APRIL 10, 2006

AUDIT REPORT

OFFICE OF AUDITS

ANTIDEFICIENCY ACT VIOLATIONS AT THE NATIONAL AERONAUTICS AND SPACE ADMINISTRATION

OFFICE OF INSPECTOR GENERAL

National Aeronautics and
Space Administration

REPORT NO. IG-06-009 (ASSIGNMENT NO. A-06-003)

Final report released by:

Robert W. Cobb
Inspector General

Acronyms

ADA	Antideficiency Act
FY	Fiscal Year
OCFO	Office of the Chief Financial Officer
OMB	Office of Management and Budget
SAP	Systems, Applications, and Products
SF	Standard Form

IN BRIEF

ANTIDEFICIENCY ACT VIOLATIONS AT THE NATIONAL AERONAUTICS AND SPACE ADMINISTRATION

The Issue

The National Aeronautics and Space Administration (NASA) Office of Inspector General initiated this audit at the request of the Office of Management and Budget (OMB). In October 2005, OMB informed the Office of Inspector General that NASA may have violated Section 1517(a), Title 31, United States Code, commonly known as the Antideficiency Act (ADA). The objective of the audit was to determine whether the violations occurred.

Results

NASA, as a result of actions by officials in the Office of the Chief Financial Officer (OCFO), violated the ADA by authorizing and obligating funds without apportionment from OMB. Specifically, during fiscal year (FY) 2005, NASA authorized and obligated about $1.6 billion in unobligated balances carried over from FY 2004 before requesting apportionment from OMB. During FY 2004, NASA authorized and obligated about $30.4 million more than the amount of funds that OMB had apportioned for one account.

After NASA violated the ADA by authorizing and obligating the unapportioned funds, NASA requested, and OMB approved, FY 2005 apportionments of about $2 billion in unobligated balances carried over from FY 2004. In addition, in September 2005, NASA requested that OMB reapportion about $30.4 million in FY 2004 funds from one account to cover an overobligation in another account, but OMB denied the request. NASA corrected the overobligation by modifying two contracts to change the funding source from 2004 to 2005.

The ADA violations occurred because of the lack of internal controls within the OCFO and OCFO personnel's misunderstanding of OMB apportionment requirements.

Management Action

We recommended that the Administrator report the ADA violations, as required by OMB, for the funds carried over from FY 2004 to FY 2005 for each affected account and for the $30,413,590. In addition, we recommended that the Administrator request a comprehensive demonstration by the OCFO that appropriations available to be spent in

FY 2006 can be traced from appropriation to apportionments to allotments to commitments and to obligations to help ensure that NASA is not violating the ADA for FY 2006.

In response to a draft of this report (see Appendix B), the Administrator concurred with the recommendations, stating that NASA will complete the letters required by the OMB Circular within 30 days of receipt of this final report and that the OCFO will demonstrate that appropriations available to be spent in FY 2006 can be traced from appropriations, to apportionments, to allotments, to commitments, and to obligations. The recommendations are resolved, but will remain open pending our receipt of the letters required by OMB and notification that the OCFO provided the demonstration to the Administrator.

The Administrator also noted that the OCFO initiated corrective action to address the issues discussed in this report. In February 2006, the OCFO established a process for tracking apportionment requests and approvals. In addition, the OCFO, working with the Exploration Systems Mission Directorate, administratively modified two contracts to change the funding source from program year 2004 to program year 2005. NASA then deobligated the FY 2004 funds and obligated available FY 2005 funds to cover the $30.4 million in overobligations of FY 2004 funds. Also, the OCFO hired an outside contractor to conduct a training class on the budget process and the OMB Circular that implements the ADA.

CONTENTS

INTRODUCTION
Background 1
Objectives 3

RESULTS
NASA Had Multiple Violations of the ADA 4

APPENDIX A
Scope and Methodology 15
Review of Internal Controls 16

APPENDIX B
Management Comments 17

APPENDIX C
Report Distribution 22

INTRODUCTION

Background

Antideficiency Act

The Antideficiency Act (ADA) includes provisions of law that were passed by Congress and codified in Title 31 of the United States Code (31 U.S.C.) to prevent departments and agencies from spending more money than has been appropriated to them and ensure control of the spending process so that, for example, entire appropriations are not expended during the first few months of the fiscal year. The ADA requires that the Office of Management and Budget (OMB) apportion the appropriations; that is, approve a plan that spreads out spending over the fiscal period for which the funds were made available. Violations of the ADA must be reported by the department or agency head to the President through the OMB Director, Congress, and the Comptroller General.

Apportionment and Reapportionment Process

OMB Circular No. A-11, "Preparation, Submission, and Execution of the Budget,"[1] is the implementing regulation for the ADA, and it describes the budget process. Before an agency can obligate funds, an agency must request, and OMB must approve, an apportionment of funds or a reapportionment of funds.

Apportionment of Funds. An apportionment is a plan, approved by OMB, to spend resources provided by law. An apportionment request is made using a Standard Form (SF) 132, "Apportionment and Reapportionment Schedule." OMB will recognize in an apportionment that funds will be used for periods longer than one fiscal year because multi-year and no-year funds are provided with the expectation that the funds will be obligated over more than one fiscal year. However, OMB requires an apportionment at the beginning of each fiscal year in accordance with OMB Circular A-11, section 120.14. That section requires that an agency request a new apportionment action for funds remaining available beyond the end of a fiscal year for the upcoming fiscal year.

