

NASA

National Aeronautics and Space Administration

Office of Inspector General

Office of Audits

DESK REVIEWS OF FISCAL YEAR 2019 NASA EXCHANGE AUDIT REPORTS

March 31, 2021

Report No. IG-21-017





Office of Inspector General

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NASA Office of Inspector General
Office of Audits

RESULTS IN BRIEF

Desk Reviews of Fiscal Year 2019 NASA Exchange Audit Reports

March 31, 2021

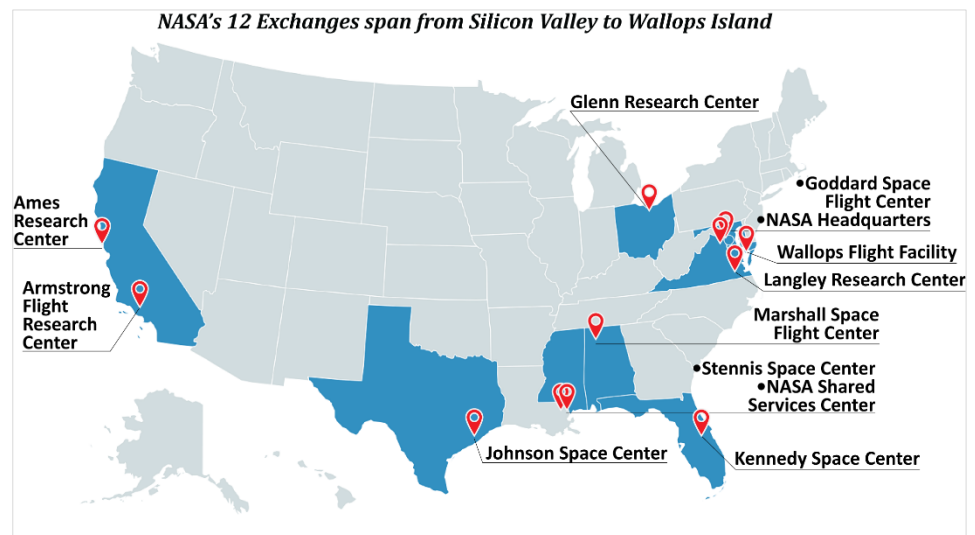
IG-21-017 (A-20-011-00)

WHY WE PERFORMED THIS AUDIT

NASA Exchange and Morale Support Activities operate cafeterias, gift shops, and recreation facilities to contribute to the morale and welfare of NASA employees, retirees, and contractors. Exchange activities are generally supported by non-appropriated funds. Funds generated from the Exchanges' food service and retail stores are used to support fitness centers, athletic leagues, social clubs, child development centers, and recreation associations.

Agency policy requires each Exchange to maintain financial records in accordance with generally accepted accounting principles (GAAP) and to obtain an annual audit of its financial statements. The audits must be conducted by a licensed independent public accounting firm in accordance with the Government Accountability Office's *Government Auditing Standards* (GAGAS).

As part of our oversight of the work, we performed a desk review of audit reports for each of the 12 NASA Exchanges for fiscal year (FY) 2019. We performed these reviews to determine whether the audit reports met standards applicable to financial audits contained in GAGAS. To complete this work, we reviewed the relevant financial statements and related notes, assessed documentation prepared by the audit firm, determined if the audit team met training requirements, confirmed the license status of the firm and applicable personnel, and interviewed personnel at the Exchanges and the audit firms. We also sought to determine the impact that COVID-19 has had on Exchange operations.



WHAT WE FOUND

In FY 2019, 11 of NASA's 12 Exchanges were reviewed or audited by private accounting firms known as independent public accountants (IPA) (the NASA Shared Services Center Exchange was exempt from both a review and audit because its revenues for the year were below \$5,000). All 11 Exchanges received unmodified or "clean" opinions, meaning their financial statements were fairly presented.

In our review of the IPAs' work, we found quality deficiencies at 5 of the 11 Exchanges. Specifically, we noted that:

- two Exchanges failed to prepare financial statements in accordance with GAAP;
- the audit reports of three other Exchanges contained inaccurate and incomplete information or lacked required representations from management; and
- staff at one IPA firm, including audit partners, did not meet training requirements.

Collectively, as of September 2019, NASA's Exchanges had \$21 million in total assets, generated \$10.5 in net revenues, and incurred \$10 million in expenses. Of the assets, \$7.5 million was cash, and another \$7.1 million was held in investments.

In response to COVID-19, NASA implemented mandatory Agency-wide telework and largely closed its facilities. As of January 2021, on-site work at most Centers remained limited to mission-essential activities. Center closures resulted in significant financial losses for the Exchanges and a reduction or elimination in services and morale activities. Financial impacts across the Exchanges varied, and we provide a brief account of those impacts in our report.

Overall, we found that the Exchanges' audit reports complied with GAGAS. While we are not making any formal recommendations, we noted areas for improvement related to financial statement preparation, audit report content, and documentation supporting auditor competence. Since Exchange management accepts responsibility for the preparation and fair presentation of their financial statements, they should perform a thorough review of their financial statements even when prepared by their IPA firms. Taking these actions should result in more comprehensive, accurate, and complete financial statements and audit reports. We provided a draft of this report to NASA management, and incorporated their comments as appropriate.

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Acronyms

| | |
|-------|---|
| AICPA | American Institute of Certified Public Accountants |
| ASC | Accounting Standards Codification |
| ASU | Accounting Standards Update |
| CPE | continuing professional education |
| FASB | Financial Accounting Standards Board |
| FY | fiscal year |
| GAAP | accounting principles generally accepted in the United States |
| GAAS | generally accepted auditing standards |
| GAGAS | Government Accountability Office's <i>Government Auditing Standards</i> |
| GCDC | Goddard Child Development Center |
| GEWA | Goddard Employees Welfare Association |
| IPA | Independent Public Accountant |
| NACA | National Advisory Committee for Aeronautics |
| NSSC | NASA Shared Services Center |
| OCFO | Office of the Chief Financial Officer |
| OIG | Office of Inspector General |
| OP | Office of Procurement |

INTRODUCTION

NASA Exchange and Morale Support Activities (Exchanges) are entities under NASA’s control that operate businesses such as cafeterias and gift shops in order to contribute to the morale and welfare of NASA employees and their families, retirees, and contractors. NASA’s network of Exchanges operates at 12 Agency facilities and traces its beginnings to the Agency’s precursor organization—the National Advisory Committee for Aeronautics (NACA).

Exchange activities are generally supported by non-appropriated funds. Exchanges, by contract or other written agreements, operate activities such as food service, retail stores, and vending machines. Funds generated from these services are used to promote, manage, and oversee morale support activities, including, but not limited to fitness centers, athletic leagues, social clubs, child development centers, and recreation associations.

NASA policy requires each Exchange to maintain financial records in accordance with accounting principles generally accepted in the United States (GAAP) and to obtain an annual audit of its financial statements conducted by a licensed independent public accounting firm in accordance with the Government Accountability Office’s *Government Auditing Standards* (GAGAS).¹

As part of our oversight of the work performed by non-federal auditors, we performed a desk review of the independent auditors’ reports for each NASA Exchange for the fiscal year (FY) ended September 30, 2019.² We performed the desk reviews to determine whether the audit reports met reporting standards applicable to financial audits contained in *Government Auditing Standards*. See Appendix A for details of the review’s scope and methodology.

Background

NASA’s Exchange system dates back to the early 1940s and the NACA.³ NACA was created in 1915 to help ensure American technical excellence in military and civilian aviation and to foster a national laboratory system working closely with the military services, the aerospace industry, and university laboratories and scientists.

In 1942, the NACA Exchange was created, and branches were established at two field laboratories to operate a cafeteria to promote the health and efficiency of the laboratory personnel and increase morale. The NACA Exchange was based in principle on the U.S. Army Post Exchanges and was identified as an “instrumentality of the Government,” meaning it is used for a Governmental purpose and

¹ Exchanges that generate less than \$500,000 in annual revenue may obtain a review of their financial statements in accordance with the American Institute of Certified Public Accountants’ (AICPA) Standards for Accounting and Review Services, provided that appropriate approval is obtained.

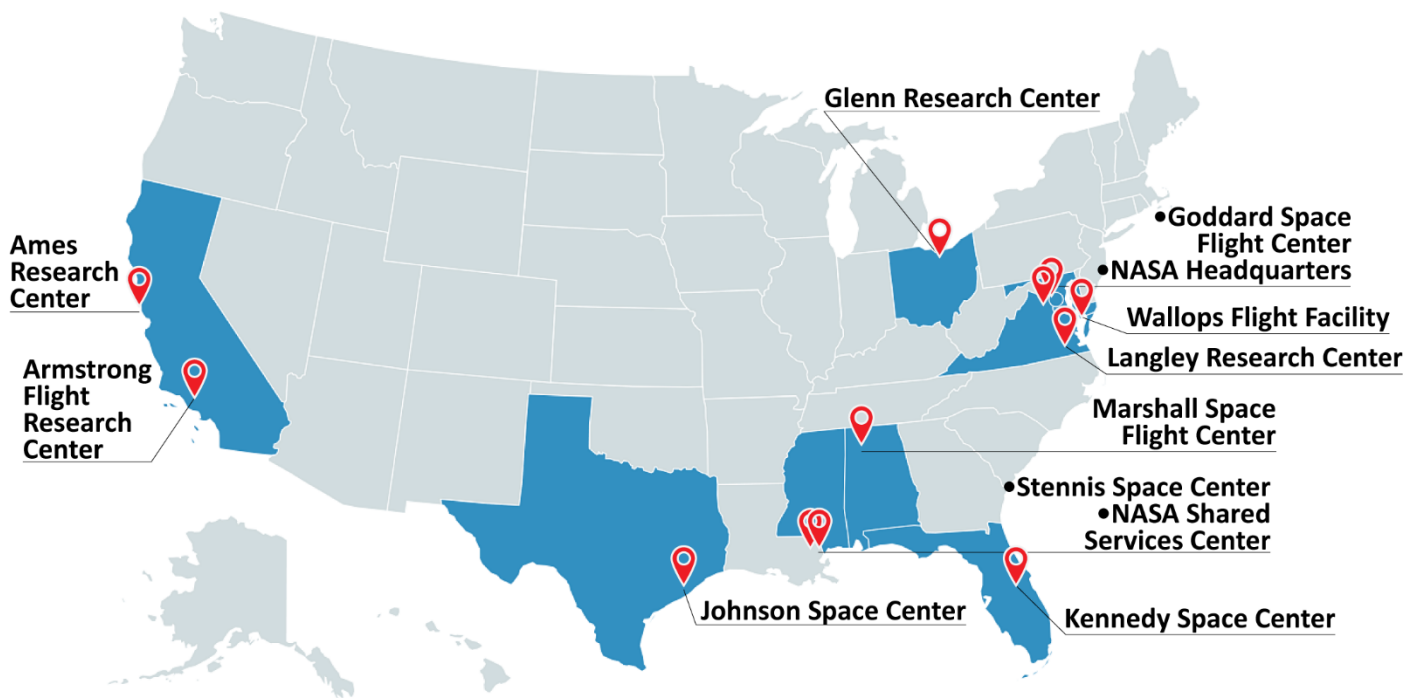
² The Inspector General Act of 1978, as amended, section 4, paragraph (b)(1)(C), directs each Inspector General to take appropriate steps to ensure that any work performed by non-federal auditors complies with the standards established by the Comptroller General.

³ NACA was formed on March 3, 1915, by Public Law No. 271, 63d Congress, to “supervise and direct the scientific study of the problems of flight.”

performs a Governmental function.⁴ Exchange operations were overseen by the laboratory Engineer-in-Charge with the assistance of an “Exchange Council,” appointed by the Engineer-in-Charge. The Exchange’s assets were regarded as Government property. The National Aeronautics and Space Act of 1958 (Space Act) absorbed NACA into the newly created agency—NASA—on October 1, 1958, and continued the existing policies and regulations governing the NACA Exchange regulations. The Space Act, as amended and codified, authorizes the Administrator to provide by contract or otherwise for cafeterias and other necessary facilities for the welfare of NASA employees at its installations and to purchase and maintain associated equipment.⁵

NASA has Exchanges at 12 NASA Centers and component facilities spanning from Ames Research Center in Silicon Valley to Wallops Flight Facility on Virginia’s Eastern Shore (see Figure 1 below).

