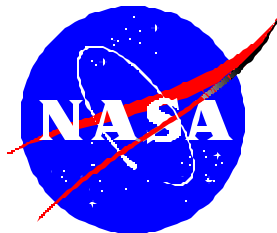


IG-00-019

**AUDIT
REPORT**

**JOHNSON SPACE CENTER EXCHANGE
USE OF APPROPRIATED FUNDS FOR
EXCHANGE ACTIVITIES**

March 27, 2000



National Aeronautics and
Space Administration

OFFICE OF INSPECTOR GENERAL

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Acronyms

CFO	Chief Financial Officer
FY	Fiscal Year
NPD	NASA Policy Directive
OIG	Office of Inspector General

W

March 27, 2000

TO: A/Administrator

FROM: W/Inspector General

SUBJECT: INFORMATION: Audit of Johnson Space Center Exchange Use of Appropriated Funds for Exchange Activities
Report Number IG-00-019

The NASA Office of Inspector General (OIG) completed a quality control review of the Sheryl C. Stanley, P.C., audit of the Johnson Space Center Exchange (Johnson Exchange) fiscal year 1998 Financial Statements.¹ During the quality control review, we identified a condition at the Johnson Exchange involving the use of appropriated funds² for payment of an Exchange expense, a nonappropriated fund³ activity.

The Johnson Exchange inappropriately used \$5,800 in appropriated funds to pay for the fee of the financial statement audit of the Johnson Exchange. Such expenses, which are considered operating expenses, are the responsibility of the Exchange and should be paid with revenue generated by Exchange operations. Appropriated funds used for those expenses could have been put to better use.

Background

NASA Policy Directive (NPD) 9050.6E, "NASA Exchange Activities," dated December 2, 1997, authorizes Center Directors to establish an Exchange to contribute to the efficiency, welfare, and morale of NASA personnel. Center Directors are required to appoint an Exchange Council to oversee and manage the exchange operations in a sound, business-like manner. Exchange-operated activities are generally self-sustained, that is, supported by nonappropriated funds. The Directive also requires the Council to obtain annual audits of the Centers' Exchange

¹ NASA Inspector General final report on "Quality Control Review of Sheryl C. Stanley, P.C, Audit of NASA Johnson Space Center Exchange Financial Statements for Fiscal Year Ended September 30, 1998," IG-99-041, dated September 17, 1999.

² Federal funds authorized (that is, appropriated) by Congress for an agency's operations. As required by the United States Code, appropriated funds may be used only for their intended purpose and for a definite period of time.

³ Funds received from sources other than congressional appropriations.

financial statements and to submit the statements and the audit reports to the Center Chief Financial Officer by December 31 annually.

Recommendation

We recommended that the Associate Administrator for Management Systems ensure that the Johnson Exchange and all other NASA Exchanges reimburse the Agency for appropriated funds spent on accounting fees since December 2, 1997, the effective date of NPD 9050.6E, and use nonappropriated funds to pay for all future operating expenses.

Management Response and OIG Evaluation

Johnson management nonconcurred with the draft report recommendation, which was directed to the Johnson Exchange only. Management stated that our finding was based on a narrow and inappropriate interpretation of NPD 9050.6E. Under management's interpretation of several policy provisions, the NPD provides the discretionary authority to use appropriated funds for the Exchange's annual financial statement audits. In part, management relies on the provision of the NPD that places a responsibility on the Center Director to operate the Exchange in a business-like manner and authorizes the Center Director to use appropriated funds for certain Exchange expenses. We disagree because the NPD and Space Act allow expenditure of appropriated funds only for specific items, that is, for property, equipment, and maintenance of the property and equipment.

Accordingly, we reaffirm our position on the recommendation. We redirected the recommendation to the Associate Administrator for Management Systems and included all NASA Exchanges as a result of management's comments, supplemented by additional input from the NASA Associate General Counsel,⁴ further audit work that identified this same issue at other Centers, and support provided by an OIG Attorney Advisor. We request that the Office of Management Systems provide comments on the redirected recommendation.

[original signed by]

Roberta L. Gross

Enclosure

Final Report on Audit of Johnson Space Center Exchange Use of Appropriated Funds
For Exchange Activities

⁴ The Office of the General Counsel issued a memorandum, dated February 17, 2000, supporting NASA management's position on using appropriated funds for audit fees.

