AUDIT REPORT

AUGUST 3, 2012

OFFICE OF AUDITS

AUDIT OF NASA GRANT AWARDED TO HUDSONALPHA INSTITUTE FOR BIOTECHNOLOGY

OFFICE OF INSPECTOR GENERAL

REPORT NO. IG-12-019 (ASSIGNMENT NO. A-12-009-00)

National Aeronautics and Space Administration
Final report released by:

Paul K. Martin
Inspector General

Acronyms

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<th>Acronym</th>
<th>Description</th>
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<tr>
<td>C.F.R.</td>
<td>Code of Federal Regulations</td>
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<td>GAO</td>
<td>Government Accountability Office</td>
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<td>HHS</td>
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<td>NSSC</td>
<td>NASA Shared Services Center</td>
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<td>OMB</td>
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<td>PMS</td>
<td>Payment Management System</td>
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<td>SF</td>
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<td>STEM</td>
<td>Science, Technology, Engineering, and Mathematics</td>
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NASA awards approximately $500 million in grants annually and faces the ongoing challenge of ensuring these grants are administered appropriately and that recipients are accomplishing their stated goals and objectives. In September 2011, the NASA Office of Inspector General reported that NASA did not have an adequate system of controls in place to ensure proper administration and management of its grant program and, as a result, some grant funds were not being used for their intended purposes. As a follow-on to our September 2011 report, we conducted a series of audits examining particular NASA grants. In this report, we present the results of our review of a $1 million NASA grant to the HudsonAlpha Institute for Biotechnology (HudsonAlpha), a not-for-profit organization in Huntsville, Alabama, whose mission is to conduct genomics-based research to improve human health and well-being, spark economic development, and provide educational outreach to nurture the next generation of biotech researchers and entrepreneurs.

NASA noncompetitively awarded the grant to HudsonAlpha in July 2010 pursuant to a congressional earmark. The goal of the grant was to foster a solid foundation in genetics and biotechnology (collectively referred to as bioscience) for young students while exposing older students to emerging research, applications, and career possibilities in the field. The period of performance for the grant was July 1, 2010 through July 31, 2011.

The objective of our audit was to determine whether HudsonAlpha used NASA’s grant funds for their intended purpose and whether the costs associated with the grant were allowable, reasonable, and in accordance with applicable laws, regulations, guidelines, and the terms and conditions of the grants. Specifically, we reviewed HudsonAlpha’s program performance and accomplishments, budget management and controls, accounting and internal control environment, and reporting.

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2 The grant resulted from a provision in H. Rep No. 111-366, at 879 (2009).
Results

We found that HudsonAlpha generally managed the grant in accordance with applicable laws, regulations, guidelines, and the terms and conditions of the grant. Specifically, we found that HudsonAlpha had a strong system of accounting and internal controls, adequately accounted for expenditures, properly managed its grant budget, and fulfilled the performance goals. However, we identified the following areas of concern related to HudsonAlpha’s management of the grant and NASA’s oversight of the grant’s closeout:

- HudsonAlpha calculated employee fringe benefits claims (e.g., social security; unemployment tax; medical, life, and disability insurance) by applying a flat rate against direct salaries when it should have claimed its actual fringe benefit costs for the employees who worked on the NASA grant. This resulted in an underpayment to HudsonAlpha of approximately $10,000.

- Neither HudsonAlpha nor the NASA Shared Services Center (NSSC) Procurement Division has a procedure in place to ensure that provisional indirect cost rates are adjusted when a new provisional, predetermined, or final rate is approved. As a result, HudsonAlpha continued to charge the provisional rate to the grant, resulting in $44,567 in questioned costs.

- HudsonAlpha did not timely submit its required final financial report to NASA, and the NASA contractor responsible for grant closeout did not follow up with HudsonAlpha to ensure receipt of the report.

- Because HudsonAlpha did not timely submit the final financial report NASA did not timely proceed through the closeout process. Moreover, once we announced our audit the closeout process was suspended. At the time of suspension, NASA had not taken several key steps, including deobligating $17,596 in unspent funds and blocking HudsonAlpha’s ability to draw down additional funds.

Management Action

We recommended that the Assistant Administrator for Procurement require grant officers to obtain indirect cost rate agreements for each grant year if, at the time of award, the grantee has a negotiated rate that is subject to adjustment; implement or enhance training programs for procurement personnel to develop or reinforce understanding of the proper usage of negotiated indirect cost rates; and discontinue the practice of suspending the closeout process until audits have been completed.

In addition, we recommended that the Executive Director of the NSSC remedy the difference between the amount of fringe benefits claimed and HudsonAlpha’s actual costs; remedy the indirect costs claimed in excess of HudsonAlpha’s approved final indirect cost rate; establish procedures to analyze indirect costs being claimed against the
grantees’ negotiated indirect cost rate agreement; ensure that grantees notify NASA of changes in their negotiated indirect cost rates and submit claim adjustments when warranted; and establish controls to identify when and why a grant is not proceeding through the closeout process in a timely manner so that necessary corrective actions can be taken.

In response to a draft of our report, the Assistant Administrator for Procurement concurred with the three recommendations addressed to him, stating that the NASA Grant and Cooperative Agreement Handbook (Grant Handbook) will be revised to require grant officers to obtain negotiated indirect cost rate agreements for grantees whose rates are subject to adjustment; an existing training course will be revised to add material related to negotiated indirect cost rates for grants; and he will advise the NSSC to review its local closeout procedures and remove any requirements or guidance that conflicts with the Grant Handbook. We consider these proposed actions responsive to our recommendations. Accordingly, the recommendations are resolved and will be closed upon verification of the Agency’s actions.