Figure 1: Locations of NASA Exchanges



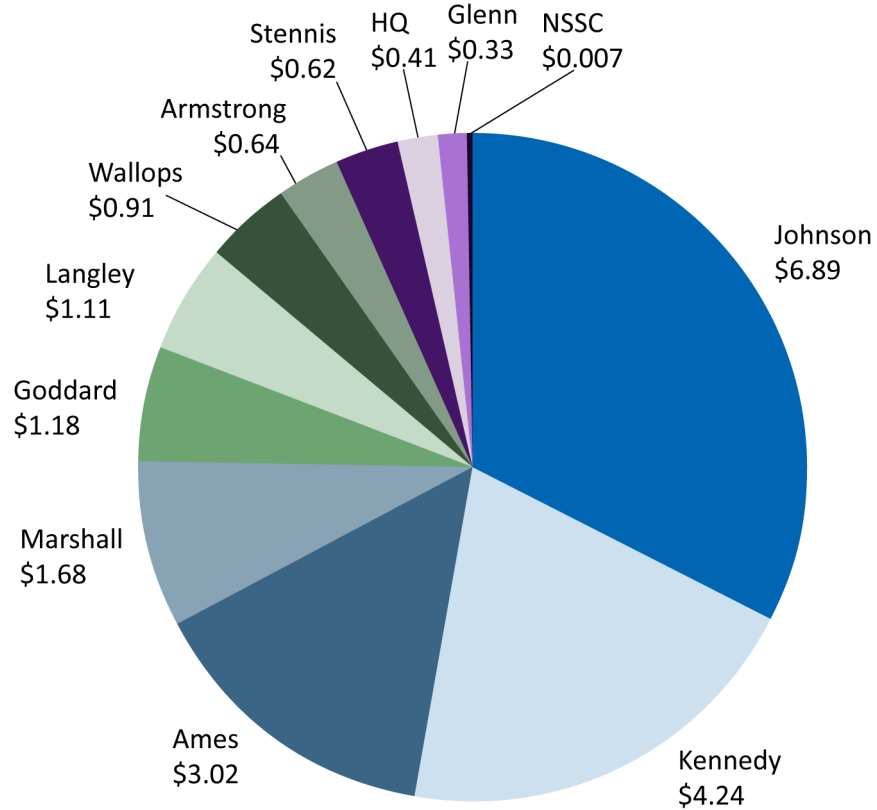
Source: NASA OIG depiction of NASA information.

Collectively, the Exchanges had \$21 million in total assets, generated \$10.5 in net revenues, and incurred \$10 million in expenses as of September 30, 2019. Of the assets, \$7.5 million was cash and another \$7.1 million was held in investments. See Figure 2 for total assets by Exchange and Figure 3 for revenues and expenditures by Exchange.

⁴ An instrumentality is an organization created by statute and operated for public purposes with ownership interests resting with the U.S. Government.

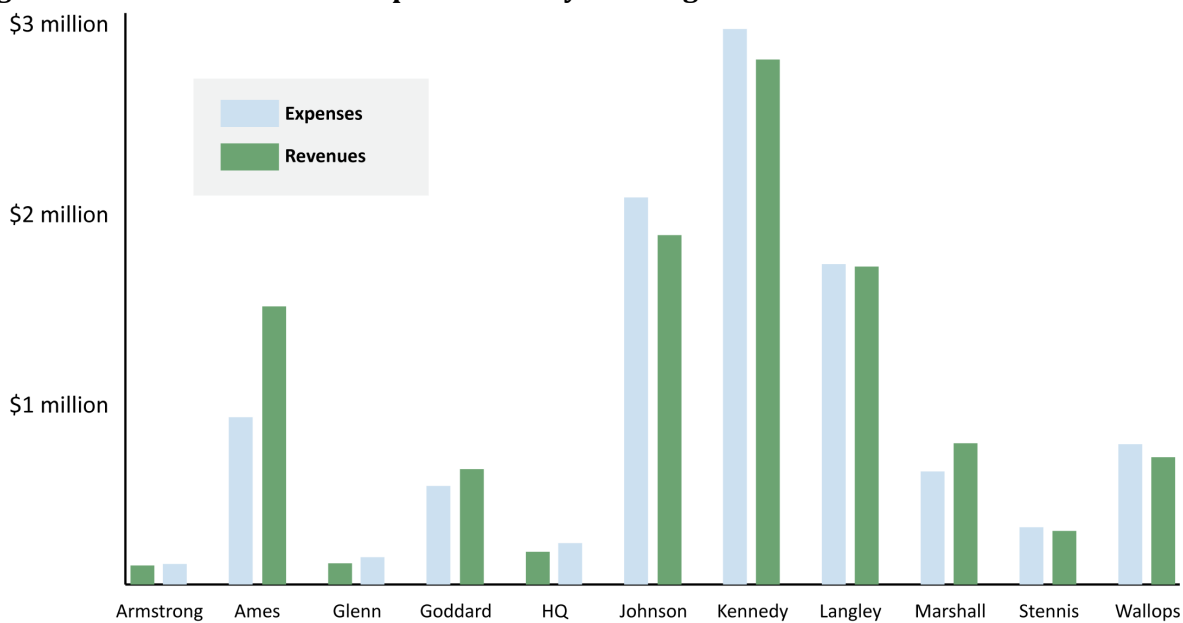
⁵ 51 U.S.C. § 20113(c)(5).

Figure 2: Total Assets by Exchange as of Fiscal Year Ended September 30, 2019 (in millions)



Source: NASA OIG depiction of Exchange information.

Figure 3: Total Revenue and Expenditures by Exchange for Fiscal Year 2019



Source: NASA OIG depiction of Exchange information.

Each Exchange is different in the type of services and morale activities it provides to employees at its facility. See Appendix B for detailed information on each Exchange.

Exchange Council

Each NASA Exchange has an Exchange Council appointed by the Center Director that includes no less than five civil service employees with one designated as Chair (sometimes referred to as President), a Treasurer, and an Exchange Operations Manager. The Exchange Chair presides over Council meetings and designates responsibilities to other Council members. The Exchange Treasurer is custodian of the Exchange's funds and is responsible for maintaining a record of all receipts and expenditures and preparing a proposed annual budget. The Exchange Operations Manager manages the Exchange in accordance with the policy, rules, and recommendations of the Exchange Council. The term that each Exchange Council member serves and scope of their responsibilities varies by Exchange.

Exchange Council members perform their duties without compensation. No employee paid by the Exchange can serve on the Exchange Council. The Exchange Council's responsibilities include reviewing and approving activities of the Exchange; promoting Exchange objectives; establishing a system of controls; and reviewing financial statements, activity budgets, and reports to ensure operations are sound.

NASA Governance

Exchange operations are governed by NASA Policy Directive 9050.6, which is currently undergoing revision.⁶ The Agency's Office of Procurement (OP) at Headquarters is responsible for monitoring Centers' compliance with this directive through required annual reporting and periodic reviews of Exchange compliance with applicable laws and regulations. As of October 2020, OP began conducting risk-based reviews of Exchanges' operations.

By February 15th of each year, Exchanges are required to submit to OP a list of Exchange Council members, an annual report of Exchange activities, a business plan, and an annual report of Randolph-Sheppard activities.⁷ Additionally, copies of the consolidated September 30 year-end Exchange financial statements and the annual audit report are submitted to the Center Chief Financial Officer and OP by February 28. For the FY 2020 Exchange audits, a three-month extension was granted due to the COVID-19 pandemic.

NASA's Office of the Chief Financial Officer (OCFO) is responsible for general oversight of financial activities in NASA, including Exchanges. In coordination with OP, OCFO's Quality Assurance Division reviews the Exchange annual audit reports to ensure they were submitted timely and to identify any significant issues in the audit. In response to the annual audit, OCFO and OP coordinate with the Exchange on their corrective action plans and implementation.

⁶ NASA Policy Directive 9050.6K, NASA Exchange and Morale Support Activities (March 2015).

⁷ The Randolph-Sheppard Act of 1936, as amended (P.L. 93-516, December 1974), was enacted to provide opportunities to qualified blind persons through the operation of various businesses, including cafeterias, snack bars, and other vending facilities in public and private buildings or property owned or leased by the federal government.

Exchange Audit Report Results

For FY 2019, two reviews and nine audits of Exchanges were conducted by contracted accounting firms, known as Independent Public Accountants (IPA).⁸ The NASA Shared Services Center (NSSC) Exchange was exempt from both a review and audit because its revenues for the year were below \$5,000. See Table 1 below for a summary of the audit/review results for each of the Exchanges.

Table 1: Summary Results of Exchange Audit Reports

| Exchange | Type of Engagement | IPA Opinion/ Conclusion | Findings |
|--------------|--------------------|-------------------------|--|
| Armstrong | Audit | Unmodified | No findings |
| Ames | Audit | Unmodified | One significant deficiency: Lack of segregation of duties with respect to cash disbursements |
| Glenn | Review | Unmodified | No findings |
| Goddard | Audit | Unmodified | Two significant deficiencies: Inventory year-end balance not adjusted for final inventory performed; Purchases not recorded in proper period |
| Headquarters | Review | Unmodified | No findings |
| Johnson | Audit | Unmodified | No findings |
| Kennedy | Audit | Unmodified | One significant deficiency: Cash and investments exceed insured limits |
| Langley | Audit | Unmodified | No findings |
| Marshall | Audit | Unmodified | No findings |
| Stennis | Audit | Unmodified | One material weakness: Accounts receivable and inventory subsidiary ledger did not reconcile to general ledger One significant deficiency: Management does not prepare its financial statements |
| Wallops | Audit | Unmodified | No findings |

Source: NASA OIG review of Exchange audit reports.

⁸ In a review of financial statements, the auditor obtains a lesser degree of assurance that the financial statements are not materially misstated than would be the case in an audit and expresses a conclusion instead of an audit opinion. Additionally, unlike an audit performed in accordance with GAGAS, a review does not include reporting on internal control or compliance with laws and regulations.

SUMMARY RESULTS OF OUR DESK REVIEWS

Our review of 11 NASA Exchanges related to FY 2019 IPA compliance with *Government Auditing Standards* and the reporting requirements in the American Institute of Certified Public Accountants' (AICPA) codification of the Statements on Standards for Accounting and Review Services.⁹ We reviewed the auditors' reports and the relevant financial statements and related notes; assessed documentation prepared by the audit firm, including the engagement letter, independence certifications, and continuing professional education (CPE) documentation; and reviewed management representation letters.

We found quality deficiencies with 5 of the 11 Exchange IPA engagements we reviewed. Specifically, we found that:

- two Exchanges failed to prepare financial statements in accordance with GAAP;
- the audit reports of three other Exchanges contained inaccurate and incomplete information or lacked certain required representations from management; and
- staff at one of the IPA firms, including audit partners, did not meet CPE requirements.

See Table 2 for a summary of results.

Table 2: Summary Results of NASA OIG Exchange Desk Reviews for Fiscal Year 2019

| Exchange | Desk Review Deficiencies | | | |
|--------------|--------------------------|--------------------|-----|------|
| | Accounting Standards | Auditing Standards | CPE | None |
| Armstrong | | | | |
| Ames | | | | |
| Glenn | | | | |
| Goddard | | | | |
| Headquarters | | | | |
| Johnson | | | | |
| Kennedy | | | | |
| Langley | | | | |
| Marshall | | | | |
| Stennis | | | | |
| Wallops | | | | |

Source: NASA OIG.

⁹ GAGAS incorporates by reference AICPA Statements on Auditing Standards for financial audits.

Financial Statements Were Not Prepared in Accordance with Applicable Accounting Standards

Each NASA Exchange presented its financial statements in accordance with GAAP based on the Financial Accounting Standards Board's (FASB) accounting standards, with all but the Glenn Exchange following the standards for not-for-profits.¹⁰ However, the Glenn and Kennedy Exchanges failed to comprehensively prepare their financial statements in accordance with the not-for-profit standards. Specifically, the statements were prepared using outdated terminology and were missing required disclosures. Preparing and reporting on financial statements in accordance with GAAP for not-for-profits helps the entity to provide financial statements that are comprehensive and useful.

FASB Updates Impacting Financial Statement Preparation

FASB establishes the financial accounting and reporting standards for public and private companies and not-for-profit organizations that follow GAAP. FASB Accounting Standards Update (ASU) No. 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*, was issued to improve the net asset classification requirements and the information presented in financial statements and notes about an entity's liquidity, financial performance, and cash flows.¹¹ These updates were made to improve the usefulness of information and reduce complexities or costs to users and preparers of the financial statements.

The FASB ASU No. 2016-14 update included:

- eliminating the distinction between resources with permanent restrictions and temporary restrictions and simplifying reporting amounts for net assets to resources with donor restrictions and without donor restrictions,
- presenting on the face of the statement of activities the amount of the change in each of the two classes of net assets mentioned above, and
- enhancing disclosures by including amounts of expenses by both their natural classification and their functional classification.¹²

Outdated Terminology Used Throughout the Financial Statements

In their statements of financial position and activities, the Glenn and Kennedy Exchanges used terms that are no longer a part of GAAP for not-for-profit entities. For example, FASB ASU No. 2016-14

¹⁰ GAAP for presentation of not-for-profit financial statements are codified in the FASB Accounting Standards Codification (ASC) at section 958-205.

¹¹ Financial Accounting Standards Board, *Not-For-Profit Entities (Topic 958): Presentation of Financial Statements of Not-For-Profit Entities* (FASB Update No. 2016-14, August 2016). These reporting requirements were effective for FY 2019 NASA Exchange reporting.