Reapportionment of Funds. A reapportionment is a revision of a previous apportionment. An agency submits a reapportionment request to OMB on an SF 132 when an agency needs to make changes to a previously approved apportionment because of changes in amounts available, program requirements, or cost factors. OMB reapportions just as it apportions. The approved reapportionment would ordinarily cover the same period, project, or activity covered in the original apportionment. An agency

[1] OMB Circular A-11 is periodically updated. For this report, we used the June 2005 version.

should submit a reapportionment request to OMB as soon as a change in an apportionment previously made becomes necessary. The reapportionment request should be submitted well in advance of the time that revised amounts are needed for obligation to allow time for action by OMB. In addition, OMB Circular A-11 states that an apportionment for a specific time period may not be changed after the end of the period.

Allotment. An allotment is an authorization by an authorized agency employee to subordinate entities to incur obligations within a specified account. The amount allotted by an agency cannot exceed the amount apportioned by OMB. An allotment is part of an agency system of administrative control of funds that is designed to keep obligations and expenditures from exceeding apportionments.

Authorization to Obligate Funds. The authorization to obligate funds occurs multiple times during the budget process. Appropriation acts provide legal authority for Federal agencies to incur obligations. Apportionment is the action by which OMB distributes amounts available for obligation. Federal agencies cannot obligate funds provided by an appropriation act until OMB apportions the funds. Once an agency receives its apportionments, the agency authorizes its internal organizations to incur obligations by loading the apportionments into its fund control system and by providing allotments to its internal organizations.

Nonexpenditure Transfer. A nonexpenditure transfer is a transaction that adjusts the amounts available in accounts.[2] An agency can either request a nonexpenditure transfer using an SF 1151, "Non-expenditure Transfer of Funds," or directly access the Governmentwide Accounting System[3] and execute a nonexpenditure transfer online. A nonexpenditure transfer should not be made until after OMB approves the apportionment on which the nonexpenditure transfer is based. The Financial Management Service reviews the legal authority referenced on each online nonexpenditure transfer to determine whether the nonexpenditure transfer is authorized by law. The Financial Management Service does not verify that OMB approved the underlying apportionment.

Responsibilities of the Office of the Chief Financial Officer

The Financial Management Division in the Office of the Chief Financial Officer (OCFO) is the division responsible for the apportionment and reapportionment process within NASA. Those responsibilities are handled within the Financial Management Division by the following offices:

- The Funds Control and Distribution Branch prepares apportionment and reapportionment requests, which are then signed by the Deputy Chief Financial

[2] An account is the Treasury appropriation fund symbol (TAFS) established by the Department of the Treasury. OMB apportions the TAFSs. For this report, we will be referring to TAFSs as accounts.

[3] The Governmentwide Accounting System is maintained by the Financial Management Service, a bureau of the Department of the Treasury, and is used to process SF 1151 nonexpenditure transfers.

Officer. In addition, the Funds Control and Distribution Branch loads approved apportionments into the Core Financial system. The software foundation for NASA's Core Financial system is Systems, Applications, and Products (SAP).

- The External Reporting Branch prepares external financial reports.
- The Analysis and Reconciliation Division prepares SF 1151 nonexpenditure transfers based on apportionments.

Notification by OMB of Potential ADA Violations

On September 22, 2005, the Financial Management Division sent a letter to OMB requesting apportionment of FY 2005 funds. In addition, the Financial Management Division requested reapportionment of about $30.4 million to correct errors made in FY 2004 and to balance FY 2004 funding. Subsequently, on October 17, 2005, OMB sent an e-mail to the NASA Office of Inspector General, providing information that NASA may have obligated funds before requesting that OMB apportion them. OMB summarized the potential violations as follows:

- NASA may have obligated funds it carried from FY 2004 to FY 2005 before requesting apportionment of those funds. Requests for apportionment of unobligated funds carried over from one fiscal year to the next are required to be sent to OMB a month before the start of the fiscal year into which the funds are to be carried. In this case, the OCFO should have submitted the requests to OMB no later than August 21, 2004. The OCFO submitted most of the requests to OMB in September 2005.
- The OCFO requested reapportionment of funds in September 2005 to correct an error it made on an apportionment request for FY 2004. OMB indicated that OCFO personnel were worried about carrying the error on NASA's books into FY 2006; however, OMB informed the OCFO that OMB cannot reapportion funds for a fiscal year that has already ended.

Objectives

This audit was requested by OMB. The objectives were to determine whether NASA, as a result of actions by officials in the OCFO, had violated the ADA by

- obligating funds carried over from FY 2004 to FY 2005 before requesting an apportionment from OMB and
- failing to obtain OMB approval on a request to reapportion funds to correct an error made on an apportionment request for FY 2004.

NASA HAD MULTIPLE VIOLATIONS OF THE ADA

NASA violated 31 U.S.C. 1517(a) by authorizing obligations without valid apportionments from OMB and by obligating funds without valid apportionments. The violations occurred in FY 2005 and FY 2004.

- In FY 2005, NASA authorized and obligated about $1.6 billion of funds before the funding was apportioned. After NASA violated the ADA by obligating unapportioned funds, the Financial Management Division requested, and OMB approved, apportionment of about $2 billion.[4] The $2 billion was calculated based on the unobligated balances in the accounts as of August 31, 2004 (the month that the apportionments should have been requested). We did not validate the exact amounts of the calculated ADA violations because we could not rely on the data in NASA's Core Financial system.