The Executive Director of the NSSC concurred with three of our recommendations addressed to him, stating that the NSSC will verify that HudsonAlpha’s final financial report (Standard Form (SF) 425) reflects all costs incurred and the applicable final negotiated indirect rates and, if necessary, will require HudsonAlpha to submit a revised SF 425. Additionally, the NSSC will direct the closeout contractor to adjust its standard closeout procedures so that final SF 425s will be obtained and dispositioned only after final indirect rates have been determined for grants and cooperative agreements for which provisional indirect rates were used. We consider these proposed actions responsive to our recommendations. Accordingly, the recommendations are resolved and will be closed upon verification of the Agency’s actions.

The Executive Director of NSSC partially concurred with our recommendation to establish controls to identify when and why a grant is not timely proceeding through the closeout process and to update the NSSC Service Delivery Guide accordingly. The Executive Director stated that the closeout contractor has developed a weekly report to identify any grant or cooperative agreement with past due deliverables, but stated that the NSSC is not planning to update the related service delivery guide because the closeout process has not changed as a result of adding this control. Because we believe controls must be documented to ensure they are consistently performed, we are leaving this recommendation unresolved pending further discussion with the Agency.

The Executive Director of the NSSC did not concur with our recommendation to ensure that grantees notify NASA of changes in their negotiated indirect cost rates and submit adjustments when warranted. He stated that grantees are required to submit indirect cost rates to their cognizant Federal audit agency, which in turn is responsible for sending negotiated rate agreements to the other Federal agencies that require this information. However, he stated that the NSSC will provide each cognizant agency with current points of contact and mailing information to ensure the NSSC receives copies of the rate agreements. In addition, the Assistant Administrator for Procurement agreed to require
grant officers to obtain grantees’ negotiated indirect cost rate agreements. We believe these actions satisfy the intent of our recommendation and therefore consider the recommendation resolved. We will close the recommendation upon verification of the proposed actions.

The Agency’s comments in response to a draft of this report are reprinted in Appendix B; the grantee’s comments are in Appendix C.
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INTRODUCTION

Background

NASA awards approximately $500 million in grants annually and faces the ongoing challenge of ensuring that these funds are administered appropriately and grantees are accomplishing the grants’ stated objectives. In September 2011, the NASA Office of Inspector General reported that NASA did not have an adequate system of controls in place to ensure proper administration and management of its grant program and, as a result, some grant funds were not being used for their intended purposes. As a follow-on to our September 2011 report, we are conducting a series of audits examining particular NASA grants. In this report, we present the results of our review of a $1 million NASA grant to the HudsonAlpha Institute for Biotechnology (HudsonAlpha).

NASA noncompetitively awarded a $1 million grant to HudsonAlpha in July 2010 to enhance kindergarten through college genetics and biotechnology education. The grant, which had a period of performance from July 1, 2010, through July 31, 2011, was a congressional earmark directed to the Marshall Space Flight Center for this purpose. HudsonAlpha’s specific plans for this grant were to provide education in genetics and biotechnology (collectively referred to as bioscience) to school age children and teachers from elementary school to the college level.

Founded in 2005, HudsonAlpha is a not-for-profit organization in Huntsville, Alabama, that provides educational outreach to nurture the next generation of biotech researchers and entrepreneurs, as well as to create a biotech literate public. HudsonAlpha’s educational outreach goals are to:

- educate the students, teachers, and citizens of Alabama about the impact of biotechnology on daily life;
- inspire Alabama students through hands-on modules, in-depth classroom and summer experiences, and distance learning opportunities;
- inform Alabama educators and students regarding biotechnology as a field with challenging and rewarding career opportunities across a range of skill levels; and
- assist educators through biotechnology training, curriculum, and teaching materials.


4 The grant resulted from a provision H. Rep No. 111-366, at 879 (2009).
The grant funds paid for the development of hands-on science learning opportunities for students, engagement of high school and college students in research activities, and professional development opportunities for middle school and high school science teachers. Collectively, these activities are intended to provide opportunities to motivate students to consider science, technology, engineering, and mathematics (STEM) careers.

NASA’s Office of Procurement is responsible for establishing grant policies and procedures. The NASA Grant and Cooperative Agreement Handbook (Grant Handbook) contains the policies and procedures NASA procurement, technical officers, and grantees must follow in the pre-award, award, post-award, and closeout phases of grant management. The Grant Handbook serves as a reference manual and assists grantees in meeting their fiduciary responsibility to safeguard grant funds and ensure they use the funds appropriately and consistently within the terms and conditions of the award. By accepting the NASA award, HudsonAlpha agreed to comply with the financial and administrative requirements set forth in the Grant Handbook.

The NASA Shared Services Center (NSSC) is responsible for the overall administration and monitoring of most NASA grants. However, some functions are performed by personnel at the Centers or by contractors. For instance, the Technical Officer for the HudsonAlpha grant was located at Marshall and provided assistance to the grant officer at NSSC during the pre-award and post-award phases. Further, the NSSC administers the Agency’s contract for closeout of NASA contracts, cooperative agreements, and grants.

**Objectives**

The overall objective of this audit was to determine whether HudsonAlpha used NASA’s grant funds for their intended purpose and whether the costs associated with the grant were allowable, reasonable, and in accordance with applicable laws, regulations, guidelines, and the terms and conditions of the grants. Specifically, we reviewed HudsonAlpha’s program performance and accomplishments; budget management and controls; accounting and internal control environment; and reporting.

To accomplish our audit, we conducted interviews with the NASA grant officer, technical officer, representatives from NSSC and its closeout contractor, and key representatives from HudsonAlpha. In addition, we visited the office of HudsonAlpha to observe the

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6 NASA established the NSSC in 2006 to consolidate select business activities from the Centers to reduce duplication of effort and overhead. The administration and monitoring of grant awards was one of the procurement activities transferred to the NSSC.