¹² Natural classification is grouping expenses according to the kinds of economic benefits incurred by those expenses, for example, salaries and wages, employee benefits, professional services, supplies, interest expense, rent, and utilities, and depreciation. Functional classification is grouping expenses based on services such as program services versus supporting services.

superseded the term “unrestricted net assets” with “net assets without donor restrictions.” However, the Glenn financial statements used the term “equity,” and the Kennedy Exchange used the term “unrestricted net assets” when describing resources that are used for the general operations of the NASA Exchange. The Glenn Exchange also used the term “net income” instead of “change in net assets,” as required by FASB. Further, the Glenn Exchange used the titles “Balance Sheet” and “Statement of Income and Exchange Equity” instead of the titles found in the FASB ASC section 958-205-45-4, Statement of Financial Position and Statement of Activities, respectively. As a result, the statements contain outdated terminology that is not consistent with current accounting standards.

Relationship Between Classification of Expenses Not Presented

FASB ASU No. 2016-14, section 958-205-45-6, states that the entity must disclose the relationship between functional classification and natural classification for all expenses either on the face of the statement of activities, as a schedule in the notes to financial statements, or in a separate financial statement. The disclosure should disaggregate functional expense classifications by major classes (such as program services and supporting activities) and natural expense classifications (such as salaries, rent, electricity, supplies, and interest expense). The Glenn Exchange did not present any information regarding the relationship between functional and natural classification of expenses, while the Kennedy Exchange presented the total allocation of expenses by functional classification in a note disclosure but did not present the categories of expenses by their natural classifications.

The auditors prepared the financial statements as a nonaudit service on behalf of the Exchanges. Exchange management reviewed the financial statements and acknowledged responsibility for their accuracy and completeness; however, the updates from FASB ASU No. 2016-14 were not implemented due to oversights on the part of the audit firms and Exchange management. We advise that the audit firms and Exchange management develop a process for ensuring that financial statements are prepared to include all applicable updates and disclosures to comply with GAAP for not-for-profits.

Audit Reports Do Not Comply with GAGAS

The Goddard and Stennis Exchange audit reports contained inaccurate and incomplete information. Specifically, several reports were missing standard report elements or language. Additionally, management representations were missing or incomplete for the Langley and Stennis Exchange audits. Generally accepted auditing standards (GAAS) states the objectives of the auditor and the requirements with which the auditor must comply for the audit to be considered in accordance with GAAS. Failure to comply with those standards can result in audit reports that lack the information necessary when communicating an opinion.

Audit Report Missing Standard Report Elements and Language

AICPA Clarified Statements on Auditing Standards (AU-C) addresses elements of the auditor’s report that should be present when communicating an audit opinion on the financial statements.¹³ This includes basic report language and content, references to other reports issued in conjunction with the report on

¹³ The Auditing Standards Board (ASB) promulgates Statements on Auditing Standards, which are generally accepted auditing standards in the United States. ASB redrafted all audit sections in Codifications of Statement of Auditing Standards, giving clarity to the standards for easier readability, understandability, and application. The “AU-C” identifier was established to distinguish the clarified standards from previous standards.

financial statements, other matters identified during the audit that should be communicated with those charged with governance, and statements on whether the auditor disclaims opinion on other information presented with the financial statements. We found instances where these elements or required language were missing, inaccurate, or incomplete.

Form and Content Errors in the Report on Financial Statements

AU-C 700, *Forming an Opinion and Reporting on Financial Statements*, addresses the form and content of the auditor's report issued as a result of an audit of financial statements. Section 700.39 states that, when there are other reporting responsibilities in the auditor's report, these other reporting responsibilities should be addressed in a separate section with the heading, "Report on Other Legal and Regulatory Requirements" or another appropriate title. Additionally, section 700.42 states that the auditor should name the city and state where the audit report is issued in the signature line.

We found that the Stennis Exchange audit report referenced a separate report on the Exchange's internal control over financial reporting and tests of its compliance with certain provisions of laws, regulations, and other matters. This reference was included in an "other-matters" paragraph instead of in an "Other Reporting Responsibilities" section of the audit report.¹⁴ The report on internal control and compliance is not an "other-matter" presented to help the user understand the audit, auditor's responsibilities, or auditor's report. Rather, *Government Auditing Standards* require it; therefore, it would have been more appropriate to include that report under an "Other Reporting Responsibilities" heading.

Additionally, we found that the Stennis Exchange audit report and the internal control and compliance report included a footer containing the city and state of the two offices where the firm operates. However, the city and state of the office that issued the reports were not clear.¹⁵

Absence of "Other-Matter" paragraph for Supplementary Information

Some audit reports contain supplementary information, reports, or schedules that are presented outside of the basic financial statements. AU-C 725, *Supplementary Information in Relation to the Financial Statements as a Whole*, addresses the auditor's responsibility to report whether supplementary information is fairly stated in relation to the financial statements. Specifically, AU-C 725.09 states that an "other-matter" paragraph or a separate report must include a statement that the supplementary information was presented for purposes of additional analysis, was the responsibility of management, and was subjected to auditing procedures, and include an opinion on the supplementary information.

We found that the Goddard Exchange included two supplementary schedules with the basic financial statements but the audit report did not contain an "other-matter" paragraph addressing the supplementary information. The engagement letter specified that supplementary information accompanying the basic financial statement would be subject to auditing procedures. However, the audit firm did not include an "other-matter" paragraph to communicate whether the supplementary

¹⁴ AU-C 706A.05 defines an "other-matter" as a matter other than those presented or disclosed in the financial statements that is relevant to the users' understanding of the audit, the auditor's responsibilities, or the auditor's report. Further, AU-C 706A.A8 states that an "other-matter" paragraph does not address circumstances when the auditor has other reporting responsibilities that are in addition to the auditor's responsibility, for example, "Other Reporting Responsibilities."

¹⁵ The AICPA Technical Questions and Answers, section 9100, provides non-authoritative guidance that the auditor needs to indicate the city and state where the issuing auditor practices in the report if the firm's letterhead lists multiple locations.

information was fairly stated in relation to the financial statements as a whole. Failure to provide an opinion on the supplementary information can undermine the credibility of financial statements if there are inconsistencies between the supplementary information and the audited financial statements.

Missing Language Disclaiming Opinion on “Other Information”

AU-C 265, *Communicating Internal Control Related Matters Identified in an Audit*, addresses the auditor’s responsibility to communicate deficiencies in internal control. Occasionally, this communication is included in the audit report along with the management’s response and a description of corrective actions being taken by the audited entity. AU-C 265.A33 states that an auditor may add a paragraph to the written communication disclaiming an opinion on management’s response and corrective actions.

The Goddard Exchange audit report contained two significant deficiencies that were communicated to management.¹⁶ The auditor included management’s written response in its report. However, the auditor did not include a statement explaining that management’s response was not subject to audit procedures and that the auditor does not express an opinion on the response. A statement disclaiming opinion on management’s response eliminates ambiguity and clarifies the auditor’s responsibilities as they relate to other information presented along with the financial statements.

Management Representations Were Missing or Incomplete

Auditors have the responsibility to opine on whether the financial statements and, when applicable, supplementary information is fairly stated in relation to the financial statements as a whole.¹⁷ AU-C 580 requires auditors to obtain written representations from management that they have fulfilled their responsibility for the preparation and fair presentation of the financial statements and for the completeness of the information provided to the auditor. AU-C 725.07 lists the audit procedures that should be performed in order for auditors to form their opinion on supplementary information.

The Stennis Exchange audit report listed the Statement of Functional Expenses as part of the financial statements; however, it was not listed as part of the financial statements in the management representation letter. Additionally, no representations in the letter referred to the Statement of Functional Expenses. We also found that the Langley Exchange audit report opined on supplementary information; however, the management representation letter did not include any written representations related to that supplementary information. Management representations provide audit evidence to support the auditor’s conclusions. A lack of written representations weakens the basis of the audit opinion.

Based on the deficiencies we found related to compliance with generally accepted auditing standards, we advise that the relevant audit firms review the form and content of the audit reports to ensure it includes standard report elements and language. Additionally, we strongly encourage auditors obtain the necessary management representations.

¹⁶ The Goddard Exchange IPA reported one significant deficiency related to inventory valuation and another related to the proper recording of unpaid invoices. See Appendix B for a description of the significant deficiencies.

¹⁷ The supplementary information is presented outside the basic financial statements and is not considered necessary for the financial statements to be fairly presented in accordance with the applicable financial reporting framework (GAAP).

Audit Firm Did Not Meet CPE Requirements

The firm that audited the Goddard Exchange did not meet the CPE requirements for the most recent 2-year CPE reporting period covering the period the audit was performed. As a result, the firm did not meet the *Government Auditing Standards* requirements, although it is stated the audit was conducted in accordance with GAGAS.

Auditors performing work in accordance with GAGAS should maintain their professional competence through continuing professional education. GAGAS 3.76 requires that auditors involved in planning, directing, and performing audit procedures or reporting complete the following every two years:

1. 80 CPE hours total;
2. 24 CPE hours that directly relate to government auditing, the government environment or the specific environment of the audited entity; and
3. At least 20 CPE hours for each year within the two-year period.

Auditors hired and assigned to GAGAS audits after the start of the audit firm's two-year reporting period should complete a prorated number of CPE hours.

The Goddard Exchange hired a Maryland-based audit firm to perform a GAGAS audit of the operations of the Exchange. The firm reports CPEs by calendar year. The most recently completed two-year CPE reporting period at the time of the FY 2019 audit was January 1, 2017 through December 31, 2018. There were four individuals on the audit team: the engagement partner, concurring partner, manager, and associate. The associate was hired in June 2019; therefore, that individual was not required to meet the CPE qualifications. We found that two of the remaining three audit team members did not meet the two-year, 80-hour CPE requirement. One team member was 6.5 hours short; the other was 19 hours short. None of the three remaining team members met the minimum 20-hour requirement for calendar year 2018 (the deficiencies ranged from 2 to 4 hours). We found that the audit firm does not have a system of controls to ensure CPE requirements are met in accordance with GAGAS. This deficiency was noted in the firm's latest peer review, which covered calendar year 2015. We advise that the audit firm develop a process to track CPEs for auditors assigned to GAGAS audits to ensure they meet their CPE requirements in a timely manner.

OTHER MATTERS OF INTEREST

In response to COVID-19, NASA implemented mandatory Agency-wide telework and closed its facilities in full or in part. As of January 2021, on-site work at most Centers is limited to mission-essential activities to protect life and property and approved mission-critical operations.¹⁸

In light of these developments, OP granted a three-month extension of the requirement to deliver financial audits due for FY 2020 and the NASA OIG concurred with this request.

Additionally, Center closures have resulted in financial losses for Exchanges as well as reduction in services and morale activities. Each Exchange has been impacted differently. For a brief description of the impact of COVID-19 on the Exchanges, see Appendix B.

¹⁸ Mission critical work refers to NASA activities or those supporting its federal agency partners that must be performed to minimize the impact on mission or project operations and/or schedules and cannot be performed remotely or virtually.

CONCLUSION

Based on our review of the Exchange audit reports and supporting documentation, we conclude that, overall, the audit reports complied with *Government Auditing Standards*. While we are not making any formal recommendations, we noted areas for improvement related to financial statement preparation, audit report content, and documentation supporting auditor competence. We believe that the audit firms should improve their processes and procedures to address these deficiencies. Since Exchange management accepts responsibility for the preparation and fair presentation of their financial statements, they should perform a thorough review of their financial statements even when prepared by their audit firms. Taking these actions should result in more comprehensive, accurate, and complete financial statements and audit reports. These findings were communicated separately to each affected audit firm and Exchange.

We provided a draft of this report to NASA management; their comments are reproduced in Appendix C. Technical comments provided by management and revisions to address them have been incorporated as appropriate.

Major contributors to this report include Mark Jenson, Financial Management Director, and GaNelle Flemons. Matt Ward provided editorial and graphics assistance.

If you have questions about this report or wish to comment on the quality or usefulness of this report, contact Laurence Hawkins, Audit Operations and Quality Assurance Director, at 202-358-1543 or laurence.b.hawkins@nasa.gov.

Paul K. Martin
Inspector General

APPENDIX A: SCOPE AND METHODOLOGY

We performed this review from April 2020 through February 2021 in accordance with an internally developed review guide based on the 2016 edition of the *Guide for Desk Reviews of Single Audit Reports* issued by the Council of the Inspectors General on Integrity and Efficiency (CIGIE). We tailored the CIGIE guide to remove steps related to single audits and added steps to address reviews of financial statements performed in accordance with the AICPA's Statements on Standards for Accounting and Review Services. We believe that the evidence obtained during the review provides a reasonable basis for our findings and conclusions based on our objectives.

Our review covered areas related to the external audit firm's compliance with *Government Auditing Standards* and the reporting requirements in AICPA's codification of the Statements on Standards for Accounting and Review Services. In conducting our review, we reviewed the audited or reviewed financial statements and related notes, assessed certain documentation prepared by the audit firm including the engagement letter, independence certifications, and representation letters. We verified that the audit team met CPE requirements for the reporting period covering the period the audit was performed. We also confirmed the license status of the firm and its applicable personnel who worked on the Exchange audits and reviews to determine whether they held a current "firm" or personal certified public account license to perform the audit or review services.

To support our objectives, we reviewed applicable laws and regulations and interviewed Exchange personnel to gain an understanding of the Exchange Council structure, the services and activities it provides its employees, and the impact that the COVID-19 pandemic has had on current Exchange operations. Additionally, we interviewed the audit firms to gain an understanding of their audit processes, the firms' CPE reporting periods, and how the audit firms certify independence as it relates to audits and reviews they performed.