FINAL REPORT
AUDIT OF JOHNSON SPACE CENTER EXCHANGE USE OF
APPROPRIATED FUNDS FOR EXCHANGE ACTIVITIES

W

March 27, 2000

TO: J/Associate Administrator for Management Systems
JSC/AA/Director, Johnson Space Center
JSC/AH/Chairman, Exchange Council

FROM: W/Assistant Inspector General for Auditing

SUBJECT: Final Report on the Audit of Johnson Space Center Exchange Use of Appropriated
Funds for Exchange Activities
Assignment Number A9906101
Report Number IG-00-019

The subject final report is provided for your use and comment. Please refer to the Results in Brief section for the overall review results. Our evaluation of your response is incorporated into the body of the report. In response to management's comments, we redirected the recommendation to the Associate Administrator for Management Systems and included all NASA Exchanges. Therefore, we request management comments on the revised recommendation by April 26, 2000.

If you have questions concerning the report, please contact Mr. Patrick A. Iler, Director, Audit Quality, at (216) 433-5408, or Ms. Van Tran, Auditor-in-Charge, at (202) 358-0466. We appreciate the courtesies extended to the audit staff. The final report distribution is in Appendix C.

[Original signed by]

Russell A. Rau

Enclosure

cc:

B/Chief Financial Officer

B/Comptroller

BF/Director, Financial Management Division

G/General Counsel

JL/Director, Contractor Industrial Relations

JM/Director, Management Assessment Division

JSC/AH/Exchange Operations Manager

JSC/AL/Chief Counsel

JSC/LA/Chief Financial Officer

bcc:

AIGA, IG, Reading Chron

GRC/501-9/P. Iler

JSC/281/P. Ritterhouse

W/V. Tran

NASA Office of Inspector General

IG-00-019
A9906101

March 27, 2000

Johnson Space Center Exchange Use of Appropriated Funds for Exchange Activities

Introduction

The NASA Office of Inspector General (OIG) performed a quality control review of the Sheryl C. Stanley, P.C., audit of the Johnson Space Center Exchange (Johnson Exchange) fiscal year (FY) 1998 Financial Statements.⁵ Sheryl C. Stanley, P.C. is a public accounting firm retained by the Johnson Exchange for the annual financial statement audits. The Johnson Exchange is a Government instrumentality, operating under NASA's control for the benefit of Agency employees. During the quality control review, we identified a condition at the Johnson Exchange involving the use of appropriated funds⁶ for payment of an Exchange expense, a nonappropriated fund⁷ activity. Appendix A contains additional details on our objective, scope, and methodology.

Results in Brief

The Johnson Exchange inappropriately used \$5,800 in appropriated funds to pay for the fee of the financial statement audit of the Johnson Exchange. Such expenses, which are considered operating expenses, are the responsibility of the Exchange and should be paid with revenue generated by Exchange operations. Appropriated funds used for those expenses could have been put to better use.

Background

NASA Policy Directive 9050.6E, "NASA Exchange Activities," dated December 2, 1997, authorizes Center Directors to establish an Exchange to contribute to the efficiency, welfare, and morale of NASA personnel. Center Directors are required to appoint an Exchange Council to oversee and manage the Exchange operations in a sound, business-like manner. The Council (hereafter, may also be referred to as Exchange management) must consist of at least five Center employees who perform their duties without pay from the Exchange. Council members serve as Chairperson, Treasurer, Exchange Operations Manager, Secretary, or other advisory capacities. Exchange-operated activities are generally self-sustained, that is, supported by nonappropriated funds. The Directive also requires the

⁵ NASA Inspector General final report on "Quality Control Review of Sheryl C. Stanley, P.C, Audit of NASA Johnson Space Center Exchange Financial Statements for Fiscal Year Ended September 30, 1998," IG-99-041, dated September 17, 1999.

⁶ Federal funds authorized (that is, appropriated) by Congress for an agency's operations. As required by the United States Code, appropriated funds may be used only for their intended purpose and for a definite period of time.

⁷ Funds received from sources other than congressional appropriations.

Council to obtain annual audits of the Centers' Exchange financial statements and to submit the statements and the audit reports to the Center Chief Financial Officer (CFO) by December 31 annually.

The Johnson Exchange operates and generates revenues from the employee cafeterias, gift shops, recreation center, and vending concessions. For the year ended September 30, 1998, the Johnson Exchange reported a cash balance of \$2,386,600⁸ and a net income of \$387,173.

Use of Appropriated Funds for Exchange Expenses

Finding. The Johnson Exchange inappropriately used appropriated funds to pay for the audit fee incurred by the FY 1998 financial statement audit. The Exchange misinterpreted NASA policy, which limits the use of appropriated funds to cafeteria equipment purchases and repairs. Consequently, the Exchange was not paying for all operating expenses, and appropriated funds used for those expenses could have been put to better use.