7 The NSSC Procurement Division’s “Agency-Wide Contract Closeout Services” outlines the closeout process and the responsible party for each action in the process.
work completed with the grant funds and to document accounting, procurement, and project management processes and internal controls. We also reviewed laws, regulations, and other documentation pertinent to our review. Additional details of the audit scope and methodology, our review of internal controls, and prior audit coverage are in Appendix A.
HudsonAlpha generally managed the grant in accordance with applicable laws, regulations, guidelines, and the terms and conditions of the grant. Specifically, we found that HudsonAlpha had a strong system of accounting and internal controls, adequately accounted for expenditures, properly managed its grant budget, and fulfilled the performance goals. However, we identified several areas in which NASA and the grantee could improve their internal controls and grant administration. Specifically, we found that HudsonAlpha did not claim reimbursement for fringe benefits or indirect costs in accordance with applicable agreements and did not timely submit the required final financial report to NASA officials. We also identified weaknesses in NASA’s oversight of the grant closeout process.

Program Performance and Accomplishments

The goal of the grant was to form a solid bioscience foundation for young students while exposing older students to emerging research, applications, and career possibilities within the field. To determine whether the grantee met the goal of the grant, we interviewed HudsonAlpha personnel and NASA’s Technical Officer and reviewed the final Educational Activity Report submitted by the grantee and associated supporting documentation.

HudsonAlpha used NASA’s grant funds to further several initiatives. First, it designed and installed an interactive exhibit entitled “Cells! Life at a Pond” for Sci-Quest, a hands-on science center in Huntsville, for elementary school aged children. The exhibit, which opened in March 2011, highlighted the various forms of cellular life present in a pond environment, with a focus on bacterial, plant, and animal cells. Since its opening, over 60,500 visitors have explored the exhibit.

Second, HudsonAlpha refined previously released biotechnology lesson modules for middle school and high school students. HudsonAlpha developed 140 sets of the eight-lesson module, “Genetics and Biotechnology,” and associated activities for seventh graders, and distributed them to 11 Alabama Math, Science, and Technology Initiative sites across the state. The module blended hands-on laboratory techniques with Alabama state curriculum requirements. For the high school level, HudsonAlpha developed genetic and biotechnology lab kits that reinforce key concepts taught in class and introduce students to current and future applications in the field. According to HudsonAlpha officials, the number of students using the high school kits increased almost 500 percent from 2,100 students during the 2009-2010 school year to 10,300 students for the 2010-2011 school year.
Third, HudsonAlpha provided a summer internship program for high school, undergraduate, and graduate students to increase student exposure to career opportunities in biotechnology, both from academic and industrial perspectives. Over 250 applications were received each year for the internship program held in the summers of 2010 and 2011; however, internships were only available for 23 and 19 students, respectively. According to HudsonAlpha, four of the students were offered full-time positions by private companies after completion of the internship program.

Finally, HudsonAlpha offered a two-week summer genetic teacher academy for Alabama high school life science educators, which provided training by using hands-on modules to help the educators become comfortable discussing genetic concepts and terminology with students, as well as the ethical, social, and legal issues associated with these concepts. During the summers of 2010 and 2011, 16 and 20 educators attended, respectively. At the conclusion of the program, each educator received a genetics and biotechnology toolkit that included a number of laboratory activities and supporting resources related to genetics. Many of the items in the toolkit are reusable so the activities can be shared with multiple classes.

Overall, we concluded that HudsonAlpha met the performance goals of the NASA grant.

**Budget Management and Control**

According to the Grant Handbook, the budget plan is the financial expression of the project or program as approved during the award process. NASA assumes no responsibility for budget overruns and recipients may spend grant funds without strict adherence to individual allocations within the proposed budgets. However, recipients must comply with prior approval requirements for acquisition of property, awarding of subcontracts, and certain revisions to budget and program plans. In addition, the grant award may restrict the transfer of funds among direct cost categories or programs, functions, and activities for NASA awards that exceed $100,000 and when the cumulative amount of such transfers exceeds or is expected to exceed 10 percent of the total approved budget. While our comparison of the amounts expended in each general ledger category to the approved budgets disclosed some variation, none of the variations required prior approval.

**Accounting and Internal Controls**

According to the Grant Handbook, grant recipients are required to establish and maintain accounting and internal control systems to account for funds awarded to them. We reviewed HudsonAlpha’s most recent single audit reporting package to determine whether it reported any material weaknesses in HudsonAlpha’s accounting and internal
control system that could affect the grant. We also interviewed HudsonAlpha’s employees responsible for payroll, purchasing, and accounts payable and observed accounting activities.

We found that HudsonAlpha had knowledgeable and experienced staff responsible for the areas we reviewed. We also found that financial duties were properly segregated among different staff members. Our review of HudsonAlpha’s policies and procedures, coupled with our interviews of its staff members, did not identify any reportable concerns.

**Single Audit.** According to Office of Management and Budget (OMB) Circular A-133, “Audits of States, Local Governments, and Non-Profit Organizations,” June 26, 2007, recipients are required to have a single audit performed if they expend more than $500,000 in Federal funds in any given fiscal year. The Circular states that the reporting package must be submitted to the Federal Audit Clearinghouse within 30 days of receipt of the audit report or 9 months after the end of the audit period, whichever is earlier.

We reviewed HudsonAlpha’s single audit report for fiscal year 2010, the most recent report available during our audit. The report, dated July 11, 2011, was issued within 9 months of the grantee’s fiscal year end of December 31. The independent auditor issued an unqualified opinion on HudsonAlpha’s compliance for major programs and reported no material weaknesses or significant deficiencies in internal control over major programs. However, the NASA grant was not classified as a major program by the independent auditor and, therefore, in accordance with Circular A-133, was not tested for purposes of the 2010 single audit. HudsonAlpha’s single audit for fiscal year 2011 was in progress during our audit.

**Financial Management.** According to the Grant Handbook, grantees’ financial management systems should provide for accurate, current, and complete disclosure of the financial results and records that adequately identify the source and application of funds for federally sponsored activities. Grantees should have effective controls over and accountability for all funds, property, and other assets and should adequately safeguard all such assets and ensure they are used solely for authorized purposes. Additionally, the grantee should have accounting records supported by source documentation.