- In FY 2004, NASA authorized and obligated $30.4 million more than OMB had apportioned for one account. The Financial Management Division attempted to correct the overobligation by requesting a reapportionment of FY 2004 funds in September 2005, but OMB did not approve the request. During FY 2006, NASA modified two contracts to change the funding source from program year[5] 2004 to program year 2005 in order to cover the overobligation of FY 2004 funds. We did not attempt to validate the $30.4 million, but relied on the work that the Financial Management Division performed to determine that amount.

The ADA violations occurred because of the lack of internal controls within the Financial Management Division and Financial Management Division personnel's misunderstanding of OMB apportionment requirements.

Amount of Potential Violations

Failure to Request Apportionment for Unobligated Balances Carried Over from FY 2004 to FY 2005. The Financial Management Division did not request

[4] The $2 billion was the apportionment of direct budget authority from line 1, "Budget authority," and line 2, "Unobligated balance," of the SF 132. The $2 billion does not include funds expected to be generated from reimbursable work, which was apportioned on line 3, "Spending authority from offsetting collections (gross)," of the SF 132.

[5] A program year is defined by the fiscal year in which funds were obligated, not when they were appropriated.

apportionment of funds in accordance with OMB requirements for the accounts listed in the following table for the unobligated balances carried over from FY 2004 to FY 2005. OMB Circular A-11, section 120.30 requires that agencies submit apportionment requests by August 21—before the start of the fiscal year into which the funds are to be carried. The Financial Management Division should have submitted the requests to OMB by August 21, 2004.

Summary of FY 2005 Apportionments and Obligations of Funds Carried Over from FY 2004

Account Code	Date OMB Approved FY 2005 Initial Apportionment	Amounts of Initial FY 2005 Apportionment for Direct Funding	Calculated Amount of Direct Funds[1] Obligated in FY 2005 as of the Date of OMB Approval of Initial Apportionment
804/50114	September 30, 2005	$1,152,240,696	$1,007,569,171
804/50115	September 30, 2005	506,325,675	504,461,517
804/60114	September 30, 2005	17,960,648	11,957,753
804/60115	September 30, 2005	26,129,020	16,250,768
80X0114	February 28, 2005	14,483.000	9,234,228[2]
80X0115	February 28, 2005	269,046,000	45,294,530[2]
803/50110	September 30, 2005	15,854,034	16,130,790
803/50111	September 30, 2005	2,918,191	2,829,855
80X0110	September 30, 2005	12,911,882	10,355,920
80X0111	September 30, 2005	5,092,523	7,815,101
80X0112	September 30, 2005	9,658,735	4,719,889
Total		**$2,032,620,404**	**$1,636,619,522**

[1]Direct funds are funds provided by appropriations, borrowing authority, contract authority, transfers, and unobligated balances brought forward from the prior fiscal year. Direct funds do not include recoveries of prior year obligations and spending authority from offsetting collections (reimbursements).
[2]Amount obligated as of February 28, 2005.

We did not validate the amount of the calculated ADA violations shown in the table because of the Core Financial system data reliability issues disclosed during our audit and during the independent audit report on NASA's FY 2005 financial statements.

The Chief of the Funds Control and Distribution Branch, who was not in that position on August 21, 2004, stated that she calculated the amounts requested in September 2005 using the unobligated balance as of August 31, 2004—the month that the apportionment requests should have been submitted to OMB. The Chief stated that she had to use the unobligated balances as of August 31 instead of August 21 because the Core Financial system could only provide data for the end of a period, which occurs at the end of the month.

The Acting Chief of the External Reporting Branch explained that, on September 30, 2004, the Core Financial system automatically closed out any remaining apportionments. Once the OCFO completed year-end processing, the Core Financial system automatically reversed those close-out entries without the OCFO verifying that OMB had approved the

apportionments for FY 2005. As a result, the OCFO authorized obligations without having valid apportionments.

In an attempt to identify the amount of funds that NASA obligated before the apportionments were approved by OMB, we met with personnel in the OCFO External Reporting Branch to ensure that we were obtaining the applicable obligation data from the Core Financial system for FY 2005. The Acting Chief of the External Reporting Branch explained that we should use the trial balance for period 12 in the Core Financial system to get the cumulative totals for apportionments, allotments, commitments, and obligations for FY 2005. Period 12 is the end-of-year trial balance for FY 2005, as of September 30, before the External Reporting Branch makes adjustments. However, we were unable to determine the total amount of obligations for FY 2005 for each account because the process that the OCFO uses to record obligations in the Core Financial system does not result in any one standard general ledger account containing the total obligations for the fiscal year.

In responding to a draft of this report, the Acting Chief of the External Reporting Branch explained that because certain expenditures, such as mid-month payroll, are not obligated before being disbursed, the cumulative total obligations for period 12 would not include all obligations made during FY 2005. As a result, the OCFO developed a calculation methodology to derive the amount of the ADA violation for each account. We reviewed the OCFO methodology and determined that it was reasonable.

Core Financial System Data Reliability Issues Disclosed during Our Audit. In an attempt to calculate the amount of the ADA violations, we requested the FY 2004 and FY 2005 quarterly and annual budgetary trial balances, "Report on Budget Execution and Budgetary Resources," and "Combined Statement of Budgetary Resources." The Acting Chief of the External Reporting Branch provided us with the documentation that had been generated during FY 2004 and FY 2005. However, we determined that we could not use the data because

- the External Reporting Branch did not provide sufficient documentation to substantiate the adjustments made to amounts obtained from the Core Financial system to arrive at amounts reported on the various external reports;

- the External Reporting Branch could not explain the process behind the documentation provided because, according to a staff accountant, it was put together by individuals who no longer worked in the OCFO; and

- OCFO personnel made several prior-period adjustments in the Core Financial system during FY 2004 and FY 2005 in an effort to correct known errors, which may have changed budget execution data in the Core Financial system significantly.