Use of Appropriated Funds. NASA Policy Directive 9050.6E, paragraph 1.i. states,

Activities shall generally be supported by nonappropriated funds under the Exchange's sole jurisdiction. Center Directors may authorize use of appropriated funds to provide for cafeterias, purchase and maintenance of cafeteria equipment, other facilities, and equipment necessary for Exchange activities, with the prior concurrence of the Center Chief Counsel and Chief Financial Officer.

The accounting fee for the FY 1998 financial statement audit was \$5,800. As in previous years, the Johnson Exchange used appropriated funds to pay the audit fees. The Exchange Treasurer explained that his predecessor made the decision to use appropriated funds for the payment of the audit fee several years ago. At that time, the Exchange was operated at a loss and did not have enough money to pay for the annual audit. However, the practice continues because Exchange management misinterpreted the Directive, which limits the use of appropriated funds for certain capital acquisitions and repairs only. Further, the Agency has not determined that the accounting fee is a necessary expense to enhance employee morale which would be required to fully comply with the intent of 31 U.S.C. § 1301(a)⁹ and related Comptroller General Decisions.¹⁰

The annual expense for a financial statement audit is a cost of doing business, that is, an operating expense, and is a responsibility of the Exchange. Therefore, the Johnson Exchange should have paid this expense with revenue generated by Exchange operations. Appropriated funds used for the Exchange's operating expenses could have been put to better use.

⁸ The cash balance includes money market savings accounts and marketable securities.

⁹ Title 31, "Money and Finance," Chapter 13, "Appropriations," explains that only necessary expenses can be paid with appropriated funds.

¹⁰ Related decisions include 18 Comptroller General Decision 147 and 27 Comptroller General Decision 679.

Redirected Recommendation, Management's Response, and Evaluation of Response

The Associate Administrator for Management Systems should ensure that the Johnson Exchange and all other NASA Exchanges reimburse the Agency for appropriated funds spent on accounting fees since December 2, 1997, the effective date of NPD 9050.6E, and use nonappropriated funds to pay for all future operating expenses.

Management's Response. Johnson Exchange management nonconcurred with the original recommendation, which was directed to the Johnson Exchange only, to reimburse NASA for all appropriated funds previously spent on accounting fees and to use nonappropriated funds to pay for all future operating expenses. Johnson Exchange management stated that our finding is based on a narrow and inappropriate interpretation of NPD 9050.6E. Management based its position on the following:

- The NPD authorizes the Center's Exchange Council, not the Exchange Operations Manager, to provide for an annual audit of books and records of the Exchange.
- The NPD places a responsibility on the Center Director to operate the Exchange and its elements in a business-like manner.
- While the NDP states that Exchange activities should generally be supported by nonappropriated funds, it also authorizes the Center Director to use appropriated funds necessary for Exchange activities and provides noninclusive examples appropriate for the expenditure of such funds.
- The NPD provides the discretionary authority to use appropriated funds for annual financial audits called for by the Exchange Council. This position was further substantiated by a September 25, 1990, letter from the NASA Comptroller that states in part, "Management and oversight of the Exchange ... is clearly a proper use of the funds appropriated to the Agency."

The complete text of management's comments is in Appendix B.

Evaluation of Response. Management's comments are nonresponsive. We do not agree with the management view that the NPD, as currently written, provides the discretion to use appropriated funds to pay for the Exchange's annual financial statement audit. The fact that the NPD authorizes the Exchange Council rather than the Exchange Manager to provide for an annual audit of the Exchange's books and records is not relevant in determining whether appropriated funds should be used. The Exchange Manager is a member of the Exchange Council, and like all other Council members, performs his duties without compensation from the Exchange. The NPD also assigns the Center Director and the Exchange Council many responsibilities. That alone does not justify using appropriated funds to support Exchange activities beyond those specifically identified as allowable in the NPD.

We agree that the Center Director should operate the Exchange in a business-like manner. Since general business practice is to pay normal operating expenses, such as an annual audit fee, from operating revenues, this further supports our position that the Exchange's annual audit fee should be

paid from nonappropriated funds. The responsibility to operate the Exchange in a business-like manner does not authorize the Center Director to use appropriated funds to pay Exchange operating expenses. In addition, the NPD provision that gives the Center Director authority to use appropriated funds for certain Exchange expenses does not provide a general authorization and then give examples of expenses for which appropriated funds can be used. Rather, the provision is specific and restrictive. The NPD states, “Center Directors may authorize the use of appropriated funds for cafeterias, purchase and maintenance of cafeteria equipment, and other facilities and equipment and equipment necessary for Exchange activities, with the prior concurrence of the Center Chief Counsel and Chief Financial Officer (CFO).” The provision is restricted to real property, equipment, and maintenance of such property and equipment, which would not include a normal operating expense such as an audit fee. Using appropriated funds to pay for Exchange audits goes beyond the intent of the NPD provision. This provision also parallels language in the Space Act of 1958, as amended, which states, “In the performance of its functions the Administration is authorized...to provide by contract or otherwise for cafeterias and other necessary facilities for the welfare of employees of the Administration at its installations and purchase and maintain equipment therefor.” The Space Act also limits appropriated fund use to property, equipment, and maintenance of the property and equipment.