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8 According to OMB Circular A-133, the single audit reporting package consists of the financial statements and schedule of expenditures of Federal awards; summary of prior audit findings; auditor’s reports on the financial statements, internal control over financial reporting and compliance with laws and regulations, and a report on compliance with requirements applicable to major programs and on internal control over compliance for the major programs; and a Data Collection Form that summarizes the results of the single audit. These reports can include the identification of any related questioned cost as well as recommendations to the recipient for corrective action. A major program is a federally funded program subject to testing by the auditor.

9 The Federal Audit Clearinghouse operates on behalf of OMB and its primary purposes are to disseminate audit information, support OMB oversight and assessment of Federal award audit requirements, assist Federal oversight agencies in obtaining A-133 data and reporting packages, and help minimize the reporting burden of complying with A-133 audit requirements.
HudsonAlpha uses a commercial, off-the-shelf software package to record its financial operations. The software was developed for Government contractors and other project driven organizations to address the unique financial, regulatory, and operational needs of project-based firms. As such, the software tracks time, materials, overhead, and other expenses at the project, organization, and account level. The NASA grant was assigned a unique project number to separately track the expenditures and the drawdown of funds. We were able to compare information shown in the general ledger to the totals calculated from the supporting documentation and determine that the general ledger accurately reflected HudsonAlpha’s expenditures. We did not identify any reportable issues during our testing in this area.

Grant Drawdowns. The Grant Handbook establishes procedures for NASA to make payments to grantees. These procedures are designed to minimize the elapsed time between the transfer of funds to the grantee and disbursement of funds by the grantee when funds are advanced.

We compared the drawdowns to the grant expenditures recorded in the grantee’s general ledger and ascertained that HudsonAlpha only withdrew funds on a reimbursement basis.10 As such, the grantee did not draw down funds in advance of program disbursements and was therefore in compliance with the Grant Handbook.

Grant Expenditures. We reviewed a sample of HudsonAlpha’s expenditures to verify that the expenditures were allowable under the terms and conditions of the grant award; properly authorized, classified, and supported; and allocable to the grant. The expenditures included labor costs such as salaries for employees and summer interns; fringe benefits for employees; and other direct costs for travel, materials, consultants, and contractors. We also reviewed the indirect costs charged to the grant. HudsonAlpha claimed a total of $982,406 against the grant, of which we tested $565,133 or 57.5 percent.

Personnel Expenditures. Four individuals charged time to this grant over 14 months (the 13-month grant period and the preceding month as permitted by the Grant Handbook). In addition, for a period of two months in the summers of 2010 and 2011, the grantee employed approximately 20 individuals per year as interns. We reviewed time and payroll records and tested 100 percent of the labor costs charged to the grant for four pay periods and labor costs charged to the grant by four interns for two pay periods during each of the summers. We found that the labor costs were accurately recorded, properly authorized, and adequately supported by personnel activity reports.

In addition to the labor costs, HudsonAlpha also claimed fringe benefit costs (e.g., social security; unemployment tax; and medical, life, and disability insurance) for the employees. HudsonAlpha calculated these costs using a flat rate applied to its underlying

10 The term “drawdown” refers to the action in which the grantee withdraws funds from the Department of Health and Human Services’ Payment Management System, the system NASA and other Federal agencies use to administer their grant programs.
labor costs rather than tracking and identifying its actual fringe benefit costs for each employee and charging those as direct costs. However, this was not consistent with HudsonAlpha’s indirect cost rate agreement with the Department of Health and Human Services (HHS), its cognizant agency.11 We computed HudsonAlpha’s actual fringe benefit costs during the grant period, computed the percentage that the fringe benefit costs were to the employee’s total annual salary, and applied this rate to the actual direct labor costs charged to the grant to derive our estimate of the actual fringe benefit costs allocable to the grant.

A comparison of the fringe benefit costs claimed by HudsonAlpha and our computation of the fringe benefit costs disclosed that the actual fringe benefit costs incurred exceeded the amount claimed by $10,398 (as shown in Table 1).

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<th>Table 1. Comparison of Claimed and Actual Fringe Benefit Costs</th>
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**Non-Personnel Expenditures.** We reviewed 61 non-personnel transactions totaling $182,541 that HudsonAlpha charged to the NASA grant as direct costs. These transactions consisted of expenditures for travel, materials, consultants, and contractors. We compared the transactions to the NASA-approved budget and traced the transactions to supporting documentation to determine whether the expenditures were allowable under the terms and conditions of the grant award; properly authorized, classified, and supported; and allocable to the grant. Our testing revealed no exceptions.

Additionally, the grant award permitted the recovery of HudsonAlpha’s indirect costs. At the time of grant award, HudsonAlpha’s indirect rate agreement with HHS indicated that a provisional rate of 60 percent was effective, until amended, for fiscal year 2010.12 However, in a subsequent agreement this rate was ultimately reduced to 52 percent for fiscal years 2010 and 2011. Nevertheless, HudsonAlpha claimed indirect costs at a rate of 60 percent for the entire grant period.

Based on our discussions with representatives from both the grantee and NSSC, HudsonAlpha officials believed that the 60 percent rate approved in the grant budget would remain the same throughout the grant period. Additionally, NSSC representatives

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11 OMB Circular A-122, Appendix A, defines a cognizant agency as the Federal agency responsible for negotiating and approving indirect cost rates for a nonprofit organization on behalf of all Federal agencies.

12 OMB Circular A-122, Appendix A, defines provisional rate as a temporary indirect cost rate applicable to a specified period that is used for funding, interim reimbursement, and reporting indirect costs on awards pending the establishment of a final rate for the period.
stated that grant recipients’ proposed rates are checked for compliance with the negotiated rates in effect at the time of award but that NSSC only makes adjustments to reflect final rates for cost-reimbursable contracts and not grants. However, by definition a provisional rate is only a temporary rate until a final rate is established.