Our review of applicable requirements and standards, as well as NASA policy related to Exchanges included, but was not limited to, the following:

- Codification of the AICPA's U.S. Auditing Standards (AU-C)
- Codification of the AICPA's U.S. Standards for Accounting and Review Services (AU-R)
- AICPA Audit Guide -- Government Auditing Standards and Single Audits (AAG-GAS)
- Government Accountability Office, *Government Auditing Standards* (December 2011 Revision)
- FASB Accounting Standards Update No. 2016-14, *Presentation of Financial Statements of Not-For-Profit Entities* (August 2016)
- NASA Policy Directive 9050.06K, *NASA Exchange and Morale Support Activities* (March 2, 2015)

APPENDIX B: EXCHANGES AT A GLANCE

The following summaries provide a profile of each of the 12 NASA exchanges with background information, a description of services and activities offered to employees, financial highlights, and the impact of COVID-19 on operations.

NASA AMES EXCHANGE

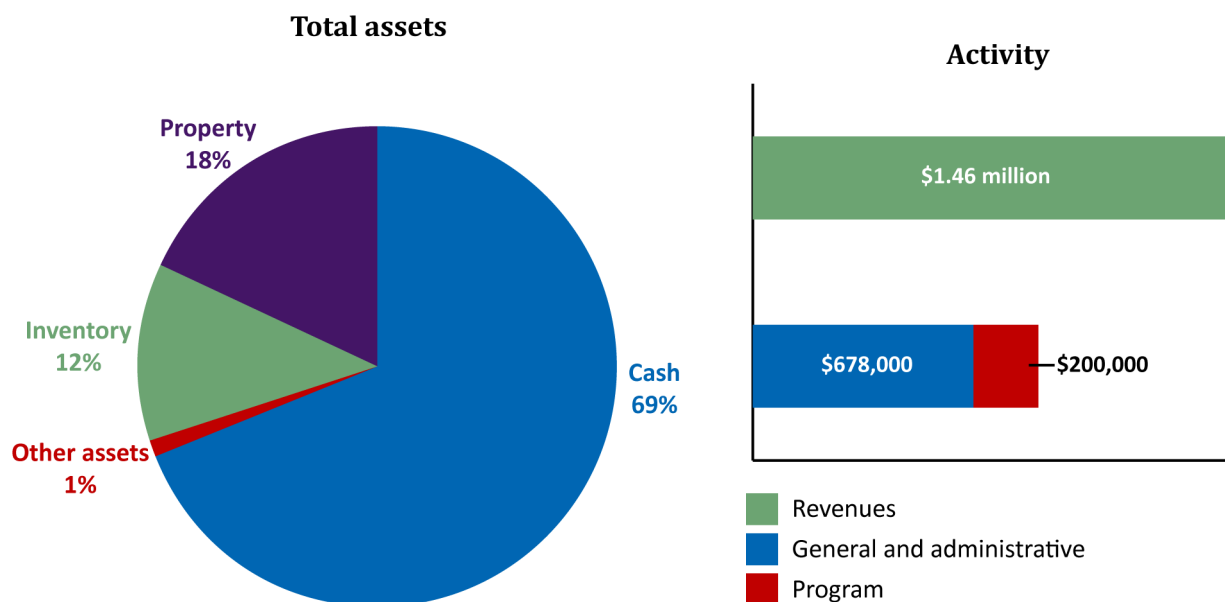
The Ames Exchange began in 1939 as a small coffee club and was officially established by the Center Director in 1941. It operates several cafeterias, a catering operation, gift shops, an online store, a recreational vehicle and personal vehicle storage lot, food trucks, vending machines, and an onsite lodge for overnight guests. Prior to FY 2015, the Exchange also operated the Moffett Field Golf Course, which opened in 1959. During 2015, the Exchange decided to outsource the operation of the golf course, and on April 1, 2015, the Exchange discontinued the operation and sold the majority of its assets. Revenues generated from the Exchange's services are used to finance morale activities such as a softball league, maintenance of tennis and basketball courts, ballroom dancing, monthly happy hours, movie outings at the local movie theater, an annual morale fund provided to each directorate, ski trips, picnics, and an annual chili cook-off. The Exchange does not receive appropriated funds from the Center; however, it uses real property and existing facilities owned by the Center for its operations.



| Exchange Demographics | Audit/Auditor Information |
|--|--|
| <p>Location: Moffett Field, California</p> <p>Council Membership: 14 members (9 voting, 5 non-voting)</p> <p>Number of Employees: 48</p> <p>FY 2019 Financials: Assets: \$3,017,024 Liabilities: \$432,799 Net Revenues: \$1,459,684 Expenses: \$877,525</p> <p>Websites: https://exchange.arc.nasa.gov (NASA only) https://officialnasagear.com (online store)</p> <p>Current Status: Partially operational (<i>see Impact of COVID-19 on Operations</i>)</p> | <p>Location: San Jose, California</p> <p>Length of service as auditor: 3 years</p> <p>Audit Opinion: Unmodified (clean)</p> <p>Current Year findings: One significant deficiency related to cash disbursements. The auditor noted a lack of segregation of duties over the check preparation and signing process. (This is a repeat finding from the prior year.)</p> <p>FY 2019 Peer Review Rating: Pass with deficiencies</p> |

Financial Operations

As of the end of FY 2019, the Exchange had assets of \$3 million. Cash totaled \$2.1 million, which was an increase of \$856,000 from the prior year. Property totaled \$549,000, which was a decrease \$126,000 due to depreciation expense. Inventory increased \$37,000 to \$367,000. Other assets included accounts receivable and other current assets and totaled \$10,000, which decreased by \$81,000 since last year, primarily due to collections of accounts receivable. Overall, the Exchange increased its net assets by \$582,000 with total net revenues of \$1.46 million and expenses of \$878,000. The majority of revenues were generated from lodging stays, which covered losses incurred by the Exchange's other services. Expenses included general and administrative expenses (salaries, benefits, depreciation, insurance, and business support) and program expenses for its mission—morale activities. See graphics of FY 2019 asset balance percentages and Exchange activity below.



Impact of COVID-19 on Operations

The Ames Exchange has been closed since March 2020. As a highly seasonal Exchange, almost all of its revenue comes during the summer months. The Exchange operates at a loss for the majority of the year, and then becomes profitable from summer internships, tourism, and conferences. Since there have been no conferences, onsite internships, or personnel to utilize any of the Exchange's services, revenue has been limited to the online store and storage for the RV lot.

As of June 2020, 44 Exchange employees were reduced to zero work hours and have been allowed to use their annual leave, compensatory time, and sick leave until being placed on "leave without pay" status. By the end of FY 2020, only four critical Exchange employees remained employed to manage the lodge, online store, and the RV lot. The visitor center gift shop, cafeteria, center café, convenience store, and recreational facilities remained closed. Closed facilities were not expected to reopen for several months.

NASA ARMSTRONG FLIGHT RESEARCH CENTER EMPLOYEE EXCHANGE ASSOCIATION

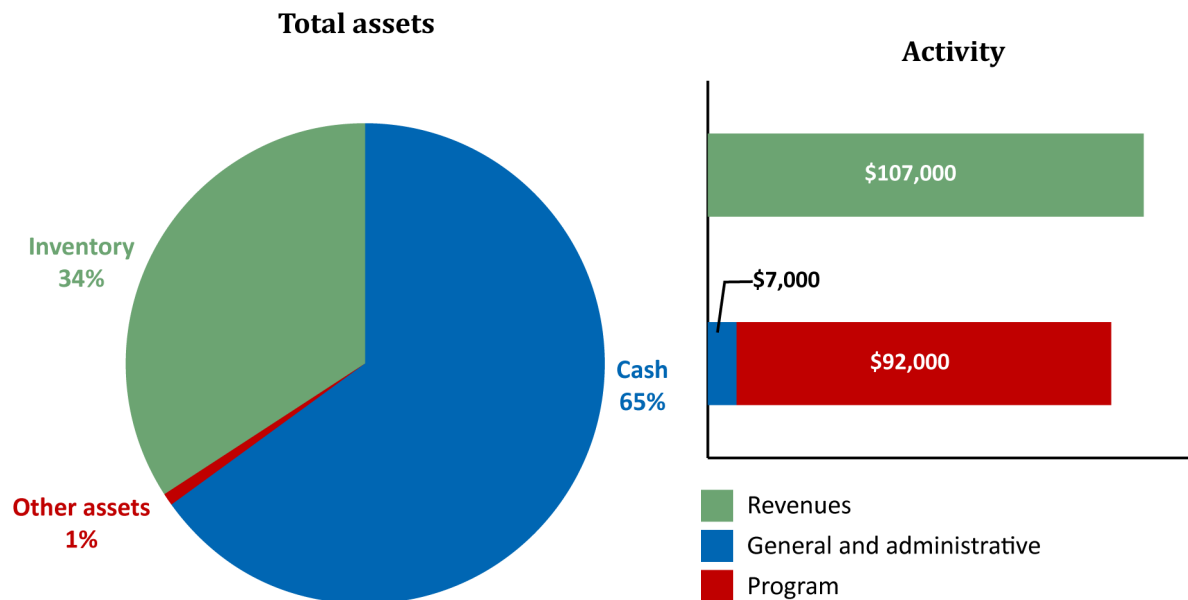
The Armstrong Flight Research Center Employee Exchange Association is one of the smaller NASA Exchanges. It offers a cafeteria and gift shop on the NASA Armstrong Flight Research Center facility, which is on Edwards Air Force Base. The cafeterias are run by the Army exchange but generate revenue for the NASA Exchange. The Exchange has one contractor employee who supports gift shop operations. Revenues generated from the Exchange's services are used to finance morale activities such as fishing trips, holiday parties, barbecues, volleyball, and golf. The Exchange does not receive appropriated funds from the Center; however, it does receive additional funding through bake sales and voluntary employee contributions.



| Exchange Demographics | Audit/Auditor Information |
|---|---|
| Location: Edwards, California | Location: Los Angeles, California |
| Council Membership: 9 members (5 voting, 4 non-voting) | Length of service as auditor: 13 years |
| Number of Employees: 1 contractor | Audit Opinion: Unmodified (clean) |
| FY 2019 Financials: Assets: \$639,083 Liabilities: \$26,193 Net Revenues: \$107,087 Expenses: \$99,170 | Current Year findings: No findings |
| Website: Under development | FY 2019 Peer Review Rating: Pass with deficiencies |
| Current Status: Partially operational (<i>see Impact of COVID-19 on Operations</i>) | |

Financial Operations

As of the end of FY 2019, the Exchange had assets of \$639,000. Cash totaled \$416,000, which was an increase of \$51,000 from the prior year. Inventory decreased by \$24,000 to \$218,000. Other assets included accounts receivable, prepaid expenses and other current assets and totaled \$5,000, which decreased by a thousand since last year, primarily due to collections of accounts receivable. Overall, the Exchange increased its net assets by \$8,000 with total net revenues of \$107,000 and expenses of \$99,000. The majority of revenues were generated from the gift shop, fundraising events, and profit sharing through the cafeteria. Expenses included general and administrative expenses (credit card fees, insurance, and other miscellaneous expenses) and program expenses for its mission—morale activities. See graphics of FY 2019 asset balance percentages and Exchange activity below.



Impact of COVID-19 on Operations

The AFRC Employee Exchange Association is currently operating at a loss, and operations are online only. As of November 2020, the Exchange estimated it has lost \$120,000 in revenues due to the pandemic. The Exchange continued to pay its contractor that operates the gift shop, which had cost the Exchange approximately \$5,500 month since March 2020. The Exchange did not believe the impact on operations would affect its ability to re-open.

