an opinion on NASA's financial statements for FY 2003 because the Agency could not provide sufficient supporting documentation. PwC identified NASA's processes for reconciling its FBWT account as a material weakness in internal controls. PwC noted that NASA decreased the balance in its FBWT account to agree with the U.S. Department of Treasury's reported balance as of September 30, 2003, but did not provide sufficient documentary evidence to support the adjustments. The House and Conference Committee reports accompanying the FY 2005 VA-HUD-Independent Agencies appropriations bill requested that NASA submit to the Committees on Appropriations a report documenting the reconciliation and correction of the \$1.743 billion discrepancy in the Agency's September 30, 2003, FBWT account.

During FY 2004, the Office of the Chief Financial Officer (OCFO) and the NASA Center accounting offices expended significant effort to analyze the FY 2003 year-end adjustments to the FBWT account. The year-end adjustments involved thousands of transactions that increased or decreased NASA's FBWT account in order to match the balance reported by Treasury at year end. OCFO attributed the \$1.743 billion discrepancy in the FY 2003 FBWT to errors in transactions and account balances in four broad areas: Document Conversion, Cancelled Appropriations, Trust Fund Transfer, and Other Reconciling Items.

NASA's December 2004 report to the Committees concluded that only \$81 million of the net adjustments remained to be corrected. Based on our review of supporting documentation provided by OCFO, we determined that NASA corrected \$1.598 billion of the net adjustments, and the remaining amount of net adjustments to be corrected is \$144 million. We do not believe the net numbers reflect the scope of the remaining

FBWT challenges. At this time, OCFO does not know the number of transactions involved, the age of the transactions, and whether supporting documentation is available. We believe this information on the scope of the problem is needed before OCFO can articulate a strategy for completing the reconciliation of the FY 2003 discrepancy. Given this, it is unlikely that your plans to complete the reconciliation by April 2005 are realistic. We note that while the net value of the remaining adjustments is \$144 million, the absolute value of those adjustments (when increases and decreases to the account are added together) is \$7.018 billion. We believe the absolute value of the adjustments is a relevant data point because it provides some context for assessing the amount of research that will be required to reconcile and correct the net amount of adjustments.

The following table shows the net and absolute values of the adjustments, the amounts of OCFO corrections, and the amounts we verified. The absolute value represents the dollar value of all the adjustments (both decreases and increases) to the FBWT account that were in 17 Journal vouchers posted by OCFO to reduce its FBWT account and prepare the FY 2003 financial statements.

<b>FY 2003 FBWT Account Adjustments and Corrections</b>				
<u>Area</u>	<u>Adjustments</u>		<u>Corrections</u>	
	<u>Net Value</u>	<u>Absolute Value</u>	<u>Made by OCFO</u>	<u>Verified by OIG</u>
Document Conversion	\$1,107,764,967	\$1,107,764,967	\$1,106,184,777	\$1,100,898,909
Cancelled Appropriations	490,427,221	490,427,221	490,427,221	490,427,221
Trust Fund Transfer	1,001,441	1,001,441	1,001,441	1,001,441
Other Reconciling Items	144,088,468	7,018,223,532	unknown	0
<b>Total</b>	<b>\$1,743,282,097</b>	<b>\$8,617,417,161</b>	<b>\$1,597,613,439</b>	<b>\$1,592,327,571</b>

As discussed in the following paragraphs, we have verified 99.62 percent (\$1.592 billion) of the corrections made by OCFO in three of the four areas (Document Conversion, Cancelled Appropriations and Trust Fund Transfer). We have not received supporting documentation for transactions in the fourth area (Other Reconciling Items).

**Document Conversion.** As of September 24, 2004, OCFO had made \$1.106 billion in corrections to the \$1.108 billion of adjustments (net and absolute values are the same). We examined four transactions in this area, totaling \$1.101 billion, and verified the corrections made by OCFO. We believe the sample of corrections that we verified was sufficient to determine whether the corrections were reasonable for this area. We have not asked for updated amounts from OCFO of the corrections they have made since September 24, 2004.

The corrections in this area were required to reconcile individual transactions and account balances that were not converted correctly to the new accounting system. For two of the transactions, the Agency converted the total budget authority amount for a fund rather than the amount of obligations paid. Although OCFO was unable to provide an audit trail for the original entry, we were able to validate in the system that the total

budgetary authority had been used. For another transaction, we validated that it had existed in a legacy system as an advance to another Government agency and that it had not been processed during the conversion because the new financial system was not designed to convert that type of transaction. For the final transaction, we validated that it had been incorrectly processed as the result of a coding error.

**Cancelled Appropriations.** The \$490 million (net and absolute values are the same) in this area should not have been transferred to the new accounting system during the conversion.

Of the \$490 million, \$135 million was erroneously posted during the conversion to a no-year fund. In November 2004, NASA transferred the \$135 million from the no-year fund to other cancelled appropriation accounts that will remain in NASA's accounting system until the core financial management closing process occurs at year's end.

The remaining \$355 million was expired funding that had been returned to the Treasury and should not have been included in the Agency's FBWT account. OCFO corrected the errors by posting entries to decrease the FBWT account by \$355 million. Although OCFO was unable to provide an audit trail for the original entries, we were able to validate that the balances for those cancelled appropriations were now zero in the accounting system.

**Trust Fund Transfer.** The transactions in this area are related to the Challenger Trust Fund. Payments of \$1 million (net and absolute values are the same) were processed through the legacy accounting system but were not reflected in the core financial module after conversion. To correct this error, OCFO prepared an analysis of the Trust Fund accounts, identified the source and cause of the error, and posted the correcting entries to the core financial module. We reviewed the supporting documentation for the transactions and found that the corrections made by OCFO were supported and valid.

**Other Reconciling Items.** Although the Other Reconciling Items area reflects a relatively small net value of \$144 million, it has an absolute value of \$7.018 billion when the underlying adjustments (some decreased NASA's FBWT account and some increased it) are added together. While the absolute dollar value provides one data point on the scope of the problem, that value alone does not articulate the magnitude of the problem or the corrective actions that are needed. Specific information about the transactions is needed in order to articulate a strategy for resolving the FBWT account issues. For example, depending on the number of people and the amount of time required to research some transactions, it may not be cost-effective to fully reconcile the discrepancy in the FBWT account. If that is the case, OCFO will need to develop an alternative course of action to address the unreconciled amount. Until OCFO articulates a strategy, we cannot determine whether the plans to complete the FBWT reconciliation are adequate.

If you or your staff need further information or would like to meet with us to discuss these issues, please contact me at (202) 358-2572.

*for* *A. Dahnelle Payson*  
Evelyn R. Klemstine