We obtained trial balance data directly from the Core Financial system in December 2005. However, according to the Acting Chief of the External Reporting Branch, her office made numerous adjusting entries to correct errors at the summary level in order to generate the FY 2004 financial statements. Once the financial statements were prepared, the External Reporting Branch reversed the adjusting entries with the expectation that the entries would be properly corrected before the end of FY 2005 at the transaction level by the NASA entity that made them. As a result, all errors that were unresolved at the end of FY 2004 were carried over into FY 2005. However, FY 2005 activity could not be distinguished from FY 2004 corrections because

- the Acting Chief of the External Reporting Branch stated that there is no way to tell the date that a correcting entry was processed by the Core Financial system;

- running a trial balance in December 2005 for August 2004 (period 11) would not generate the data that was in the Core Financial system on August 31, 2004, because it would include all of the entries that have been made in the Core Financial system since that time—generating the data that actually existed in the Core Financial system on August 31, 2004, could only have been done on that date; and

- the Acting Chief of the External Reporting Branch stated that the Core Financial system can only generate trial balances on a monthly basis, so it is not possible to determine the timing of specific obligations (for example, those obligations that occurred before September 30 versus those that occurred on September 30).

Core Financial System Data Reliability Issues Disclosed during Annual Financial Statement Audit. The November 4, 2005, independent audit report on NASA's FY 2005 financial statements[6] notes that NASA personnel identified significant errors, beginning with NASA's September 30, 2003, financial statements, resulting from the implementation of the Core Financial system. The independent auditors noted that, in the OCFO's explanation of adjustments to the financial statements for the first three quarters of FY 2005, the OCFO made the following statements concerning the Core Financial system's unreliability:

- The financial management system is not currently designed to distinguish between current transactions and corrections to prior year transactions posted in the current year.

- Functionality and configuration problems in the Core Financial system created inappropriate transaction postings, which resulted in abnormal balances and misstatements of unobligated and other balances.

[6] http://www.hq.nasa.gov/office/oig/hq/FSauditFY2005.pdf

- The financial system (as configured during the audit of the FY 2005 financial statements) is unable to properly record recovery of prior year obligations.

- Data anomalies and abnormalities caused misstatements in many budgetary and proprietary accounts, potentially causing FY 2005 financial statement data to be inaccurate or incomplete.

- An indeterminable number of transactions to adjust prior year errors are reflected in the NASA financial statements as current year activity. The Core Financial system could not provide an audit trail for certain transactions and the processes to develop appropriate reports were ongoing.

These extensive data integrity problems with the Core Financial system, combined with insufficient documentation, makes it impossible to accurately determine the amount of the ADA violations.

OMB Conditions for Approval. As part of the conditions for approving the FY 2005 apportionment requests on September 30, 2005, OMB added the following note to the SF 132s:

> Section 120.14 of OMB Circular A-11 states that "When budgetary resources remain available beyond the end of a fiscal year, [the agency] must request a new apportionment action for the upcoming fiscal year for all [Treasury Appropriation Funds] subject to apportionment . . .." NASA must determine whether unobligated carryover in this [Treasury Appropriation Fund] was apportioned in FY05 and if not, whether any obligations and/or outlays were nonetheless made against such unapportioned resources. If obligations or outlays were made, section 145.2 of A-11 requires that they be reported as required by 31 U.S.C. 1517(a).

The Chief of the Funds Control and Distribution Branch stated in December 2005 that, because the OCFO did not put the note on the SF 132, her office did not take any action to determine whether any obligations or outlays were made against the unapportioned funds. Subsequently, the current Acting Director of the Financial Management Division[7] stated that the OCFO was taking action by assisting the NASA Office of Inspector General in conducting this audit. However, NASA needed to comply with the OMB requirement to determine the total amount of obligations made against the unapportioned resources and report it to OMB.

Management Action. For the start of FY 2007, the OCFO will not reverse FY 2006 year-end closing entries in apportionment general ledger accounts unless the Acting Chief of the External Reporting Branch manually validates that OMB has provided a signed SF 132 approving the apportionment. According to the Acting Chief, the Core Financial system has the capability to automatically zero-out apportionments at the end of the fiscal

[7] The current Acting Director has been in that position since April 2005. Previously, from July 2004 to April 2005, he was the Senior Advisor to the Chief Financial Officer and, from November 2003 to July 2004, the Deputy Chief Financial Officer for Financial Management.

year and then process reversing entries at the start of the next fiscal year. To manage year-end processing, the OCFO prepares year-end closing rules that provide step-by-step instructions for closing general ledger accounts in the Core Financial system. Beginning with year-end processing for FY 2006, the OCFO is going to include an instruction in the year-end closing rules that requires manual validation that apportionments have been approved by OMB before the reversing entries are made at the start of FY 2007.

FY 2004 Overobligation. In FY 2004, NASA authorized and obligated $30.4 million more than OMB had apportioned for one account. Specifically, at the beginning of FY 2004, Financial Management Division personnel requested, and OMB approved, apportionments that included $30,413,590 for account 804/50114.[8] Later in the year, Financial Management Division personnel determined that the $30,413,590 should be reapportioned to account 804/50115,[9] according to the Chief of the Funds Control and Distribution Branch. However, that transfer was not included in the SF 132 reapportionment requests submitted to OMB. That omission resulted in an overstatement of funds available for obligation of $30,413,590 in account 804/50114 and a corresponding understatement of funds available for obligation in account 804/50115.

