National Aeronautics and
Space Administration
Headquarters
Washington, DC 20546-0001

February 27, 2002

Reply to Attn of: W

TO: A/Administrator
B/Deputy Chief Financial Officer

FROM: W/Inspector General

SUBJECT: Audit of the National Aeronautics and Space Administration's Fiscal Year 2001 Financial Statements

We contracted with the independent certified public accounting firm of PricewaterhouseCoopers, LLP to audit the financial statements of NASA as of, and for the year ended, September 30, 2001. The contract required that the audit be done in accordance with generally accepted government auditing standards, Office of Management and Budget (OMB) Bulletin 01-02, *Audit Requirements for Federal Financial Statements*, and the General Accounting Office/President's Council on Integrity and Efficiency *Financial Audit Manual*.

Enclosed are three PricewaterhouseCoopers reports:

- The *Report of Independent Accountants* discusses PricewaterhouseCoopers' disclaimer on the consolidated and combined financial statements as of and for the year ended September 30, 2001. The disclaimer resulted primarily from NASA's inability to provide, in a timely manner, fully supported documentary evidence to substantiate the accuracy and the classification of amounts reported as obligations, expenses, property, plant, and equipment, and materials.

- The *Report of Independent Accountants on Internal Control* identified a material weakness[1] involving NASA's lack of adequate controls to reasonably assure that property and materials are presented fairly in the financial statements. Specifically, NASA did not provide sufficient documentation for amounts capitalized to the International Space Station, and needs to improve the controls surrounding classification and accounting treatment of contractor-held property and inventory items. In addition, PricewaterhouseCoopers identified five reportable conditions[2] involving the operational effectiveness of NASA's financial management processes, the process of estimating

[1] A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

[2] A reportable condition is a matter that, in the auditor's judgment, should be communicated because it represents a significant deficiency in the design or operation of internal control, that could adversely affect the agency's ability to record, process, summarize, and report financial data consistent with the assertions by management in the financial statements.

environmental liability, and three conditions involving the NASA Automated Data Processing Consolidation Center: testing disaster recovery plans, access controls over security of financial management systems, and mainframe access controls.

- The *Report of Independent Accountants on Compliance with Laws and Regulations* discusses that PricewaterhouseCoopers performed tests of compliance with certain provisions of laws and regulations, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. The report also discusses certain other laws and regulations specified in OMB Bulletin No. 01-02, including the requirements referred to in the Federal Financial Management Improvement Act (FMFIA). The results disclosed instances in which NASA's financial management systems did not substantially comply with FFMIA section 803(a) Federal financial management systems requirements and applicable Federal accounting standards.

In connection with the contract, we reviewed PricewaterhouseCoopers' report and selected related work papers and inquired of their representatives. Our review, as differentiated from an audit in accordance with U.S. generally accepted government auditing standards, was not intended to enable us to express, and we do not express, opinions on NASA's financial statements or conclusions about the effectiveness of internal control or conclusions on whether NASA's financial management systems substantially complied with the FFMIA or conclusions on compliance with laws and regulations. PricewaterhouseCoopers is responsible for the enclosed auditor's reports dated February 22, 2002 (see Enclosure), and the conclusions expressed in the reports. However, although our quality control review is ongoing, to date we have identified no instances where PricewaterhouseCoopers did not comply, in all material respects, with generally accepted government auditing standards.

If you have any questions, please contact Mr. Alan J. Lamoreaux, Assistant Inspector General for Audits, at (202) 358-1232, or me at (202) 358-1220.

Roberta L. Gross

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Enclosures