NASA GLENN EXCHANGE

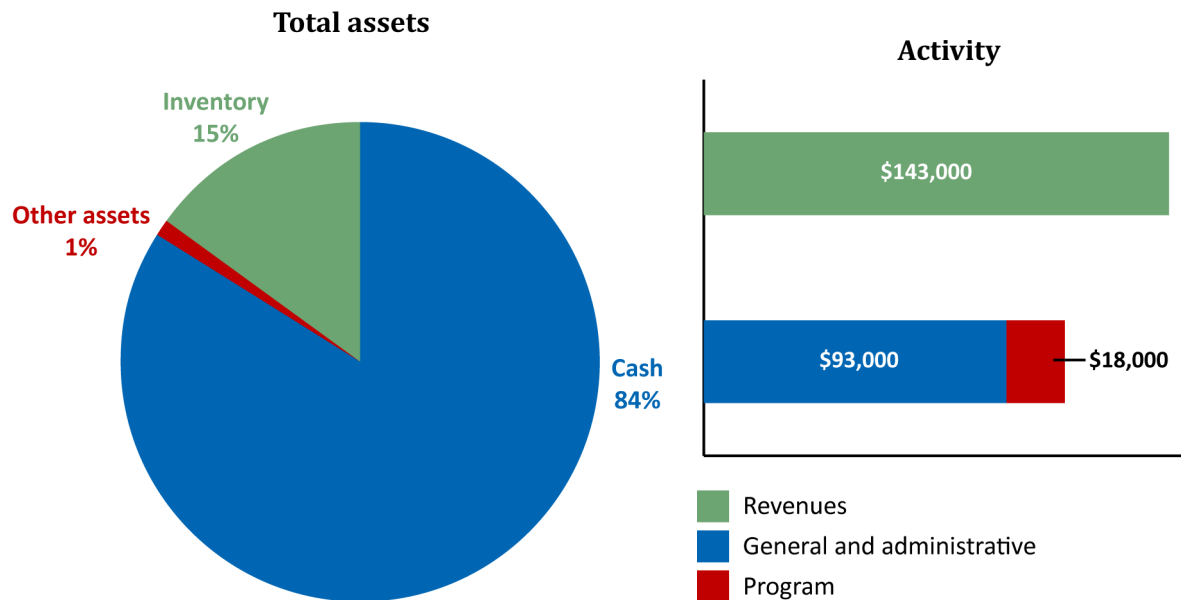
The NASA Glenn Exchange began in November 1942 when the Center, formerly called Aircraft Engine Research Laboratory, was one of three Research Laboratories of the National Advisory Committee for Aeronautics (NACA). When NACA reorganized into NASA in 1958, the Center was renamed the NASA Lewis Research Center and later became NASA Glenn Research Center. Currently, the Exchange operates a gift shop, online store, and café. Revenues generated from the Exchange's services are used to finance morale activities such as Center-wide picnics and holiday parties. The Exchange does not receive appropriated funds from the Center; however, it uses real property and existing facilities owned by the Center for its operations.



| Exchange Demographics | Review/Auditor Information |
|---|--|
| <p>Location: Cleveland, Ohio</p> <p>Council Membership: 9 members (5 voting, 4 non-voting)</p> <p>Number of Employees: 2</p> <p>FY 2019 Financials: Assets: \$327,177 Liabilities: \$13,729 Net Revenues: \$143,182 Expenses: \$110,765</p> <p>Website: https://www.nasashop.com (online store)</p> <p>Current Status: Not operational (<i>see Impact of COVID-19 on Operations</i>)</p> | <p>Location: Cleveland, Ohio</p> <p>Length of service as auditor: 13 years</p> <p>Review Conclusion: Unmodified (clean)</p> <p>Current Year findings: No findings</p> <p>FY 2019 Peer Review Rating: Pass</p> |

Financial Operations

As of the end of FY 2019, the Exchange had assets of \$327,000. Cash totaled \$277,000, which was an increase of \$38,000 from the prior year. Inventory increased \$3,000 to \$48,000. Other assets included accounts receivable and other current assets and totaled \$2,000, which decreased by \$6,000 since last year, primarily due to collections of accounts receivable. Overall, the Exchange increased its net assets by \$32,000 with total net revenues of \$143,000 and expenses of \$111,000. The majority of revenues were generated from gift shop sales. Expenses included general and administrative expenses (salaries, benefits, insurance, and office) and program expenses for its mission—morale activities. See graphics of FY 2019 asset balance percentages and Exchange activity below.



Impact of COVID-19 on Operations

The NASA Glenn Exchange has been closed since March 2020. As a result, the Exchange has not been earning sales revenue from its store, and inventory cannot be accessed to fulfill online orders. The Exchange launched a new online store in November, which will help to generate revenue. The two Exchange employees remained on payroll to assist in marketing and evaluating the new website and inventory update from the time the store closed until December 2020 when they were laid off. Despite the interruption in operations, the Exchange expressed no concerns regarding whether it would be able to continue to operate after the Center reopens.

GODDARD EMPLOYEES WELFARE ASSOCIATION

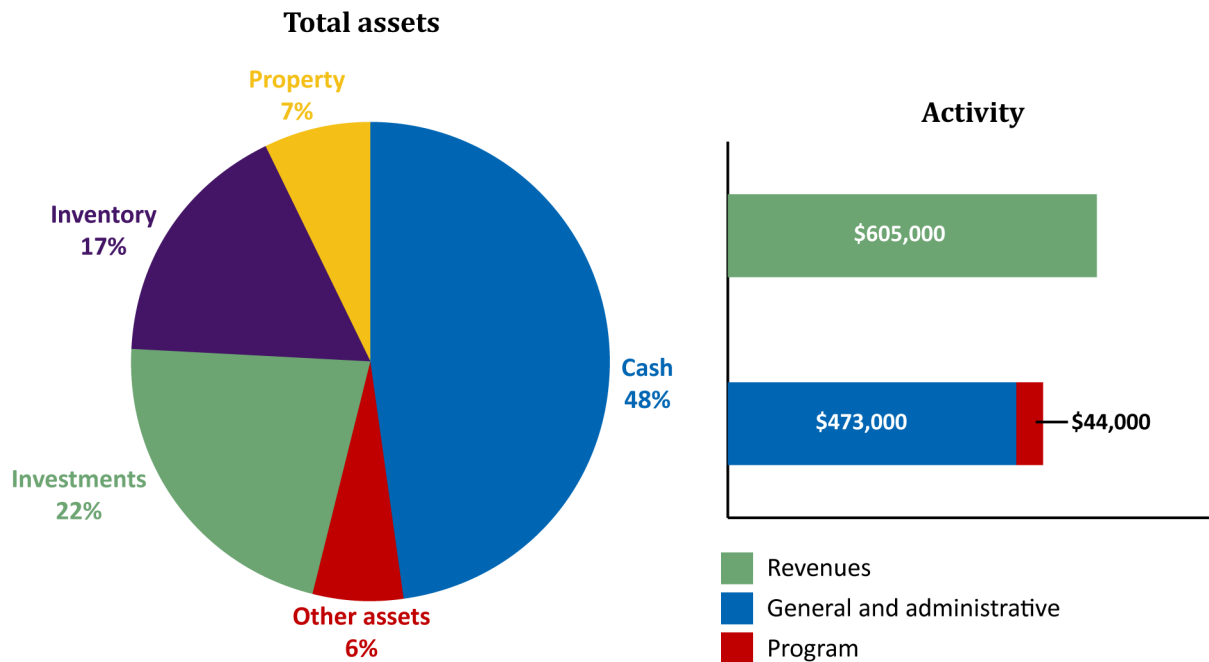
The Goddard Employees Welfare Association (GEWA) began in July 1963. It operates several cafeterias, a catering operation, a post office, a recreation center, gift shops, vending machines, and rental of picnic shelters. The Exchange also operates and controls the Goddard Child Development Center (GCDC), which offers daycare for the children of Goddard employees and federal contractors and is supported by an advisory nonprofit board of directors. The GCDC prepares separate financial statements that are also audited by the GEWA audit firm, which issues a separate audit opinion. Revenues generated from the Exchange's services are used to finance morale activities such as sports events, retirement gifts, a commuter bus, an annual morale fund provided to each organization for organization specific events, an annual block party, and a holiday open house. The Exchange does not receive appropriated funds from the Center; however, it uses real property and existing facilities owned by the Center for its operations.



| Exchange Demographics | Audit/Auditor Information |
|--|---|
| Location: Greenbelt, Maryland | Location: Suitland, Maryland |
| Council Membership: 18 members (12 voting, 6 non-voting) | Length of service as auditor: 4 years |
| Number of Employees: 12 (does not include the 27 GCDC staff) | Audit Opinion: Unmodified (clean) |
| FY 2019 Financials: Assets: \$1,179,173 Liabilities: \$45,446 Net Revenues: \$605,427 Expenses: \$516,986 | Current Year findings: Two significant deficiencies. One significant deficiency related to controls over inventory valuation; the inventory year-end balance was not adjusted to reflect final year-end valuation. The other significant deficiency related to purchases that were not properly accrued at year end. |
| Website: https://gewa.gsfc.nasa.gov/ | FY 2019 Peer Review Rating: Fail |
| Current Status: Partially operational (<i>see Impact of COVID-19 on Operations</i>) | |

Financial Operations

The financial statements of the Exchange represent the financial position and activity of the Exchange's morale activities. As of the end of FY 2019, the Exchange had assets of \$1.2 million. Cash totaled \$562,000, which was an increase of \$98,000 from the prior year. Property totaled \$83,000, which was a decrease \$15,000 due to depreciation expense. Inventory totaled \$204,000. Investments, which are comprised of certificates of deposit, increased by \$5,000 to \$263,000 due to an increase in their fair value. Other assets included accounts receivable and other current assets and totaled \$67,000, which increased by \$19,000 since last year, primarily due to increase of commission receivable. Overall, the Exchange increased its net assets by \$88,000 with total net revenues of \$605,000 and expenses of \$517,000. The majority of revenues were generated from merchandise sales and commission and vending income. Expenses included general and administrative expenses (salaries, benefits, depreciation, insurance, and business support for the Exchange) and program expenses for its two significant sources of sales—the Exchange store and the visitor center. See graphics of FY 2019 asset balance percentages and Exchange activity below.



Impact of COVID-19 on Operations

GEWA furloughed eight employees, effective November 1, 2020, with six fully furloughed and two with significantly reduced hours. There are concerns about reopening surrounding costs of employee and patron social distancing safety measures and new requirements such as taller sneeze guards, cash register shields, and other protective measures for food and patrons. Food and vending services are looking at a potential reopening, with reduced services, in March 2021. GEWA is continuing with competition for a new food and vending service provider. Though not reflected in the financials above, the GCDC started furloughing its employees in June 2020 as it had almost depleted its reserve funds. As of November 2020, all GCDC employees had been furloughed.

NASA HEADQUARTERS EXCHANGE COUNCIL

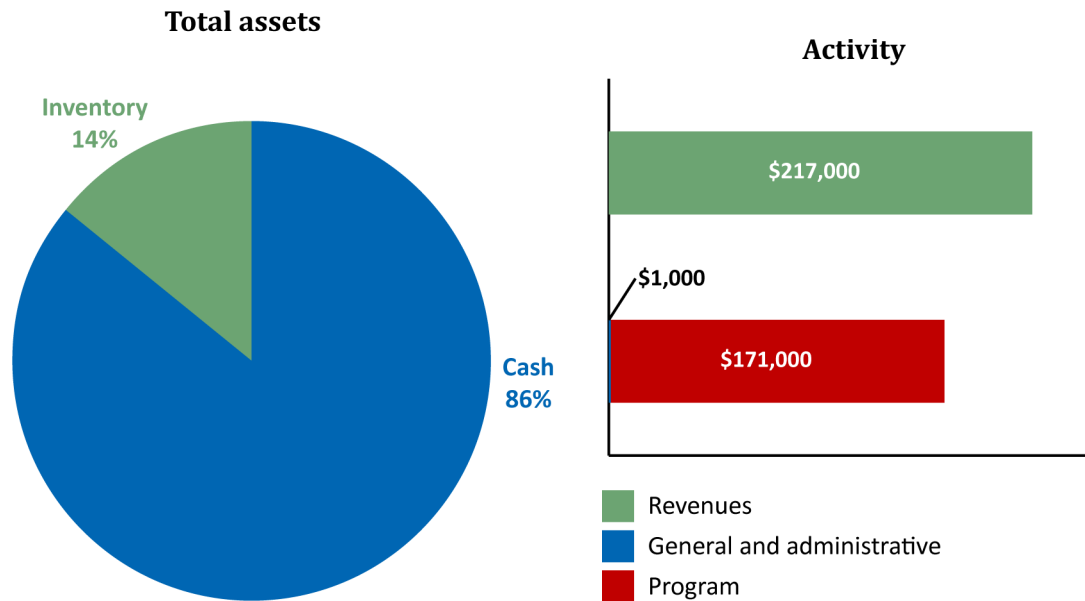
The Headquarters Exchange Council began in January 1953. Its primary service is a gift shop. The Exchange also earns revenue through fundraising activities, such as an annual golf tournament and pecan sales. Revenues generated from the Exchange's services are used to finance morale activities such as monthly events, an offsite picnic, employee giveaways, discount tickets to theme parks, and sponsored attendance at professional baseball and soccer games. The Exchange does not receive appropriated funds from Headquarters; however, on limited occasions it may request appropriated funds to purchase large equipment. Additionally, the Exchange uses real property and existing facilities owned by Headquarters for its operations.



| Exchange Demographics | Review/Auditor Information |
|---|--|
| Location: Washington, D.C. | Location: Suitland, Maryland |
| Council Membership: 12 members | Length of service as auditor: 4 years |
| Number of Employees: 3 (2 full-time and 1 part-time) | Review Conclusion: Unmodified (clean) |
| FY 2019 Financials: Assets: \$405,338 Liabilities: \$1,062 Net Revenues: \$217,153 Expenses: \$170,602 | Current Year findings: No findings |
| Website: https://www.hq.nasa.gov/exchange/index.html | FY 2019 Peer Review Rating: Fail |
| Current Status: Partially operational (<i>see Impact of COVID-19 on Operations</i>) | |

Financial Operations

As of the end of FY 2019, the Exchange had assets of \$405,000. Cash totaled \$346,000, which was an increase of \$49,000 from the prior year. Inventory totaled \$58,000. Other assets totaled \$1,000. Overall, the Exchange increased its net assets by \$47,000 with total net revenues of \$217,000 and expenses of \$171,000. The majority of revenues were generated from merchandise sales and golf revenues. Expenses included general and administrative services (insurance and miscellaneous) and program expenses for its mission—morale activities and includes and employee salaries. See graphics of FY 2019 asset balance percentages and Exchange activity below.