We computed the total indirect costs that should have been claimed based on the final and predetermined rate of 52 percent for fiscal years 2010 and 2011, respectively. By applying the provisional rate HudsonAlpha claimed $44,567 more in indirect costs than allowable, as shown in Table 2.

NASA policy does not direct grant officers to obtain and review subsequent indirect rate agreements to ascertain if adjustments to indirect cost rates are required. Further, a procedure does not exist in the NSSC Service Delivery Guide to analyze the rate used to claim indirect costs against the grantee’s negotiated indirect cost rate agreement to ensure that indirect costs were claimed appropriately and adjustments, if necessary, are made during the grant closeout process.

**Grant Reporting**

The Grant Handbook requires grantees to submit annual and final performance reports and quarterly and final Federal Financial Reports to NASA. Performance reports provide information on the progress of the work effort and the financial reports show the grantee’s expenditures and drawdowns for the reporting period.

**Performance Reports.** The Grant Handbook and the terms of the grant required HudsonAlpha to submit an interim and final performance report to NASA 60 days prior to the grant anniversary date and no later than 90 days after the end of the performance period, respectively. The NASA Technical Officer waived the requirement for an interim report because the duration of the grant was only 13 months and the final report was required to be submitted shortly thereafter. The grantee submitted the final report within the required timeframe.

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13 OMB Circular A-122, Appendix A, defines predetermined rate as an indirect cost rate applicable to a specified current or future period that is based on an estimate of the costs to be incurred during that period and is not subject to adjustment.
Financial Reports. The Grant Handbook requires grantees to submit quarterly financial reports to the HHS Payment Management System (PMS) within 30 days following the end of each Federal fiscal quarter (December 31, March 31, June 30, and September 30). We analyzed HudsonAlpha’s quarterly financial reports and determined they were submitted within the required timeframes and accurately reflected the expenditures and drawdowns for the quarter, as well as the cumulative amounts.

Grantees also are required to submit a final financial report within 90 days of the award’s completion date. While the quarterly financial reports are submitted electronically through PMS, the Grant Handbook stipulates that the final financial report be submitted in paper form and annotated as “Final.” The Grant Handbook further specifies that the final financial report be submitted to the Financial Management Office, with a copy to the NASA Grant Officer. The award letter and a subsequent reminder letter to the grantee reiterate the report submission requirements.

The NSSC Service Delivery Guide, “Agency-Wide Contract Closeout Services,” outlines the closeout process and the party responsible for each action in the process. After the transfer of the grant file to the closeout contractor, the next key steps in the process are receipt of the final financial report from the grantee and receipt of the ensuing reconciliation of the financial report with the PMS account. The receipt of the reconciliation triggers the closing of the grantee’s PMS account, which blocks further drawdowns from the account and allows deobligation of any excess funds.

Late Filing of the Final Financial Report. HudsonAlpha submitted a financial report through PMS for the quarter ended September 30, 2011. HudsonAlpha personnel told us that they intended this report to be the final financial report and that they tried to designate the report as such in the PMS system. They said they contacted PMS and were advised that PMS did not have the capability to designate the report as final but that the granting agency would know the report was the final based on the grant expiration and the quarter end date. Although HudsonAlpha submitted another financial report through PMS at the end of the next quarter, again intending it as the “final” report, it did not submit a paper copy annotated as “Final” to the Grant Officer as required by the Grant Handbook and NASA did not recognize the reports submitted to PMS as the required final report.

However, neither NSSC nor its contractor took timely steps to obtain a final report from HudsonAlpha. Indeed, NSSC and its contractor were not even aware that HudsonAlpha had not submitted the final report until we inquired about the report in March 2012. NSSC’s contractor indicated that a report from the grant closeout tracking system would have flagged the outstanding financial report, however, at the time we announced our audit in December 2011, NSSC had not generated such a report. Moreover, NSSC representatives informed us that it is NSSC practice to suspend the closeout process when the Office of Inspector General (OIG) or Government Accountability Office (GAO) request a copy of the grant file during the course of an audit. Accordingly, NSSC suspended the closeout process for the HudsonAlpha grant in
Following our inquiry, HudsonAlpha submitted the final financial report to NSSC in mid-March 2012.

Closeout Process Was Delayed. According to the Grant Handbook, NASA’s goal is to complete the grant closeout process within 180 days of the grant’s expiration. HudsonAlpha’s failure to timely file the final financial report affected NASA’s grant closeout process, and combined with other events, prolonged the closeout process long past the 180 day target.

According to NSSC’s contractor, they perform the steps in the closeout process in a particular order, from which they never deviate. In the process, receipt and reconciliation of the final financial report is completed before NSSC takes steps to block further drawdowns, deobligate any undisbursed funds, and close the grant account in PMS. Until the account has been closed in PMS, grantees have the ability to draw down any remaining funds up to the authorized grant amount.

In the case of HudsonAlpha, non-receipt of the final financial report meant that NSSC had not taken the subsequent steps in the closeout process at the time we announced our audit and NSSC suspended the closeout process in December 2011. Accordingly, the PMS grant account remained open until well into 2012. Shortly before we issued our draft report on June 13, 2012, NASA informed us that once HudsonAlpha submitted the final report in March 2012 NSSC lifted the closeout suspension and the remaining undisbursed funds of $17,596 were deobligated in NASA’s accounting system and PMS.

Although HudsonAlpha did not draw down funds while the closeout process was suspended, NASA’s failure to note the missing financial report and the resulting delay in the closeout process highlighted an internal control weakness future grantees could exploit. Furthermore, because NASA incurs service fees for all open accounts in PMS regardless of account balance, it is in the Agency’s interest to close accounts as soon as practicable after the end of the grant period.

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

Recommendation 1. We recommended that the Assistant Administrator for Procurement require grant officers to obtain the grantee’s negotiated indirect cost rate agreements for each year of the grant if, at the time of award, the grantee has a negotiated rate that is subject to adjustment.

