AUGUST 29, 2006

QUALITY CONTROL REVIEW REPORT

OFFICE OF AUDITS

IG-06-019

QUALITY CONTROL REVIEW OF GOODMAN & COMPANY'S AUDIT OF LANGLEY EXCHANGE FINANCIAL STATEMENTS FOR FISCAL YEAR ENDED SEPTEMBER 30, 2005

OFFICE OF INSPECTOR GENERAL

National Aeronautics and
Space Administration

REPORT NO. IG-06-019 (ASSIGNMENT NO. A-06-021)

Acronyms

AICPA	American Institute of Certified Public Accountants
FY	Fiscal Year
GAGAS	Generally Accepted Government Auditing Standards
OIG	Office of Inspector General

QUALITY CONTROL REVIEW REPORT

National Aeronautics and
Space Administration

Office of Inspector General
Washington, DC 20546-0001

August 29, 2006

Mr. Gregory F. Lawson, Senior Partner
Goodman & Company, Certified Public Accountants

SUBJECT: Quality Control Review of Goodman & Company's Audit of Langley Exchange Financial Statements for Fiscal Year Ended September 30, 2005 (Assignment No. A-06-021)

We are providing this report for your information and use. The audit firm of Goodman & Company, Certified Public Accountants (Goodman & Company), performed an audit of the Langley Exchange Council and Activities (Langley Exchange) financial statements for the fiscal year ended September 30, 2005 (FY 2005). The Inspector General Act of 1978, as amended, section 4, paragraph (b)(1)(C), directs each Inspector General, with respect to the organization within which the office is established, to take appropriate steps to ensure that any work performed by non-Federal auditors complies with the standards established by the Comptroller General.

Our quality control review was to determine whether Goodman & Company performed its audit in accordance with generally accepted government auditing standards (GAGAS) issued by the Comptroller General of the United States. The standards apply to audits of government organizations, programs, activities, and functions. They prescribe general standards (to include independence, professional judgment, competence, quality control, and assurance requirements), fieldwork standards, and reporting standards. Additionally, GAGAS incorporates the generally accepted auditing standards of the American Institute of Certified Public Accountants (AICPA)[1] for fieldwork and reporting; the AICPA general standards are not incorporated in GAGAS. See Enclosure 1 for details on the scope and methodology of our review, requirements for Exchange reviews, prior quality control reviews, and the latest peer review of Goodman & Company. For the results of the Goodman & Company audit of the Langley Exchange for FY 2005, see Enclosure 2.

Background. The Langley Exchange is located at the NASA Langley Research Center in Hampton, Virginia. The Exchange operates employee morale activities such as cafeteria services, vending operations, clubs, recreational classes/leagues, a child development

[1] The AICPA is the national professional organization for all CPAs. According to the AICPA, its mission is to provide members with the resources, information, and leadership that enable the members to provide valuable services in the highest professional manner to benefit the public as well as employers and clients. In fulfilling its mission, the AICPA works with state certified public accountant organizations and gives priority to those areas where public reliance on certified public accountant skills are most significant.

center, and a gift shop. Langley Exchange revenues totaled about $1.7 million in FY 2005. The Langley Exchange Council operates under Langley Policy Directive 9050.9, "NASA Langley Research Center (LaRC) Exchange Council Activities," July 27, 2005.

Goodman & Company is based in Newport News, Virginia. According to its Web site, the firm began operations in 1932 and employs more than 300 professionals and 65 partners. In addition to traditional auditing and accounting services, Goodman & Company offers guidance in tax planning and preparation, business consulting, accounting software selection, support and training, tax credits, business valuation, and human resources.

Review Results. Goodman & Company's audit of the Langley Exchange financial statements for FY 2005 complied with GAGAS; specifically, the general standards, the fieldwork standards for financial audits, and the reporting standards for financial audits. Goodman & Company issued an audit report with an unqualified opinion on the FY 2005 financial statements and a management letter to the Langley Exchange Council. The management letter contained recommendations for strengthening internal controls relating to bank reconciliations, employee personnel files, petty cash, and utilization of accounting software. In response to the recommendations, the Langley Exchange Council agreed to

- arrange to receive either electronic or paper copies of cancelled checks,
- ensure that all employee personnel files contain a copy of the employee's proof of employment and Federal and state tax withholding forms,
- properly record all petty cash in the general ledger and reconcile the petty cash balance on a regular basis, and
- enter all information into its respective module in the accounting software.

We appreciate the courtesies extended to the audit staff. For additional information on this report, please contact Mr. David L. Gandrud, Project Manager, at 650-604-2672. See Enclosure 3 for the report distribution. The review team members are listed inside the back cover of this report.