The current Chief of the Funds Control and Distribution Branch, who was not in the position at the time the apportionments should have been submitted, verbally informed OMB of the error on December 15, 2004, and, according to the Chief, OMB directed the OCFO to execute a SF 1151 nonexpenditure transfer to correct the error in the Governmentwide Accounting System and to submit a correction to the Federal Agencies' Centralized Trial-Balance System II[10] that corresponded to the nonexpenditure transfer. Personnel from the Analysis and Reconciliation Division explained that they prepared the SF 1151 and made the correction; however, they reversed the $30.4 million correction in FY 2005 because they expected to receive an approved SF 132 and would then make the authorized entry in FY 2005. According to the Acting Chief of the External Reporting Branch, all end-of-year correcting entries for FY 2004 that the External Reporting Branch made to balance accounts were reversed in FY 2005 with the expectation that the entity responsible for each transaction would research the error and make the correcting entry or provide supporting documentation to the OCFO to make the entry by the end of FY 2005.

On September 22, 2005, the Financial Management Division officially requested reapportionment of the funds by submitting SF 132s to OMB for approval. OMB did not approve the SF 132s, stating in October 2005 that FY 2004 had already closed. OMB Circular A-11, section 120.12 states that "[a]pportionments previously established are <u>not</u>

[8] In FY 2004, this account was called Science, Aeronautics, and Exploration. In FY 2005, NASA renamed the account Exploration, Science, and Aeronautics.

[9] In FY 2004, this account was called Space Flight Capabilities. In FY 2005, NASA renamed the account Exploration Capabilities.

[10] The Federal Agencies' Centralized Trial-Balance System II, also known as FACTS II, is maintained by the Financial Management Service and is used to collect budget execution data, including data for the "Report on Budget Execution and Budgetary Resources" and the "Year-End Closing Statement."

subject to change after the period for which the apportionment is made." However, the Chief of the Funds Control and Distribution Branch stated that she assumed that OMB would approve the reapportionment requests because OMB had always approved them in the past and, acting in good faith, provided the unapproved SF 132s to the Analysis and Reconciliation Division so that the Division could make the SF 1151 nonexpenditure transfer between the accounts in the Governmentwide Accounting System on September 30, 2005. The relevant SF 1151, executed by the Division on September 30, 2005, consisted of a transfer of $30,413,590 from 804/50114 to 804/50115. In December 2005, OMB again informed the OCFO, specifically the Comptroller, that the $30.4 million reapportionment request would not be approved. We did not attempt to validate the $30.4 million, but relied on the work that the Financial Management Division performed to determine that amount.

Management Action. On January 6, 2006, the Financial Management Division initiated a review of contracts for terminated projects to determine whether there was any funding that could be de-obligated and used to cover any obligations made against the $30.4 million that was incorrectly apportioned to 804/50115. On January 25, 2006, the OCFO notified each Center that it was being assessed a proportional amount of the $30.4 million, based on the Center's share of the total FY 2004 funding received from 804/50115. However, according to the Senior Advisor to the OCFO, that approach was not implemented. Instead, the OCFO, working with the Exploration Systems Mission Directorate, administratively modified two contracts to change the funding source from program year 2004 to program year 2005. NASA then deobligated the FY 2004 funds and obligated available FY 2005 funds to cover the $30.4 million in overobligations of FY 2004 funds. According to the Senior Advisor, the $30.4 million was available for upward adjustments to existing obligations. As of March 26, 2006, the corresponding accounting transactions had been posted to NASA's financial system.

According to the Department of the Treasury, the Analysis and Reconciliation Division does not have to reverse the SF 1151 nonexpenditure transfer in the Governmentwide Accounting System. We contacted personnel in the Budget Reports Division of the Department of the Treasury's Financial Management Service, who verified that the nonexpenditure transfer was allowed under the legal citation provided by the Analysis and Reconciliation Division.

OCFO Budget Processes Need Improvement

Financial Management Division personnel did not request timely apportionments because of the lack of internal controls within the Financial Management Division and Financial Management Division personnel's misunderstanding of OMB apportionment requirements.

Lack of Internal Controls within the Financial Management Division. The Financial Management Division—specifically, the Funds Control and Distribution Branch—did not have adequate internal controls over the apportionment process. The Funds Control and Distribution Branch had no mechanism to track apportionment requests and approvals. For example, the Funds Control and Distribution Branch had to ask OMB to provide all approved apportionment documents (SF 132s) for FY 2004 and FY 2005 because Funds Control and Distribution Branch personnel either could not find them or were unsure of what documentation had been submitted to, and approved by, OMB. In addition, External Reporting Branch personnel did not become aware of the FY 2004 error until they discovered that the accounts were out of balance during end-of-year processing for FY 2004.

Management Action. During February 2006, the Chief of the Funds Control and Distribution Branch established a process to track apportionment requests submitted to and approved by OMB. The process includes maintaining a log that shows the account number, the date that an SF 132 apportionment request was signed by OCFO personnel, and the date that OMB signed the SF 132.

Misunderstanding of OMB Apportionment Requirements. Financial Management Division personnel did not adequately understand the apportionment and reapportionment requirements of OMB Circular A-11. Specifically, Financial Management Division personnel did not understand requirements related to apportionments versus reapportionments, the timing of apportionments and reapportionments, the need to request apportionments and reapportionments, and the need to comply with OMB Circular A-11.