Impact of COVID-19 on Operations

Since the gift shop's closure in March 2020, the Headquarters Exchange is losing about \$18,000 a month in revenue; however, employees have not been furloughed. According to the Exchange, it has enough reserve to cover employee salaries, which are approximately \$13,000 per month.

NASA EXCHANGE – JOHNSON SPACE CENTER

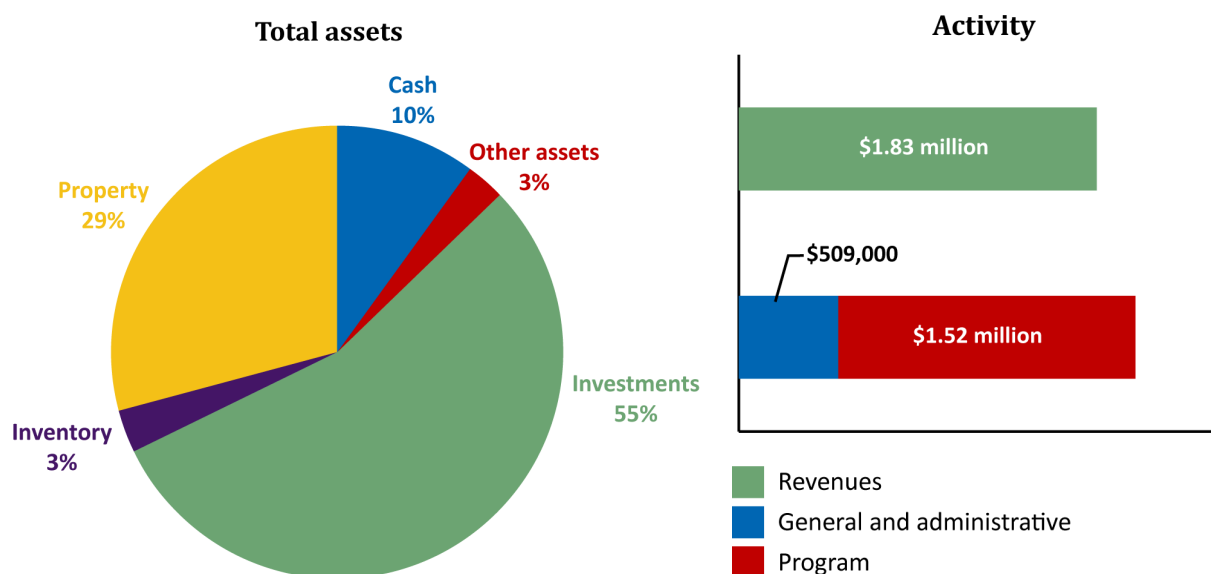
The NASA Exchange - Johnson Space Center began in July 1962. It operates several cafeterias, gift shops, rental of conference center/meeting space, a fitness center, food trucks, vending machines, a coffee bar, retail stores, an online store, and rental of picnic pavilions. Revenues generated from the Exchange's services are used to finance morale activities such as its fitness center, sports leagues, year-end celebrations, seasonal events, and holiday parties. The Exchange does not receive appropriated funds from the Center; however, it uses real property and existing facilities owned by the Center for its operations.



| Exchange Demographics | Audit/Auditor Information |
|---|--|
| <p>Location: Houston, Texas</p> <p>Council Membership: 12 members</p> <p>Number of Employees: 36</p> <p>FY 2019 Financials: Assets: \$6,892,536 Liabilities: \$252,980 Net Revenues: \$1,834,439 Expenses: \$2,031,995</p> <p>Website: https://starport.jsc.nasa.gov/</p> <p>Current Status: Partially operational (<i>see Impact of COVID-19 on Operations</i>)</p> | <p>Location: Houston, Texas</p> <p>Length of service as auditor: 9 years</p> <p>Audit Opinion: Unmodified (clean)</p> <p>Current Year findings: No findings</p> <p>FY 2019 Peer Review Rating: Pass</p> |

Financial Operations

As of the end of FY 2019, the Exchange had assets of \$6.9 million. Cash totaled \$671,000, which was an increase of \$29,000 from the prior year. Property totaled \$2 million, which was a decrease \$152,000 due to depreciation expense. Inventory totaled \$231,000. Investments decreased by \$29,000 to \$3.8 million due to decrease in fair value of certificates of deposit and bonds. Other assets included accounts receivable and prepaid expenses and totaled \$166,000, which increased by \$21,000 since last year, primarily due to increase in accounts receivable. Overall, the Exchange decreased its net assets by \$198,000 with total net revenues of \$1.8 million and expenses of \$2 million. The majority of revenues were generated from retail store sales and fees from activities at the fitness center and recreation center. Expenses included general and administrative expenses (salaries, benefits, depreciation, insurance, and investment expense) and program expenses for its mission—morale activities. See graphics of FY 2019 asset balance percentages and Exchange activity below.



Impact of COVID-19 on Operations

Most of the Exchange employees have been furloughed since April 26, 2020. Most services, including the cafeteria, food trucks, in-person fitness activities, sports and recreation activities, milestone celebration events, and conference events have been stopped. As of November 2020, some services have continued or started up again including vending services for mission critical on-site workers, virtual fitness classes, a weekly fitness/wellness newsletter, and the online retail store. The Exchange anticipates a decrease in net income for FY 2020 and future Exchange operations are uncertain.

NASA EXCHANGE – KENNEDY SPACE CENTER

The NASA Exchange - Kennedy Space Center began in 1967. It operates several retail stores, two barber shops, a service station, a cafeteria, catering services, a child development center, a credit union, a restaurant, a food court, and recreational parks. KARS Parks I and II were established as recreational facilities, operated and maintained by non-appropriated funds generated by the Exchange Stores, Child Development Center, and KARS Park membership and facility usage fees. Revenues generated from the Exchange's services are used to finance other morale activities such as KSC day at Universal Studios, a fall festival, the annual workforce fund provided to organizations to fund organization specific events, cookouts, and launch related events. The Exchange does not receive appropriated funds from the Center; however, it uses real property and existing facilities owned by the Center for its operations.

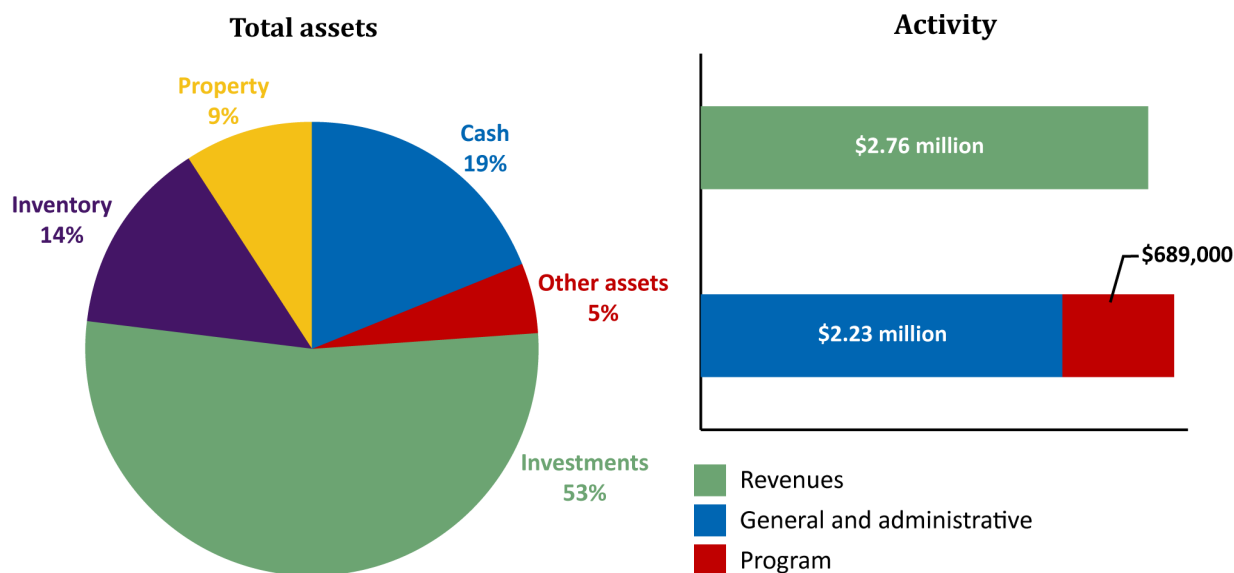


| Exchange Demographics | Audit/Auditor Information |
|---|---|
| Location: near Orlando, Florida | Location: Orlando, Florida |
| Council Membership: 6 members | Length of service as auditor: 13 years |
| Number of Employees: 58 | Audit Opinion: Unmodified (clean) |
| FY 2019 Financials: Assets: \$4,241,239 Liabilities: \$290,775 Net Revenues: \$2,756,030 Expenses: \$2,916,158 | Current Year findings: One significant deficiency related to cash. Cash and investment balances in two of its financial institutions exceed insured limits and were not collateralized. (This was repeat finding from the prior year.) |
| Website: https://nasaexchange.ksc.nasa.gov/ | FY 2019 Peer Review Rating: Pass |
| Current Status: Partially operational (<i>see Impact of COVID-19 on Operations</i>) | |

Financial Operations

As of the end of FY 2019, the Exchange had assets of \$4.2 million. Cash totaled \$801,000, which was a decrease of \$260,000 from the prior year. Property totaled \$385,000, which was an increase of \$28,000 due to the purchase of furniture, fixtures, and equipment for the barber shop and stores. Inventory totaled \$606,000. Investments decreased by \$52,000 to \$2.2 million due to decrease in fair value of certificates of deposits. Other assets included accounts receivable and prepaid expenses and totaled \$199,000, which increased by \$70,000 since last year, primarily due to increase in accounts receivable.

Overall, the Exchange decreased its net assets by \$160,000 with total net revenues of \$2.8 million and expenses of \$2.9 million. The majority of revenues were generated from retail store sales and child development center tuitions. Expenses included general and administrative expenses (salaries, benefits, depreciation, and insurance) and program expenses for its mission—morale activities. See graphics of FY 2019 asset balance percentages and Exchange activity below.



Impact of COVID-19 on Operations

The KSC Exchange estimates a loss of nearly \$530,000 in revenues for fiscal year 2020. The KSC Exchange Council mandated that the Exchange retain a 6-month operating expense reserve, allowing it to continue to pay employee salaries and benefits as well as all other fixed and recurring expense obligations during the Center closure. In May 2020, the KSC Exchange was approved for a Paycheck Protection Program loan of \$400,000. The Paycheck Protection Program is a loan designed for businesses affected by COVID-19 and provides a direct incentive for small businesses to keep their workers on the payroll. This loan amount was sufficient to cover 2.5 months of payroll and related expenses, lengthening the time that the Exchange's reserve capital would cover expenses. Exchange revenue-generating services have been allowed to resume since March:

- May – the KARS Park opened with limited capacity
- June – the online store reopened
- July – limited food services reopened
- August – the day care reopened at limited capacity
- October – one of the retail stores reopened.

The service station never closed during the pandemic. Revenues received from these partial re-openings allowed the Exchange to continue to operate.