Evelyn R. Klemstine
Assistant Inspector General for Auditing

3 Enclosures

QUALITY CONTROL REVIEW PROCESS

Scope and Methodology

We conducted a quality control review of the Goodman & Company audit of the FY 2005 Langley Exchange financial statements. We performed our review June 20 through 30, 2006, at the office of Goodman & Company, Newport News, Virginia. Our review covered areas related to Goodman & Company's compliance with GAGAS. We focused the review on auditor qualifications, audit supervision, audit planning, audit reporting, and conduct of the audit work.

In conducting our review, we assessed the documentation gathered and prepared by Goodman & Company, including documentation used to support the issued audit report, and discussed our review with Goodman & Company personnel. We confirmed the status of certified public accountant licenses held by Goodman & Company personnel who worked on the Langley Exchange audit by querying the Virginia Board of Accountancy. We did not verify actions taken by the Langley Exchange Council to implement Goodman & Company's recommendations and did not rely on computer-processed data in performing our review.

Exchange Review Requirements

Inspector General Act. The Inspector General Act of 1978, as amended, requires an agency's Inspector General to take appropriate steps to ensure that any work performed by non-Federal auditors complies with the standards issued by the Comptroller General of the United States.

Government Accountability Office Standards and Guidance. Government Accountability Office standards and guidance are for use by auditors to ensure that integrity, objectivity, and independence are maintained in planning and conducting audits and in reporting on the results of audits. Our purpose was to determine whether Goodman & Company performed its audit in accordance with GAGAS issued by the Comptroller General of the United States.

NASA Requirement. NASA Policy Directive 9050.6I, "NASA Exchange and Morale Support Activities," November 10, 2004, 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 Exchange operations. The Council must consist of at least five Center employees who perform their duties

without pay from the Exchange. Exchange-operated activities are generally self-sustained; that is, supported by nonappropriated funds. The Directive also requires the Center Chief Financial Office to monitor Exchange compliance with the Directive and to review financial statements and audit reports to ensure that the Exchange is financially sound and that responsible business practices are being followed.

Prior NASA Office of Inspector General Reviews

The NASA Office of Inspector General (OIG) previously performed two quality control reviews of Goodman & Company audits, not related to the Langley Exchange.

"Goodman & Company, L.L.P. Audit of Old Dominion University Research Foundation for Fiscal Year Ended June 30, 1998" (IG-00-021, March 24, 2000)

> The OIG found that Goodman & Company did not meet the applicable auditing guidance and requirements contained in Office of Management and Budget Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations,"[2] and its related Compliance Supplement; GAGAS; and generally accepted auditing standards. As a result, Federal agencies and others could not rely on the Foundation's audit report to administer Federal awards. Goodman & Company concurred with each of the OIG's 18 recommendations directed to the firm. The OIG also made 2 recommendations to the Foundation.
>
> We considered the findings of Report No. IG-00-021 in the context of the quality control review that is the subject of this report and found that most of the findings from report IG-00-021 pertained only to specific Circular A-133 requirements. We addressed all other areas of deficiency identified in Report No. IG-00-021 and found no deficiencies that carried over to the Goodman & Company audit of the Langley Exchange FY 2005 financial statements.

[2] Office of Management and Budget Circular A-133 was intended to improve financial management for nonprofit organizations. The Circular established uniform requirements for audits of Federal financial assistance, promoted efficient and effective use of audit resources, and helped to ensure that Federal departments and agencies rely on and use the audit work to the maximum extent practicable. The Department of Health and Human Services was the cognizant audit agency for the Foundation. The Department granted NASA, a Federal funding agency to the Foundation, permission to perform a review of the Goodman & Company audit report for the Foundation's fiscal year ended June 30, 1998. The OIG reviewed the report for compliance with the requirements of Circular A-133.

"Goodman & Company, L.L.P. Audit of Old Dominion University Research Foundation for Fiscal Year Ended June 30, 1999, and Follow-up of Audit of the Foundation for Fiscal Year Ended June 30, 1998" (IG-01-005, November 20, 2000)

The OIG performed this review to determine whether Goodman & Company conducted the audit in accordance with applicable standards, met the requirements of Circular A-133, and implemented the recommendations from Report No. IG-00-021. The OIG found that the Goodman & Company audit met generally accepted auditing standards, GAGAS, and the applicable auditing guidance and requirements contained in Circular A-133 and its related Compliance Supplement. Additionally, the OIG found that Goodman & Company and the Foundation had implemented corrective actions on all recommendations made in Report No. IG-00-021.