- **Apportionments Versus Reapportionments.** The Acting Director of the Financial Management Division stated that an initial apportionment only occurs once during the life of an appropriation and is good for the entire life of the appropriation, and a reapportionment is any request submitted after the initial apportionment. However, OMB Circular A-11, section 120.9 states that apportionments are only good for one fiscal year; section 120.30 requires that initial apportionment requests be submitted to OMB by August 21 before the start of the fiscal year; and section 120.14 requires that an organization request new apportionments for the unobligated balance of funds carried over from one fiscal year to the next.

- **Timing of Apportionments and Reapportionments.** The Acting Director of the Financial Management Division stated that NASA requested apportionment of all of its multi-year funds in its initial apportionment requests during FY 2004 and, therefore, did not have to prepare any apportionment requests in August 2004 for the funds being carried over into FY 2005. In addition, the Director stated that reapportionment requests could be submitted any time during the life of the funds. The Director added that a reapportionment request is only necessary when an agency needs to make changes to a previously approved apportionment because of changes in

amounts available, program requirements, or cost factors. However, OMB Circular A-11, section 120.30 requires that initial apportionments be submitted to OMB by August 21, before the start of the fiscal year for funds being carried over from one fiscal year to the next. In addition, OMB Circular A-11, section 120.36 states that reapportionment requests should be prepared as far in advance as possible, that an agency cannot request reapportionment of funds after the fiscal year is closed, and that OMB must approve the reapportionment request before the agency can obligate the additional funds.

- **Need to Request Apportionments and Reapportionments.** The Acting Director of the Financial Management Division stated that preparation and submittal of the apportionment requests was merely a paperwork exercise and was not critical because OMB approves the NASA operating plans, which are the financial plans detailing how NASA intends to spend its funding. However, OMB Circular A-11, sections 120.1 and 120.2 require submittal of apportionment requests and approval by OMB before NASA can obligate any funds because an apportionment is an agency's approved plan to spend resources provided by law. In addition, OMB personnel stressed that the SF 132, once it is signed, is the legal document that authorizes an agency to spend money and that apportionments must be approved before funds can be obligated. Also, OMB noted that although it gets the NASA operating plans for administrative review and clearance, Congress is the entity that formally approves them.

- **Need to Comply with OMB Circular A-11.** The Acting Director of the Financial Management Division stated that he thought that NASA would only be in technical noncompliance with a regulation, not in violation the ADA, if NASA did not comply with all of the requirements in OMB Circular A-11. However, OMB Circular A-11 is the implementing regulation for the ADA and, depending on the part of OMB Circular A-11 that NASA is not in compliance with, NASA would be in violation of the ADA. OMB Circular A-11, section 145 describes the types of violations and how violations are to be reported.

Management Action. The OCFO hired an outside contractor to conduct training classes on the budget process and OMB Circular A-11. The first class was held during February 2006 and the second class is planned for April 2006. In addition, OMB has offered to provide technical personnel to train NASA personnel how to complete apportionment requests. NASA has requested that assistance; however, as of March 29, 2006, OMB had not provided the training.

NASA Must Report the ADA Violations

NASA violated 31 U.S.C. 1517(a) and is required to report the ADA violations, as described in OMB Circular A-11, section 145.7.

Recommendations, Management's Response, and Evaluation of Management's Response

We recommend that the Administrator

1. report the ADA violations for the funds carried over from FY 2004 to FY 2005 for each affected account and for the $30,413,590 to the President of the United States through the OMB Director, the Speaker of the House of Representatives, the President of the Senate, and the Comptroller General of the Government Accountability Office, as required by the ADA and by OMB Circular A-11, section 145.7. Specifically, the Administrator's letter to the President should include the following:

    - The title and Treasury symbol (including the fiscal year) of the appropriation or fund account, the amount involved for each violation, and the date on which the violation occurred.

    - The name and position of the individuals responsible for the violation.

    - All facts pertaining to the violation, including the type of violation (for example, overobligation of an appropriation, overobligation of an apportionment, overobligation of an allotment or suballotment), the primary reason or cause, any statement from the responsible officer(s) or employee(s) with respect to any circumstances believed to be extenuating, and any germane report by the agency's Inspector General and/or the agency's counsel.

    - A statement of the administrative discipline imposed and any further action(s) taken with respect to the officer(s) or employee(s) involved in the violation.

    - In the case where an officer or employee is suspected of willfully and knowingly violating the ADA, confirm that all information has been submitted to the Department of Justice for determination of whether further action is needed.

    - A statement regarding the adequacy of the system of administrative control prescribed by the head of the agency and approved by OMB, if such approval has been given. If the head of the agency determines a need for changes in the regulations, such proposals will be submitted as provided in OMB Circular A-11, section 150.7.

    - A statement of any additional action taken by, or at the direction of, the head of the agency, including any new safeguards provided to prevent recurrence of the same type of violation.

    - If another agency is involved, a statement concerning the steps taken to coordinate the report with the other agency.

OMB Circular A-11 requires that if identical letters are submitted to Congress and the Comptroller General, then the letter to the President should note that identical letters were sent. If the letters to Congress and the Comptroller General are not identical, enclose a copy of the letter to Congress and the Comptroller General with the letter to the President.

Management's Response. The Administrator concurred, stating that NASA, with advice from the Office of General Counsel and the OCFO, will complete the letters required by OMB Circular A-11 within 30 days of receipt of this final report.

2. request a comprehensive demonstration by the OCFO that appropriations available to be spent in FY 2006 can be traced from appropriation to apportionments to allotments to commitments and to obligations to help ensure that NASA is not violating the ADA for FY 2006.