Management’s Response. The Assistant Administrator concurred, stating that the Grant Handbook will be revised to require grant officers to obtain negotiated indirect cost rate agreements for grantees whose rates are subject to adjustment.
**Evaluation of Management’s Response.** Management’s proposed actions are responsive; therefore, the recommendation is resolved and will be closed upon completion and verification of the proposed actions.

**Recommendation 2.** We recommended that the Assistant Administrator for Procurement implement or enhance training programs for procurement personnel to develop or reinforce their understanding of negotiated indirect cost rates as they relate to grants.

**Management’s Response.** The Assistant Administrator concurred, stating that material related to negotiated indirect cost rates will be added to an existing Office of Procurement training course.

**Evaluation of Management’s Response.** Management’s proposed actions are responsive; therefore, the recommendation is resolved and will be closed upon completion and verification of the proposed actions.

**Recommendation 3.** We recommended that the Assistant Administrator for Procurement discontinue the practice of routinely suspending the closeout process when a grant is the subject of an OIG or GAO audit.

**Management’s Response.** The Assistant Administrator concurred, stating that the Grant Handbook does not require the closeout process be suspended when a grant is the subject of an audit, and that he will advise the NSSC to review its closeout procedures and remove any requirements or guidance that conflicts with the Grant Handbook’s requirement.

**Evaluation of Management’s Response.** Management’s proposed actions are responsive; therefore, the recommendation is resolved and will be closed upon completion and verification of the proposed actions.

**Recommendation 4.** We recommended that the Executive Director of the NSSC ensure that HudsonAlpha claims fringe benefits in accordance with the terms of its negotiated rate agreement and remedy the difference between the amounts claimed and the costs incurred by HudsonAlpha.

**Management’s Response.** The Executive Director concurred, recognizing that HudsonAlpha may have undercharged their fringe benefit costs and over billed other indirect costs based on the application of provisional rather than final indirect rates. He stated that the NSSC will verify that HudsonAlpha’s final SF 425 reflects all costs incurred and utilizes the final negotiated indirect rates and will request HudsonAlpha submit an amended form if necessary.

**Evaluation of Management’s Response.** Management’s proposed actions are responsive; therefore, the recommendation is resolved and will be closed upon completion and verification of the proposed actions.
Recommendation 5. We recommended that the Executive Director of the NSSC remedy the indirect costs claimed in excess of HudsonAlpha’s approved final and predetermined indirect cost rates for fiscal years 2010 and 2011, respectively.

Management’s Response. The Executive Director concurred, recognizing that HudsonAlpha may have used provisional rather than final indirect rates. The NSSC will verify that HudsonAlpha’s final SF 425 reflects the final negotiated indirect rates and will request HudsonAlpha submit an amended form if changes are required.

Evaluation of Management’s Response. Management’s proposed actions are responsive; therefore, the recommendation is resolved and will be closed upon completion and verification of the proposed actions.

Recommendation 6. We recommended that the Executive Director of the NSSC establish procedures to analyze indirect costs being claimed against the grantees’ negotiated indirect cost rate agreement and update the NSSC Service Delivery Guide, “Agency-Wide Contract Closeout Services,” accordingly.

Management’s Response. The Executive Director concurred, stating that the NSSC will direct the closeout contractor to adjust its standard closeout procedures so that final SF 425s will be obtained and dispositioned after final indirect rates have been determined for those grants and cooperative agreements for which provisional indirect rates were used. In addition, the closeout contractor will be required to obtain a certification from grantees stating that their final SF 425 reflects all costs incurred and final negotiated indirect rates. The service delivery guide will be updated to reflect these changes when the new Agency-wide contract closeout and procurement support services contract is executed.

Evaluation of Management’s Response. Management’s proposed actions are responsive; therefore, the recommendation is resolved and will be closed upon completion and verification of the proposed actions.

Recommendation 7. We recommended that the Executive Director of the NSSC ensure that grantees notify NASA of changes in their negotiated indirect cost rates and submit adjustments when warranted.

Management’s Response. The Executive Director did not concur, stating that grantees are required to submit indirect cost rate proposals to their cognizant Federal audit agency, which in turn is responsible for sending negotiated rate agreements to the other Federal agencies that require this information. However, he stated that the NSSC will provide each cognizant agency with current points of contact and mailing information to ensure the NSSC receives copies of the rate agreements. In addition, the Assistant Administrator for Procurement agreed to require grant officers to obtain grantees’ negotiated indirect cost rate agreements.
Evaluation of Management’s Response. We believe these proposed actions satisfy the intent of our recommendation and therefore consider the recommendation resolved. We will close the recommendation upon completion and verification of the proposed actions.

Recommendation 8. We recommended that the Executive Director of the NSSC establish controls to identify when and why a grant is not proceeding through the closeout process in a timely manner so that necessary actions can be taken and update the NSSC Service Delivery Guide, “Agency-Wide Contract Closeout Services,” accordingly.

Management’s Response. The Executive Director of NSSC partially concurred, stating that the NSSC’s closeout contractor has developed a weekly report to identify any grant or cooperative agreement with past due deliverables. However, he indicated that the NSSC is not planning to update the related service delivery guide because the closeout process has not changed as a result of the adoption of this additional control.

Evaluation of Management’s Response. The development of this weekly report is responsive to our recommendation. However, we believe this new control activity should be documented to ensure it continues to be performed on a recurring basis. Accordingly, the recommendation remains unresolved pending further discussions with the Agency.
Scope and Methodology

We performed this audit from December 2011 through August 2012 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Our overall objective was to determine whether HudsonAlpha used NASA’s grant funds for their intended purpose and whether the costs associated with the grant were allowable, reasonable, and in accordance with applicable laws, regulations, guidelines, and the terms and conditions of the grants. Specifically, we reviewed HudsonAlpha’s (1) program performance and accomplishments; (2) budget management and controls; (3) accounting and internal control environment; and (4) reporting. To accomplish our objective, we interviewed key personnel at NSSC and HudsonAlpha involved in grant administration, management, and award processes. We also identified and reviewed relevant Federal laws and regulations, NASA policies, procedures, and requirements. The methodology we used for the review is described below.