NASA LANGLEY EXCHANGE COUNCIL AND ACTIVITIES

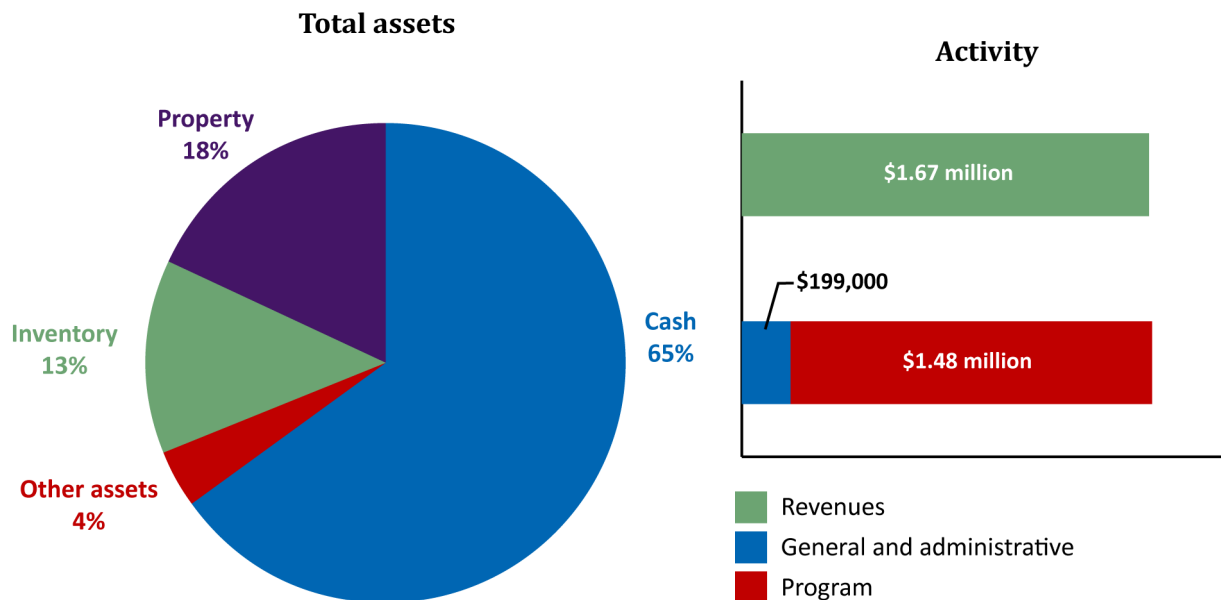
The Langley Exchange Council and Activities began as early as 1943 as the NACA Exchange. Today, it operates a social lounge, cafeteria, Child Development Center, gift shops, dry cleaning, vending machines, a café, and rental of picnic shelters. Revenues generated from the Exchange's services are used to finance morale activities such as its sports and recreation events, celebration of historical events, and an annual workforce fund to fund organization-specific events. Fitness facilities and sports clubs are operated and managed by a third party. The Exchange supports the fitness facilities and sports clubs by collecting membership fees and managing their finances. The Exchange does not receive appropriated funds from the Center; however, it uses real property and existing facilities owned by the Center for its operations. Maintenance of the fitness facilities is covered by a memorandum of agreement with the Center of Operations Directorate.



| Exchange Demographics | Audit/Auditor Information |
|---|---|
| <p>Location: Hampton, Virginia</p> <p>Council Membership: 8 members (the Chair; 5 voting; 2 non-voting)</p> <p>Number of Employees: 55</p> <p>FY 2019 Financials: Assets: \$1,106,040 Liabilities: \$256,875 Net Revenues: \$1,669,364 Expenses: \$1,681,970</p> <p>Website: https://sites-e.larc.nasa.gov/larc-exchange/</p> <p>Current Status: Partially operational (<i>see Impact of COVID-19 on Operations</i>)</p> | <p>Location: Owings Mills, Maryland</p> <p>Length of service as auditor: 1 year</p> <p>Audit Opinion: Unmodified (clean)</p> <p>Current Year findings: No findings</p> <p>FY 2019 Peer Review Rating: Pass</p> |

Financial Operations

As of the end of FY 2019, the Exchange had assets of \$1.1 million. Cash totaled \$722,000, which was an increase of \$30,000 from the prior year. Property totaled \$201,000, which was a decrease \$29,000 due to depreciation expense. Inventory totaled \$138,000. Other assets included accounts receivable and prepaid expenses and totaled \$46,000. Overall, the Exchange decreased its net assets by \$13,000 with total net revenues of \$1.7 million and expenses of \$1.7 million. The majority of revenues were generated from retail store sales and commissions. Expenses included general and administrative and program expenses for its mission—morale activities. See graphics of FY 2019 asset balance percentages and Exchange activity below.



Impact of COVID-19 on Operations

On March 27, 2020, all 55 employees of the Langley Exchange were furloughed. During the year, the Exchange Council approved Exchange employees being placed on non-duty paid status until October 23, 2020 at which time 25 cafeteria employees were terminated. On October 24, 24 childcare employees were retained to support a planned reopening of the Child Development Center in November. However, the reopening did not materialize and all 24 employees were terminated effective November 6.

At the beginning of March 2020, the Langley Exchange had \$498,000 in reserves. Exchange reserves were used to pay salaries and other operational costs such as 401K, life insurance, liability insurance, and refunds to parents of children at the day care center. As of the end of October 2020, the reserves were reduced to \$161,000. The Exchange is developing a reopening plan in conjunction with the Center. The plan addresses challenges and expectations of operating and encompasses guidance provided by the Centers for Disease Control and Prevention. Physical distancing, heightened health and safety concerns, increased teleworking, modified business and industrial requirements, and changes in operation hours are factors being considered in developing the plan.

NASA EXCHANGE – GEORGE C. MARSHALL SPACE FLIGHT CENTER

The MSFC Exchange was established in 1963. It operates a cafeteria, mail services, an auto repair shop, food trucks, retail shops, a bank, vending machines, and a barbershop. Revenues generated from the Exchange's services are used to finance morale activities such as sports

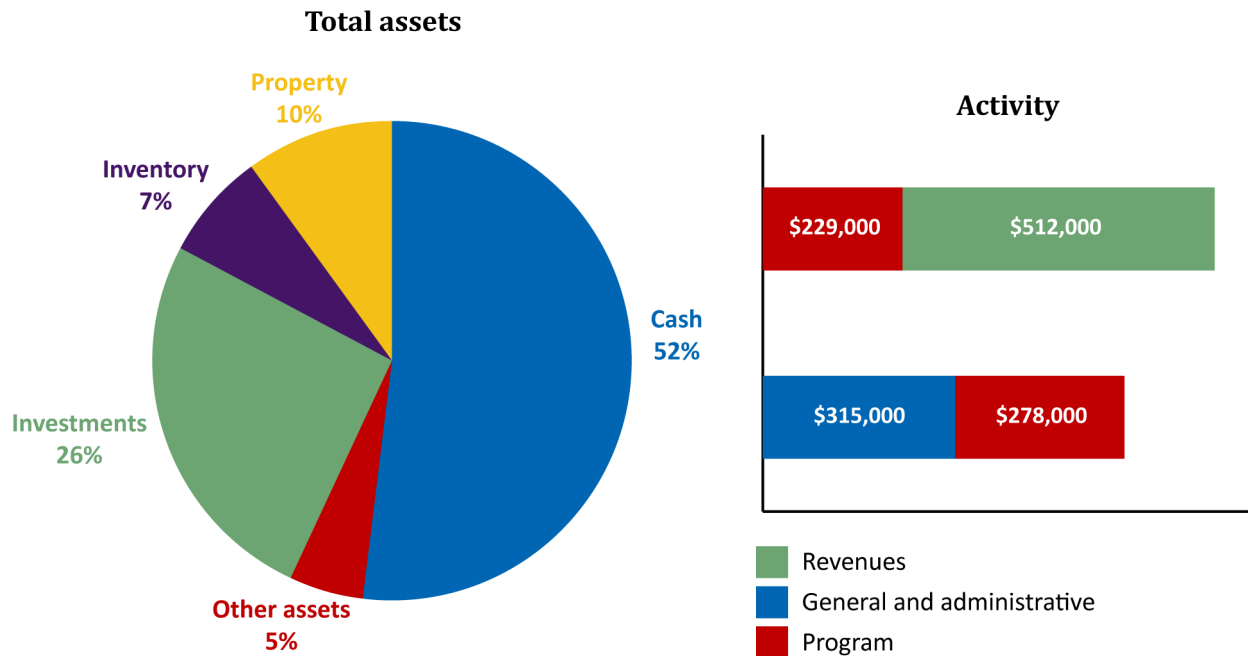


leagues, retirement gifts, and a variety of Center-wide events. The Exchange receives appropriated funds to operate and manage its Physical Exercise program. Those funds are used to hire and train qualified personnel, purchase equipment and supplies, and establish wellness programs.

| Exchange Demographics | Audit/Auditor Information |
|--|---|
| Location: Huntsville, Alabama | Location: Birmingham, Alabama |
| Council Membership: 8 members | Length of service as auditor: 2 year |
| Number of Employees: 12 | Audit Opinion: Unmodified (clean) |
| FY 2019 Financials: Assets: \$1,683,117 Liabilities: \$91,216 Net Revenues: \$741,078 Expenses: \$593,249 | Current Year findings: No findings |
| Website: https://nasa.sharepoint.com/sites/msfcex/ | FY 2019 Peer Review Rating: Pass |
| Current Status: Partially operational (<i>see Impact of COVID-19 on Operations</i>) | |

Financial Operations

As of the end of FY 2019, the Exchange had assets of \$1.7 million. Cash totaled \$875,000, which was an increase of \$157,000 from the prior year. Property totaled \$174,000, which was a decrease of \$19,000 due to depreciation expense. Inventory totaled \$117,000. Investments increased by \$3,000 to \$438,000. Other assets included accounts receivable and prepaid insurance and totaled \$78,000. Overall, the Exchange increased its net assets by \$148,000 with total net revenues of \$741,000, \$229,000 of which were appropriated funds, and expenses of \$593,000. The majority of revenues were generated from merchandise sales, commissions and Physical Exercise program appropriated funds. Expenses include general and administrative and program expenses. See graphics of FY 2019 asset balance percentages and Exchange activity below.



Impact of COVID-19 on Operations

In mid-March 2020, all MSFC Exchange operations and contracts were shutdown. Revenues were lost from the cafeteria, food trucks, concessionaries, banks, barbers, retail shop, and vending machines. The Exchange has been able to generate some revenue from online sales of t-shirts and small items. The auto shop has been allowed to restart operations due to the demand for services and because the nature of its operations appear safe.

The Exchange Council decided to continue paying all employees until the last pay period of calendar year 2020. Additionally, the Exchange has received some appropriated funds for the Physical Exercise program to help pay the salaries for the Exchange’s gym employees. In September 2020, some outdoor activities were allowed to resume such as the skeet, garden, golf, running, and fishing clubs.

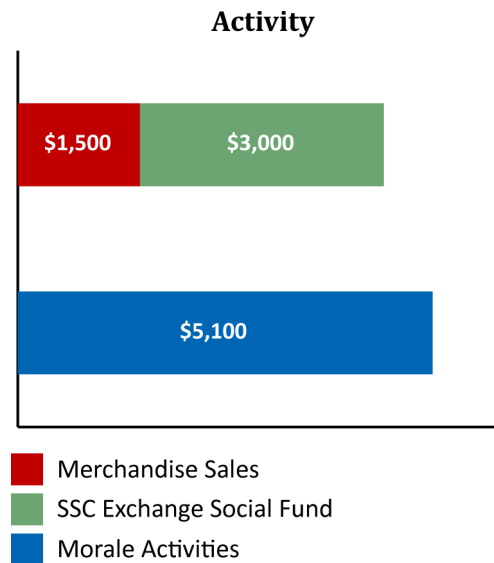
NSSC EXCHANGE COUNCIL

Established in 2006, the NSSC Exchange is a small Exchange that operates on the grounds of Stennis Space Center. It does not have business operations, employees, or concessionary agreements. It receives funding through third-party book and t-shirt sales and social funds from the SSC Exchange. These revenues are used to offset costs incurred to provide morale activities such as ice cream socials, special events, end of the year celebrations, and holiday parties. Employees are not charged to attend these events. Since the Exchange generates less than \$5,000 in revenue, it is exempt from an audit or review of its operations. Financial statements were prepared by a Certified Public Accountant who is a civil servant at NSSC, since the Exchange does not generate enough revenue to hire an outside accounting firm.

| Exchange Demographics | Audit/Auditor Information |
|--|---------------------------|
| <p>Location: Stennis Space Center in Hancock County, Mississippi</p> <p>Council Membership: 9 members</p> <p>Number of Employees: 0</p> <p>FY 2019 Financials: Assets: \$7,438 Revenues: \$4,483 Expenses: \$5,050</p> <p>Website: https://internal.nssc.nasa.gov/nec</p> <p>Current Status: Partially operational (<i>see Impact of COVID-19 on Operations</i>)</p> | <p>Not applicable</p> |

Financial Operations

As of the end of fiscal year 2019, the Exchange had \$7,400 in cash. During fiscal year 2019, NSSC Exchange generated \$4,500 thousand in revenues and \$5,100 thousand in expenses. Revenues consisted of \$3,000 in social funds from the SSC Exchange and the remaining revenues from merchandise sales.



Impact of COVID-19 on Operations

The NSSC has been in mandatory telework status since mid-March 2020. As a result, the NSSC Exchange has not held any morale activities since the Center shutdown. The Exchange participated in several online, Agency-wide T-shirt and NASA mask sales. The revenue earned from these sales was approximately \$1,000.