   Management's Response. The Administrator concurred, stating that the OCFO will demonstrate that appropriations available to be spent in FY 2006 can be traced from appropriations, to apportionments, to allotments, to commitments, and to obligations.

   Evaluation of Management's Response. The planned actions are responsive. The recommendations are resolved, but will remain open pending our receipt of the letters required by OMB and notification that the OCFO provided the demonstration to the Administrator.

APPENDIX A

Scope and Methodology

We performed our fieldwork at NASA Headquarters. To obtain a better understanding of the apportionment and reapportionment process and nonexpenditure transfers, we reviewed OMB Circular A-11, the Treasury Financial Manual, and the NASA Financial Management Requirements. In addition, we discussed the process with OMB and Department of the Treasury Financial Management Service personnel. To obtain a better understanding of the process in place at the OCFO, we met with personnel in the Financial Management Division, the Analysis and Reconciliation Division, the External Reporting Branch, and the Funds Control and Distribution Branch. We discussed their responsibilities for processing apportionments, reapportionments, and nonexpenditure transfers. To determine whether NASA violated the ADA and the amount of the potential violation, we obtained and reviewed all SF 132s submitted to OMB and all SF 132s approved by OMB for FY 2004 and FY 2005. In addition, we obtained obligation data for FY 2004 and FY 2005 from the Core Financial system and nonexpenditure transfer data from the Governmentwide Accounting System. We compared the total obligations against the budget authority, approved apportionments and reapportionments, and allotments. The documentation we reviewed was dated from November 1998 through December 2005.

We performed this audit from November 2005 through April 2006 in accordance with generally accepted government auditing standards.

Scope Limitations. The scope of this audit was limited to the OCFO at NASA Headquarters. We did not meet with the Mission Directorates or any Center to review how they determined the amount of funding they received for their programs or how they generated obligation and expenditure data. In addition, we did not review data from any automated systems other than the Core Financial system and the Governmentwide Accounting System or from any manual system used by NASA.

Use of Computer-Processed Data. We relied on computer-processed data from the Core Financial system and the Governmentwide Accounting System during the audit; however, we did not evaluate the general or application controls for either system because that was outside the scope of our review. While we do not believe that the obligation data from the Core Financial system presented in this report is accurate, we believe that the data supports the finding, conclusions, and recommendations in this report when considered in the context of other evidence gathered.

Review of Internal Controls

We reviewed internal controls over the Financial Management Division's apportionment and reapportionment process. We found significant internal control weaknesses, as discussed in the finding. The actions taken by management during this audit and actions in response to the independent audit report on the Agency's FY 2005 financial statements should correct those weaknesses.

Prior Coverage

During the last 5 years, the Government Accountability Office and the NASA Office of Inspector General have not issued any reports on ADA violations at NASA. However, the Core Financial system's data integrity issues were disclosed in the independent audit of the FY 2005 financial statements. That report, Ernst & Young LLP, "Report of Independent Auditors" (November 4, 2005), is available over the Internet at http://www.hq.nasa.gov/office/oig/hq/FSauditFY2005.pdf.

MANAGEMENT COMMENTS

National Aeronautics and
Space Administration
Office of the Administrator
Washington, DC 20546-0001

MAR 3 1 2006

TO: Inspector General

FROM: Administrator

SUBJECT: Response to Draft Audit Report: "Antideficiency Act Violations at the National Aeronautics and Space Administration," Assignment No. A-06-003

I appreciate the opportunity to respond to the Draft Audit Report: "Antideficiency Act Violations at the National Aeronautics and Space Administration," Assignment No. A-06-003. I understand the contents of the report are still being finalized.

NASA's Chief Financial Officer has taken action to address these causes (see enclosure). Furthermore, I understand the recommendations to be as follows:

OIG Recommendation #1 – We recommend that the Administrator report the ADA violations for the funds carried over from FY 2004 to FY 2005 for each affected account and for the $30,413,590 to the President of the United States through the OMB Director, the Speaker of the House of Representatives, the President of the Senate, and the Comptroller General of the Government Accountability Office, as required by the ADA and by OMB Circular A-11, section 145.7.

- I concur. Upon receipt of the Office of Inspector General's final report, NASA, with advice from the Office of General Counsel and the Office of the Chief Financial Officer within 30 days will complete letters, as appropriate, per OMB Circular A-11.

OIG Recommendation #2 – We recommend that the Administrator request a comprehensive demonstration by the OCFO that the appropriations available to be spent in FY 2006 can be traced from appropriation to apportionments to allotments to commitments and to obligations to help ensure that NASA is not violating the ADA for FY 2006.

- I concur. The Office of the Chief Financial Officer will demonstrate that appropriations available to be spent in FY 2006 can be traced from appropriations, to apportionments, to allotments, to commitments, and to obligations.

The violations have been addressed without the need for supplemental Congressional funding or major impact to NASA's programs, but this does not mitigate nor minimize my concern that they occurred. I am committed to ensuring that the causes of these

violations are addressed, and that effective internal controls are in place for all of NASA's financial management processes and systems.

Thank you for your continued support in this matter.

Michael D. Griffin
Administrator

Enclosure

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

March 31, 2006

Office of the Chief Financial Officer

TO: Administrator

FROM: Office of the Chief Financial Officer

SUBJECT: Office of the Chief Financial Officer (OCFO) Response to Draft Audit Report: "Antideficiency Act Violations at the National Aeronautics and Space Administration," Assignment Number A-06-003

This memo contains the OCFO's response, including background and corrective actions, to the two Antideficiency Act (ADA) violations cited in the above referenced Office of the Inspector General (OIG) report. I have taken actions that will ensure that National Space and Aeronautics (NASA) internal controls are strengthened such that we fully adhere to the ADA, including all associated Office of Management and Budget (OMB) Circular A-11 regulations.