Management also cited the September 25, 1990, memorandum from the NASA Comptroller as support for its use of appropriated funds for the audit fee. The memorandum states, in part, that “Management and oversight of the Exchange which is an instrumentality of the government is clearly a proper use of the funds appropriated to the Agency.” The statement is merely an assertion. The memorandum does not include a justification or analysis to support the statement. In addition, the memorandum also states, “I do want to emphasize that as far as practicable, each NASA Exchange that conducts programs and charges fees for the use of that program, should include operational costs in the use of those fees.” This supports our position that the prices charged by the Exchange for the products and services it offers to employees should be set at a level to cover all operational expenses including the annual audit fee. Finally, even if the NPD did provide for the discretionary use of appropriated funds for the Exchange’s annual financial statement audit, we believe that this is not a proper business practice. We continue to believe that the cost of an annual audit and all other normal operating expenses are the responsibility of the Exchange and should be paid with nonappropriated funds under the Exchange’s sole jurisdiction. As the Comptroller General has stated, “[T]he essence of a NAFI [nonappropriated fund instrumentality] is that it is operated with the proceeds of its activities, rather than with appropriated funds.”¹¹

We reaffirm our position on the recommendation. We redirected the recommendation to the Associate Administrator for Management Systems and included all NASA Exchanges as a result of management’s comments, supplemented by additional input from the NASA Associate General Counsel,¹² further audit work that identified this same issue at other Centers, and support provided by an OIG Attorney Advisor. We request that the Office of Management Systems provide comments on the redirected

¹¹ The Comptroller made the statement in 64 Comptroller General Decision 110, 111 (1984).

¹² The Office of the General Counsel issued a memorandum, dated February 17, 2000, supporting NASA management’s position on using appropriated funds for audit fees.

recommendation. The recommendation is unresolved and undispositioned pending review and evaluation of management's comments.

Appendix A. Objective, Scope, and Methodology

Objective

The audit objective was to determine whether the use of appropriated funds for payment of Exchange operating expenses was appropriate.

Scope and Methodology

We reviewed NASA policies and procedures governing the Exchanges and interviewed Headquarters officials and Johnson Exchange Council members. We evaluated management controls as they related to the use of appropriated funds on Exchange activities only. We considered controls to be inadequate as discussed in the finding. We did not use or rely on any computer-generated data during the audit.

Audit Field Work

We performed the audit from October through December 1999 at Headquarters and Johnson Space Center in accordance with generally accepted government auditing standards.

Appendix B. Management's Response

National Aeronautics and
Space Administration
Lyndon B. Johnson Space Center
2101 NASA Road 1
Houston, Texas 77058-3696



Reply to Attn of:

BD5

FEB 08 2000

TO: NASA Headquarters
Attn: W/Assistant Inspector General for Auditing

FROM: AA/Director

SUBJECT: Management Response to OIG's Draft Report of Johnson Space Center
Exchange Use of Appropriated Funds for Exchange Activities
Assignment Number A9906101

We have reviewed the subject draft report and respectfully disagree with its findings. The findings contained in the draft report resulted from a quality control review of the accounting firm retained by the Johnson Space Center (JSC) to conduct the Fiscal Year 98 Financial Statement of the JSC Exchange operations. These findings were not discussed with us prior to issuance of the draft report.

The recommendation reads:

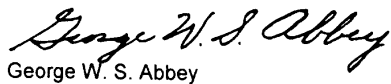
"The Johnson Exchange should reimburse NASA for all appropriated funds previously spent on accounting fees and use nonappropriated funds to pay for all future operating expenses."