Grant Selection. We judgmentally selected the HudsonAlpha grant for substantive testing based on the dollar value, number of supplements, and geographic proximity to a NASA Center. The grant was funded as a result of a congressional earmark and was awarded by NSSC.

Grant Award File Documentation. We reviewed grant award documentation including proposal, budget, technical review reports, and summary financial reporting documentation. We interviewed NASA grant and technical officers responsible for the grant examined during the audit.

Grantee Site Visits. We visited the grantee’s location in Huntsville, Alabama. We interviewed grantee officials and performed substantive transaction testing necessary to validate whether NASA grant funds were used for their intended purpose while assessing the sufficiency of grantee performance.

Testing Conducted. We tested compliance with what we considered the most important conditions of the grant. Unless otherwise stated in our report, the criteria we audited against included Federal requirements, the Grant Handbook, and the terms and conditions of the grant. In conducting our audit, we used a judgmental sampling design. This nonstatistical sampling design does not allow projection of the test results to the universe.
from which the samples were selected. Our sample was selected from the project level
detail from the grantee’s accounting system and amounted to $565,133 or 57.5 percent of
the $982,406 claimed against the grant. We tested the grantee’s:

- **Program Performance and Accomplishments** to determine whether the grantee
  met the grant objectives and whether the grantee collected data and developed
  performance measures to assess accomplishment of the intended objectives.

- **Budget Management and Control** to determine the amounts budgeted and the
  actual costs for each approved cost category and to determine whether the grantee
  deviated from the approved budget and, if so, whether the grantee received the
  necessary approval.

- **Accounting and Internal Controls** to determine whether the grantee had
  sufficient accounting and internal controls to identify and report expenditures and
  reimbursements. This included testing:

  - **Grant Drawdowns** to determine whether grant drawdowns were
    adequately supported and whether the grantee was managing grant
    receipts in accordance with Federal requirements; and

  - **Grant Expenditures** to determine whether the expenditures were
    allowable under the terms and conditions of the grant award; properly
    authorized, classified, and supported; and allocable to the grant.

- **Grant Reporting** to determine whether the required reports were submitted on
  time and accurately reflected grant activity.

We also determined through limited testing that the grantee did not generate or receive
program income, did not have any property or equipment that was reportable to NASA,
was not required to contribute any local matching funds, and did not have any
subgrantees to monitor. We, therefore, performed no testing in these areas.

**Federal Laws, Regulations, Policies, and Requirements.** We identified and reviewed
the following criteria as applicable to our audit objectives:

Requirements for Grants and Agreements with Institutions of Higher Education,
Hospitals and Other Non-Profit Organizations (OMB Circular A-110),” January 1, 2010

2 C.F.R. Part 230, “Cost Principles for Non-Profit Organizations (OMB Circular
A-122),” January 1, 2010

January 1, 2010
Use of Computer-Processed Data. We used NASA computer processed data to determine the universe of NASA grants and to provide financial data on the grant being audited. We also used computer processed data from the HHS PMS to obtain grant drawdown and expenditure data for the grantee. Additionally, we used computer-processed data extracted from the grantee’s accounting system to determine the expenditure transactions charged to the grant. Although we did not independently verify the reliability of all this information, we compared it with other available supporting documents to determine data consistency and reasonableness. From these efforts, we believe the information we obtained is sufficiently reliable for this report.

Review of Internal Controls

We reviewed internal controls for the grantee’s administration and management of grants, including the adequacy of HudsonAlpha’s policies and procedures. The control weaknesses we identified are discussed in this report. Our recommendations, if implemented, will correct the identified control weaknesses.
Prior Coverage

During the last 5 years NASA and the Government Accountability Office have issued the following reports and testimony that are of particular relevance to the subject of this report. Unrestricted reports can be accessed over the Internet at http://oig.nasa.gov/audits/reports/FY12/ and http://www.gao.gov.

NASA Office of Inspector General

“NASA’s Grant Administration and Management” (IG-11-026, September 12, 2011)

“Final Memorandum on Review of Wheeling Jesuit University Cost Proposals” (IG-09-020-Redacted, August 3, 2009)


Government Accountability Office


“Tracking Undisbursed Balances in Expired Grant Accounts Could Facilitate the Reallocation of Scarce Resources or the Return of Funding to the Treasury,” included in Section II (page 286) of “Opportunities to Reduce Potential Duplication in Government Programs, Save Tax Dollars, and Enhance Revenue” (GAO-11-318SP, March 2011)


“Grants Management: Attention Needed to Address Undisbursed Balances in Expired Grant Accounts” (GAO-08-432, August 29, 2008)
Re: Audit of NASA Grant Awarded to the HudsonAlpha Institute for Biotechnology

JUL 20 2012

NASA Shared Services Center

TO: Assistant Inspector General for Audits

FROM: Executive Director, NASA Shared Services Center

SUBJECT: Response to OIG Draft Report, “Audit of NASA Grant Awarded to the HudsonAlpha Institute for Biotechnology” (Assignment No. A-12-009-00)

The NASA Shared Services Center (NSSC) appreciates the opportunity to review the Office of Inspector General (OIG) draft report entitled “Audit of NASA Grant Awarded to the HudsonAlpha Institute for Biotechnology” (Assignment No. A-12-009-00).

In the draft report, the OIG outlines several findings relating to the subject grant award and communicates a total of eight recommendations; three recommendations addressed to the Assistant Administrator for Procurement and five recommendations addressed to the Executive Director of the NSSC. NASA’s response to the OIG’s recommendations, including planned corrective action and estimated completion dates, follows:

The OIG recommends that the Assistant Administrator for Procurement:

**Recommendation 1:** Require grant officers to obtain the grantee’s negotiated indirect cost rate agreements for each year of the grant if, at the time of award, the grantee has a negotiated rate that is subject to adjustment.