In its draft, the OIG cited two instances of ADA violations following a review performed at the request of OMB. NASA brought both instances to OMB's attention as NASA and OMB worked together to reconcile congressionally approved appropriation accounts with OMB signed documentation. The errors were identified as part of NASA's overall efforts to reconcile appropriation accounts. In neither instance were funds willfully or knowingly overobligated, nor did NASA at any time overobligate or expend funds in excess of its total appropriations. The Agency has addressed the violations without supplemental funds from the Congress.

In the first instance, NASA obligated $1.6 billion of congressionally appropriated two-year funds without requesting reapportionment (a type of administrative subdivision of funds) of the year-end unobligated carry forward as required by OMB Circular A-11. When NASA realized it had not submitted the reapportionment request, NASA submitted a request for the year-end unobligated carry forward, and OMB granted reapportionment authority for those funds.

In the second instance, NASA's congressionally approved 2004 Operating Plan (OP) transferred $30 million from one appropriation to another to reflect the realignment of mission projects. NASA did not submit a reapportionment request to match the OP changes. As a result, NASA did not overspend its total appropriations, but it did overobligate funds in one appropriation and underobligate funds in another by the same amount. This situation has subsequently been addressed by transferring Program Year (PY) 2005 funds.

In both instances NASA did not file required reapportionment requests due to weak internal controls, compounded by several changes in personnel and associated responsibilities in 2004. NASA is addressing these root causes by implementing more rigorous management and system internal controls, adding staff to the funds distribution area and conducting training. Specific actions include:

- Certification of reconciliations by responsible financial management personnel.
- Demonstrated effective system controls that prevent obligations from exceeding apportionment control totals.
- Conducted Appropriations Law training for 30 staff members in January 2006 and eight staff members in March 2006.
- Conducted OMB Circular A-11 training for 24 staff members in February, 2006. An additional course is currently being scheduled.
- Increased the staff size in the Funds Distribution branch.
- Developing and documenting enhanced internal controls, to include:
  - Logging and tracking of all OMB apportionment requests and approvals
  - Reconciliation of OMB apportionments to congressionally approved OP to the funds loaded into the Agency's financial system

Pertaining to OIG's specific recommendations:

OIG Recommendation #1 – We recommend that the Administrator report the ADA violations for the funds carried over from FY 2004 to FY 2005 for each affected account and for the $30,413,590 to the President of the United Statues through the OMB Director, the Speaker of the House of Representatives, the President of the Senate, and the Comptroller General of the Government Accountability Office, as required by the ADA and by OMB Circular A-11, section 145.7.

I recommend NASA concur. The Office of the Chief Financial Officer has initiated the reporting review. Upon receipt of the OIG's final report, NASA, with advice from the Office of General Counsel, will prepare a letter or letters, as appropriate, per OMB Circular A-11.

OIG Recommendation #2 – We recommend that the Administrator request a comprehensive demonstration by the OCFO that the appropriations available to be spent in FY 2006 can be traced from appropriation to apportionments to allotments to commitments and to obligations to help ensure that NASA is not violating the ADA for FY 2006.

I recommend NASA concur. The Office of the Chief Financial Officer will demonstrate to NASA's Administrator, or parties delegated by him, that appropriations available to be spent in FY 2006 can be traced from appropriations to apportionments to allotments to commitments and to obligations.

3

In responding to these issues, I would like to reiterate my commitment to ensuring that NASA has implemented a robust system of controls and training to ensure strict adherence to all OMB A-11 regulations. Moreover, I am committed, as always, to ensuring that NASA makes appropriate use of the resources with which it has been entrusted.

Gwendolyn Sykes
Chief Financial Officer

REPORT DISTRIBUTION

National Aeronautics and Space Administration (NASA)

Administrator
Deputy Administrator
Chief of Staff
Chief Financial Officer
Director, Management Systems Division, Office of Infrastructure and Administration, Office of Institutions and Management

Non-NASA Organizations and Individuals

Office of Management and Budget
- Deputy Associate Director, Energy and Science Division
  - Branch Chief, Science and Space Programs Branch

Government Accountability Office
- Director, Defense, State, and NASA Financial Management, Office of Financial Management and Assurance
- Director, NASA Issues, Office of Acquisition and Sourcing Management

Congressional Committees and Subcommittees, Chairman and Ranking Minority Member

Senate Committee on Appropriations
- Senate Subcommittee on Commerce, Justice, and Science

Senate Committee on Commerce, Science, and Transportation
- Senate Subcommittee on Science and Space

Senate Committee on Homeland Security and Governmental Affairs
House Committee on Appropriations
- House Subcommittee on Science, State, Justice, and Commerce

House Committee on Government Reform
- House Subcommittee on Government Management, Finance, and Accountability

House Committee on Science
- House Subcommittee on Space and Aeronautics

Major Contributors to the Report:

Catherine Schneiter, Director, Financial and Institutional Management Directorate
Mustapha Wai, Auditor
Anthony Pavlik, Investigator

APRIL 10, 2006

REPORT NO. IG-06-009

OFFICE OF AUDITS

OFFICE OF INSPECTOR GENERAL

ADDITIONAL COPIES

Visit www.hq.nasa.gov/office/oig/hq/audits/reports/FY06/index.html to obtain additional copies of this report, or contact the Assistant Inspector General for Auditing at 202-358-1232.

COMMENTS ON THIS REPORT

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.