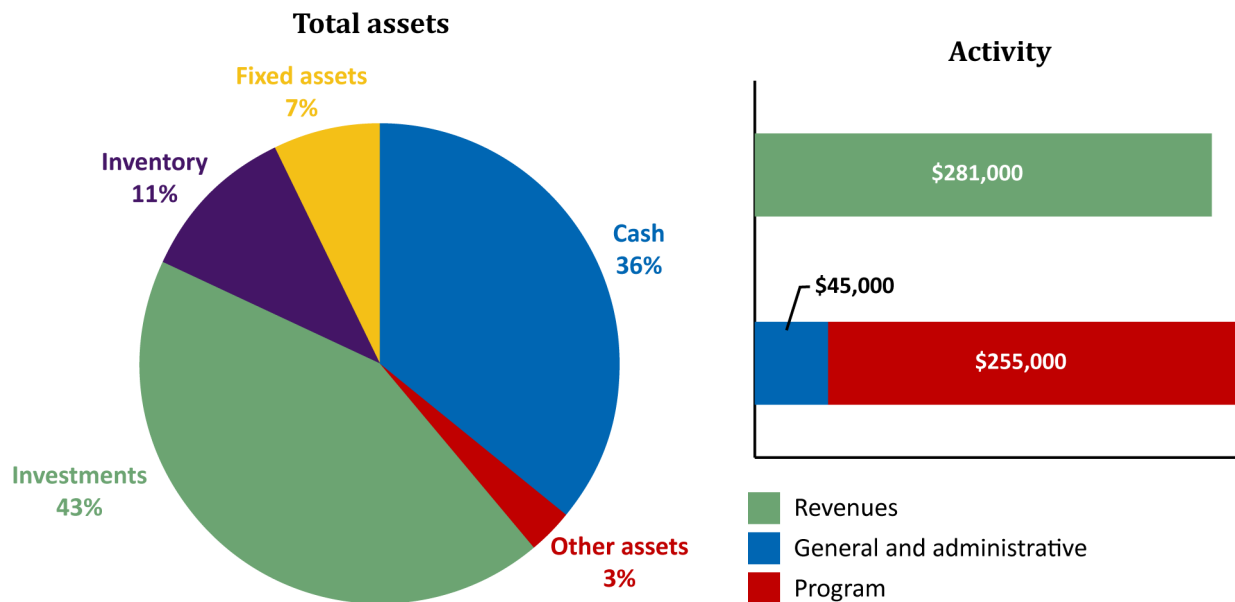
NASA EXCHANGE – STENNIS SPACE CENTER

The Stennis Exchange began in the 1980s. It operates a cafeteria, an RV lot, a coffee shop, a farmer’s market, food trucks, vending machines, a gift shop, a gas station, two restaurants, an online store, and a retail store. Revenues generated from the Exchange’s services are used to finance morale activities such as picnics, a Mardi Gras social, a tree lighting ceremony, and an offsite holiday dinner dance. The Stennis Exchange does not receive appropriated funds from the Center; however, it uses real property and existing facilities owned by the Center for its operations.

| Exchange Demographics | Audit/Auditor Information |
|--|--|
| Location: Hancock County, Mississippi | Location: Ridgeland, Mississippi |
| Council Membership: 19 members (15 voting, 4 non-voting) | Length of service as auditor: 8 years |
| Number of Employees: 7 | Audit Opinion: Unmodified (clean) |
| FY 2019 Financials: Assets: \$617,693 Liabilities: \$26,934 Net Revenues: \$280,607 Expenses: \$299,966 | Current Year findings: Two findings. One significant deficiency related to management not preparing its own financial statements, and one material weakness related to accounts receivable and inventory balance per subsidiary reports not reconciled to the general ledger. |
| Website: None | FY 2019 Peer Review Rating: Pass |
| Current Status: Partially operational (<i>see Impact of COVID-19 on Operations</i>) | |

Financial Operations

As of the end of FY 2019, the Exchange had assets of \$618,000. Cash totaled \$225,000, which was an increase of \$2,000 from the prior year. Property and equipment totaled \$44,000, which was a decrease of \$13,000 due to depreciation expense. Inventory totaled \$67,000. Investments amounted to \$263,000 in certificates of deposits. Other assets included accounts receivable and prepaid expenses and totaled \$19,000, which decreased by \$4,000 since last year. Overall, the Exchange decreased its net assets by \$19,000 with total net revenues of \$281,000 and expenses of \$300,000. The majority of revenues were generated from concession fees. Expenses included general and administrative expenses and program expenses for its mission—morale activities. See graphics of FY 2019 asset balance percentages and Exchange activity below.

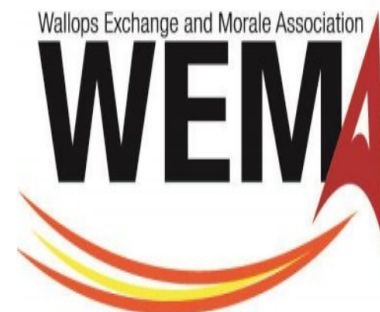


Impact of COVID-19 on Operations

On March 16, 2020, SSC Exchange operations were shut down and all employees transitioned to telework status. The Exchange office, gift shop, online store, and ticket sales program were closed, and no revenue was generated from those sources. The Stennis Exchange's primary source of revenue is its 14 concessionaire agreements. Of the 14, 5 closed in March, 2 terminated their agreements, and 2 more—the coffee shop and restaurant—have reopened. As of October 2020, both the coffee shop and restaurant are open with reduced hours, staff, and menu. A new post office that was scheduled to open in March 2020 did not open. At the end of fiscal year 2020, the Exchange had lost approximately \$75,000 in revenues. The average profit in a normal year would have been between \$5,000 and \$10,000.

WALLOPS EXCHANGE AND MORALE ASSOCIATION

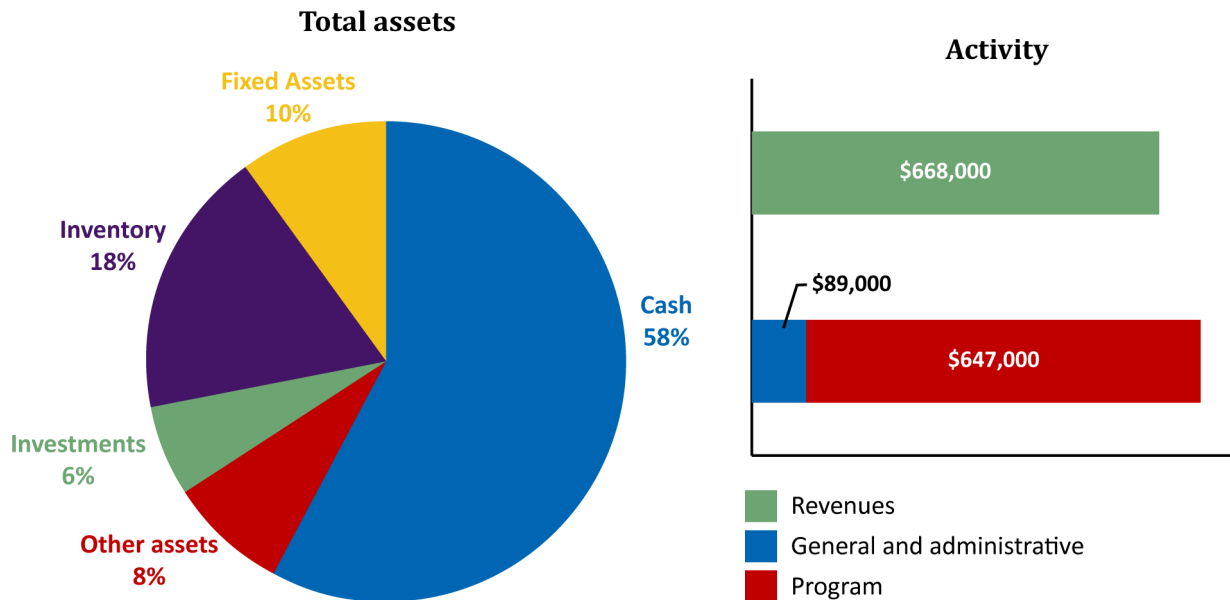
The Wallops Exchange and Morale Association (WEMA) began in the early 1960s. It operates a cafeteria, a lodge, a bar, food trucks, a gift shop, and a retail store. Revenues generated from the Exchange's services are used to finance morale activities such as a tailgate party, annual employee appreciation, paint nights, karaoke, open mics, an annual beach party, and a morale fund which provides money to organizations to fund organization-specific events. The Exchange does not receive appropriated funds from Goddard Space Flight Center, which manages Wallops; however, it uses real property and existing facilities owned by the Center for its operations.



| Exchange Demographics | Audit/Auditor Information |
|--|---|
| Location: Wallops Island, Virginia | Location: Salisbury, Maryland |
| Council Membership: 10 | Length of service as auditor: 11 years |
| Number of Employees: 25 | Audit Opinion: Unmodified (clean) |
| FY 2019 Financials: Assets: \$909,935 Liabilities: \$82,453 Net Revenues: \$667,966 Expenses: \$736,051 | Current Year findings: No findings |
| Website: https://sites.wff.nasa.gov/wemamac/index.htm | FY 2019 Peer Review Rating: Pass |
| Current Status: Partially operational (<i>see Impact of COVID-19 on Operations</i>) | |

Financial Operations

As of the end of FY 2019, the Exchange had assets of \$910,000. Cash totaled \$525,000, which was a decrease of \$137,000 from the prior year. Fixed assets totaled \$92,000, which was a decrease of \$10,000 due to depreciation expense. Inventory totaled \$170,000. Investments amount to \$52,000 in certificates of deposits. Other assets included accounts receivable and prepaid expenses and totaled \$71,000, which increased by \$54,000 since last year. Overall, the Exchange decreased its net assets by \$68,000 with total net revenues of \$668,000 and expenses of \$736,000. The majority of revenues were generated from retail store sales. Expenses included general and administrative expenses and program expenses for its mission—morale activities. See graphics of FY 2019 asset balance percentages and Exchange activity below.



Impact of COVID-19 on Operations

Effective March 24, 2020, WEMA closed all services and furloughed all employees. The Exchange partially reopened in August 2020, with 7 of its 24 employees to support a Phase 3-approved food and lodging project. However, the project was cancelled costing WEMA approximately \$20,000 in labor and food costs. The 7 employees remained employed and were assigned to perform bookkeeping and inventory tasks. WEMA has received little to no income since March 2020.

APPENDIX C: MANAGEMENT'S COMMENTS

National Aeronautics and
Space Administration

Headquarters
Washington, DC 20546-0001



Reply to Attn of: Office of the Chief Financial Officer

TO: Assistant Inspector General for Audits

FROM: Chief Financial Officer (Acting)
Assistant Administrator for Procurement

SUBJECT: Agency Response to OIG Draft Memorandum, "Desk Reviews of Fiscal Year 2019 NASA Exchange Audit Reports" (A-20-011-00)

The National Aeronautics and Space Administration (NASA) appreciates the opportunity to review and comment on the Office of Inspector General (OIG) draft memorandum entitled, "Desk Reviews of Fiscal Year 2019 NASA Exchange Audit Reports" (A-20-011-00), dated February 25, 2021.

In the draft memorandum, the OIG makes no recommendations but identified quality deficiencies addressed to the Acting Chief Financial Officer and the Assistant Administrator for Procurement. Specifically, the OIG identified the following quality deficiencies:

1. Two Exchanges failed to prepare financial statements in accordance with accounting principles generally accepted in the United States.
2. The audit reports of three other Exchanges contained inaccurate and incomplete information or lacked certain required representations from management.
3. Staff at one of the independent public accountant firms, including audit partners, did not meet continuing professional education requirements.

We have reviewed the noted quality deficiencies and will coordinate with the responsible parties to ensure the appropriate actions are taken to address them.

We have also reviewed the draft report for information that should not be publicly released. As a result of the review we have not identified any information that should not be publicly released.

Once again, thank you for the opportunity to review and comment on the subject draft report. If you have any questions or require additional information regarding this response, please contact Aliza Margolies on (202) 358-2487.

STEPHEN SHINN
Digitally signed by
STEPHEN SHINN
Date: 2021.03.30
11:43:07 -04'00'
Stephen Shinn
Chief Financial Officer (Acting)

Karla Jackson
Digitally signed by
Karla Jackson
Date: 2021.03.29
14:27:01 -04'00'
Karla Smith Jackson
Assistant Administrator for
Procurement

APPENDIX D: REPORT DISTRIBUTION

National Aeronautics and Space Administration

Acting Administrator
 Acting Chief of Staff
 Acting Chief Financial Officer
 Associate Administrator for Mission Support
 Assistant Administrator for Procurement
 Executive Director, Headquarters Operations
 Director, Ames Research Center
 Director, Armstrong Flight Research Center
 Director, Glenn Research Center
 Director, Goddard Space Flight Center
 Director, Johnson Space Center
 Director, Kennedy Space Center
 Director, Langley Research Center
 Director, Marshall Space Flight Center
 Director, Stennis Space Center
 NASA Ames Exchange
 NASA Armstrong Flight Research Center Employee Exchange Association
 NASA Glenn Exchange
 Goddard Employees Welfare Association
 NASA Headquarters Exchange Council
 NASA Exchange – Johnson Space Center
 NASA Exchange – Kennedy Space Center
 NASA Langley Exchange Council and Activities
 NASA Exchange – George C. Marshall Space Flight Center
 NSSC Exchange Council
 NASA Exchange – Stennis Space Center

Wallops Exchange and Morale Association Non-NASA Organizations and Individuals

Office of Management and Budget
 Deputy Associate Director, Energy and Space Programs Division
 Government Accountability Office
 Managing Director, Financial Management and Assurance
 Director, Contracting and National Security Acquisitions

Congressional Committees and Subcommittees, Chairman and Ranking Member

Senate Committee on Appropriations
 Subcommittee on Commerce, Justice, Science, and Related Agencies
 Senate Committee on Commerce, Science, and Transportation
 Subcommittee on Aviation and Space

Senate Committee on Homeland Security and Governmental Affairs

House Committee on Appropriations

Subcommittee on Commerce, Justice, Science, and Related Agencies

House Committee on Oversight and Reform

Subcommittee on Government Operations

House Committee on Science, Space, and Technology

Subcommittee on Investigations and Oversight

Subcommittee on Space and Aeronautics

(Assignment No. A-20-011-00)