External Peer Review

We reviewed the most recent peer review report, issued November 19, 2004, on Goodman & Company, prepared by Eubank & Betts, CPAs, for the year ended June 30, 2004. The report stated that the system of quality control for the accounting and auditing practice of Goodman & Company for the year ended June 30, 2004, was designed to meet the requirements of the quality control standards for an accounting and auditing practice established by the AICPA. The peer review found that Goodman & Company had complied with the quality control standards during the year, providing the firm with reasonable assurance of conforming to professional standards.

RESULTS OF THE GOODMAN & COMPANY AUDIT OF THE LANGLEY EXCHANGE FOR FY 2005

Goodman & Company Audit Report

Goodman & Company issued a report dated November 18, 2005, to the Chief Financial Officer, Langley Research Center, on the firm's audit of the statements of financial position of the Langley Exchange Council as of September 30, 2005, and the related statements of activities and cash flows. Goodman & Company reported that it had performed the audit in accordance with GAGAS and auditing standards generally accepted in the United States of America. The firm concluded that the financial statements present fairly, in all material respects, the financial position of the Langley Exchange Council as of September 30, 2005, and the change in net assets and cash flows for the year then ended.

Goodman & Company Management Letter

Goodman & Company issued a management letter to the Langley Exchange Council that identified the following nonreportable conditions:

- accounting software was not being fully utilized;
- cancelled checks were not being received;
- personnel file was not complete; and
- $300 of petty cash could not be located.

The letter stated that the Langley Exchange Council maintained various supporting schedules outside of the accounting software, an error-prone procedure that reduced accounting controls. The letter recommended that the Langley Exchange Council enter all information into its respective module in the accounting software. The Council concurred with the recommendation.

Goodman & Company's management letter stated that the Langley Exchange Council did not receive original or copies of cancelled checks and thus could not perform necessary internal control procedures. The letter recommended that the Exchange arrange to receive either electronic or paper copies of cancelled checks. The Langley Exchange Council concurred with the recommendation.

The management letter noted one instance in which an employee personnel file did not contain an official proof of employment. Goodman & Company recommended that all employee personnel files contain a copy of the employee's proof of employment and Federal and state tax withholding forms. The Langley Exchange Council concurred with the recommendation.

Goodman & Company noted during its cash count that $300 of petty cash could not be located. An Exchange representative advised Goodman & Company that the amount was most likely deposited during the year with the daily deposits, which would cause revenues to be overstated by $300. As a result of the audit finding, management reduced the cash and revenue balances. The letter recommended that the Exchange properly record all petty cash in the general ledger and reconcile the petty cash balance on a regular basis. The Langley Exchange Council concurred with the recommendation.

As of June 2006, Exchange management advised the OIG that the Exchange had taken or was taking actions to implement all four Goodman & Company recommendations.

REPORT DISTRIBUTION

Independent Audit Firm

Goodman & Company
Mr. Gregory F. Lawson

National Aeronautics and Space Administration

Deputy Administrator
Chief of Staff
Chief Financial Officer
- Deputy Chief Financial Officer for Financial Management
- Deputy Chief Financial Officer for Resources (Comptroller)
- Director, Financial Management Division

Director for Procurement
Director, Management Systems Division
Director, Logistics Management Division, Office of Infrastructure and Administration, Office of Institutions and Management
Langley Research Center/Management Control Officer, Office of the Chief Financial Officer

Major Contributors to the Report:

Catherine Schneiter, Director, Financial and Institutional Management Directorate
Karl M. Allen, Project Manager
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In order to help us improve the quality of our products, if you wish to comment on the quality or usefulness of this report, please send your comments to Ms. Jacqueline White, Director of Quality Assurance, at Jacqueline.White@nasa.gov or call 202-358-0203.

SUGGESTIONS FOR FUTURE AUDITS

To suggest ideas for or to request future audits, contact the Assistant Inspector General for Auditing. Ideas and requests can also be mailed to:

Assistant Inspector General for Auditing
NASA Headquarters
Washington, DC 20546-0001

NASA HOTLINE

To report fraud, waste, abuse, or mismanagement, contact the NASA OIG Hotline at 800-424-9183 or 800-535-8134 (TDD). You may also write to the NASA Inspector General, P.O. Box 23089, L'Enfant Plaza Station, Washington, DC 20026, or use http://www.hq.nasa.gov/office/oig/hq/hotline.html#form. The identity of each writer and caller can be kept confidential, upon request, to the extent permitted by law.