The draft report states that the Johnson Exchange inappropriately used \$5,800 in appropriated funds to pay the fee for the audit of the financial statement of the JSC Exchange. While reasonable people may differ, we believe that this finding is based on a narrow and inappropriate interpretation of the NASA Policy Document (NPD) 9050.6E, "NASA Exchange Activities." This NPD authorizes the Center's Exchange Council, not the Exchange Operations Manager, to provide for an annual audit of books and records of the Exchange and its elements by a qualified party independent of the Council. The NPD also places a responsibility on the Center Director to operate the Exchange and its elements in a business-like manner. While the NPD states that Exchange activities should generally be supported by nonappropriated funds under the Exchanges' sole jurisdiction, it also authorizes the Center Director to use appropriated funds necessary for Exchange activities, and provides non-inclusive examples appropriate for the expenditure of such funds. Based on the above, it is our opinion that the NPD provides the discretionary authority to use appropriated funds for such annual financial audits called for by the Exchange Council. This position is further substantiated by a September 25, 1990, letter from the NASA Comptroller that states, in part, "that management and oversight of the Exchange which is an instrumentality of the government is clearly a proper use of the funds appropriated to the Agency."

Appendix B

Based on the above, we cannot concur that the funds previously spent for the financial statement audit should be reimbursed by the JSC Exchange to NASA. We will, however, review our current practice of using appropriated funds for the annual financial statement audit, and should Agency policy change, react consistent with such direction.

We consider this assignment closed with this response. If you have any questions regarding this response, please contact Ms. Pat Ritterhouse, Audit Liaison Representative, at 281-483-4220.



George W. S. Abbey

cc:

AH/G. W. Hayes
AH/K. G. Schuler
AL/D. R. Remington
LA/J. H. Beall
HQ/JM/J. W. Werner
HQ/M/G. A. Gabourel

Appendix C. Report Distribution

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NASA Center

Director, Johnson Space Center
Chairman, Exchange Council, Johnson Space Center
Exchange Operations Manager, Johnson Space Center
Chief Counsel, Johnson Space Center
Chief Financial Officer, Johnson Space Center
Chief Counsel, Kennedy Space Center

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Deputy Associate Director, Energy and Science Division, Office of Management and Budget
Branch Chief, Science and Space Programs Branch, Energy and Science Division, Office of Management and Budget
Associate Director, National Security and International Affairs Division, Defense Acquisition Issues, General Accounting Office
Professional Assistant, Senate Subcommittee on Science, Technology, and Space

Appendix C

Chairman and Ranking Minority Member - Congressional Committees and Subcommittees

Senate Committee on Appropriations

Senate Subcommittee on VA, HUD, and Independent Agencies

Senate Committee on Commerce, Science, and Transportation

Senate Subcommittee on Science, Technology, and Space

Senate Committee on Governmental Affairs

House Committee on Appropriations

House Subcommittee on VA, HUD, and Independent Agencies

House Committee on Government Reform and Oversight

House Subcommittee on Government Management, Information, and Technology

House Subcommittee on National Security, Veterans Affairs, and International Relations

House Subcommittee on National Security, Veterans Affairs, and International Relations

House Committee on Science

House Subcommittee on Space and Aeronautics

Congressional Member

Honorable Pete Sessions, U.S. House of Representatives

NASA Assistant Inspector General for Auditing Reader Survey

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Report Title: Johnson Space Center Exchange Use of Appropriated Funds for Exchange Activities

Report Number: _____ **Report Date:** _____

Circle the appropriate rating for the following statements.

	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree	N/A
1. The report was clear, readable, and logically organized.	5	4	3	2	1	N/A
2. The report was concise and to the point.	5	4	3	2	1	N/A
3. We effectively communicated the audit objectives, scope, and methodology.	5	4	3	2	1	N/A
4. The report contained sufficient information to support the finding(s) in a balanced and objective manner.	5	4	3	2	1	N/A

Overall, how would you rate the report?

- | | |
|------------------------------------|-------------------------------|
| <input type="checkbox"/> Excellent | <input type="checkbox"/> Fair |
| <input type="checkbox"/> Very Good | <input type="checkbox"/> Poor |
| <input type="checkbox"/> Good | |

If you have any additional comments or wish to elaborate on any of the above responses, please write them here. Use additional paper if necessary. _____

How did you use the report? _____

How could we improve our report? _____

How would you identify yourself? (Select one)

- | | |
|---|--|
| <input type="checkbox"/> Congressional Staff | <input type="checkbox"/> Media |
| <input type="checkbox"/> NASA Employee | <input type="checkbox"/> Public Interest |
| <input type="checkbox"/> Private Citizen | <input type="checkbox"/> Other: _____ |
| <input type="checkbox"/> Government: _____ Federal: _____ State: _____ Local: _____ | |

May we contact you about your comments?

Yes: _____ No: _____

Name: _____

Telephone: _____

Thank you for your cooperation in completing this survey.

Major Contributors to This Report

Patrick A. Iler, Director, Audit Quality

Van Tran, Auditor-in-Charge

Nancy C. Cipolla, Report Process Manager