**Management’s Response:** The Office of Procurement concurs with the recommendation. The recommended requirement will be added to the NASA Grant and Cooperative Agreement Handbook via the impending rewrite and reform activity. The estimated completion date for this action is August 1, 2013.

**Recommendation 2:** Implement or enhance training programs for procurement personnel to develop or reinforce their understanding of negotiated indirect cost rates as they relate to grants.

**Management’s Response:** The Office of Procurement concurs with this recommendation. We will revise the existing Office of Procurement basic cost/price analysis course to add additional material relative to negotiated indirect cost rates as they relate to grants. The estimated completion date for this action is August 17, 2012.
Recommendation 3: Discontinue the practice of routinely suspending the closeout process when a grant is the subject of an OIG or GAO audit.

Management’s Response: The Office of Procurement concurs with the recommendation. The NASA Grant and Cooperative Agreement Handbook only requires stoppage of closeout procedures in the event of “litigation or termination,” not in cases of routine or random Government reviews or OIG audits. Accordingly, the Assistant Administrator of Procurement will advise the NSSC to review its local closeout procedures for purposes of discerning and removing any requirements or guidance that conflicts with the Agency’s regulations regarding grant and cooperative agreement closeout procedures. The estimated completion date for this action is July 31, 2012.

The OIG recommends that the Executive Director of the NSSC:

Recommendation 4: Ensure that HudsonAlpha claims fringe benefits in accordance with the terms of its negotiated rate agreement and remedy the difference between the amounts claimed and the costs incurred by HudsonAlpha.

Management’s Response: The NSSC concurs with this recommendation. This recommendation is similar to Recommendation 5, as it addresses concerns with HudsonAlpha’s indirect rates and the terms of its negotiated rate agreement. Because of these similarities, actions to be taken by the NSSC are addressed in management’s response to Recommendation 5 and apply to both recommendations. The estimated completion date for these actions is August 31, 2012.

Recommendation 5: Remedy the indirect costs claimed in excess of HudsonAlpha’s approved final and predetermined indirect cost rates for fiscal years 2010 and 2011, respectively.

Management’s Response: The NSSC concurs with this recommendation. Although it is HudsonAlpha’s responsibility to apply the correct indirect rates in their billings, the NSSC recognizes that the recipient may have undercharged its fringe benefit costs in the approximate amount of $10,000. Application of provisional indirect rates in lieu of final indirect rates may also have led to an over billing of $44,567 in other indirect costs. Without an incurred cost audit, the exact amount of any over or under billings is unknown because the cost basis upon which these indirect rates are applied are unaudited. Over or under billing of the direct costs using the provisional cost basis would affect any final amounts due or owed.

It also needs to be noted that a deobligation in the amount of $17,596.56 was executed on March 22, 2012, after the closeout contractor received from the recipient the final SF 425. The SF 425 was reconciled by the NSSC Financial Management Division before the deobligation was processed.

Indirect Costs Questioned by the OIG: $44,567
Fringe Benefits under Billed by HudsonAlpha: ($10,000)
Deobligation by Close-out Contractor: ($17,597)  
Remaining Questioned Indirect Costs: $16,970

The NSSC will verify with HudsonAlpha that the final SF 425 submitted on March 14, 2012, reflects all costs incurred, utilization of final negotiated indirect rates, and the transfer of any funds budgeted for indirect costs to absorb increases in direct costs, or vice versa, allowed by Provision 1260.72 of the NASA Grants Handbook. If an amendment to the final SF425 is required, we will request HudsonAlpha to submit the amended final SF 425 within 30 days.

Since Provision 1260.72 of the NASA Grant and Cooperative Agreement Handbook allows recipients to transfer funds budgeted for indirect costs to direct costs to absorb increases, or vice versa, the final amounts stated in the final SF 425 (as amended) may or may not reconcile exactly to the amounts stated in the OHG audit. The NSSC will require HudsonAlpha to certify that the SF 425 (as amended) reflects all costs incurred, application of final negotiated indirect rates, and the transfer of any funds budgeted for indirect costs to absorb increases in direct costs, or vice versa, as allowed by Provision 1260.72. The NSSC will rely on the recipient’s certification to remedy any remaining questioned costs without the additional cost of an incurred cost audit by the Department of Health and Human Services (HHS). The estimated completion date for these actions is August 31, 2012.

**Recommendation 6:** Establish procedures to analyze indirect costs being claimed against the grantees’ negotiated indirect cost rate agreement and update the NSSC Service Delivery Guide, “Agency-Wide Contract Closeout Services,” accordingly.

**Management’s Response:** The NSSC concurs with this recommendation. The NSSC will direct the closeout contractor, as part of their standard closeout procedures for financial assistance instruments, to check the award file to determine if provisional indirect rates were used to determine indirect costs in the proposed budget. If so, the closeout contractor will be instructed to wait until final indirect rates have been determined before obtaining and dispositioning the final SF 425. In those situations where provisional indirect rates were used, the closeout contractor will be directed to obtain a certification from the recipient stating that the final SF 425 (as amended) reflects all costs incurred, application of final negotiated indirect rates, and the transfer of any funds budgeted for indirect costs to absorb increases in direct costs, or vice versa, as allowed by Provision 1260.72 of the NASA Grant and Cooperative Agreement Handbook. The estimated completion date for this action is July 31, 2012. We will delay updating the service delivery guide until such time as the new Agency-wide contract closeout and procurement support services contract is executed and changes to the service delivery guide resulting from that award can be updated at the same time.

**Recommendation 7:** Ensure that grantees notify NASA of changes in their negotiated indirect cost rates and submit adjustments when warranted.
Management's Response: The NSSC non-concurs with this recommendation. It is the recipients' responsibility to submit and negotiate indirect rate proposals with the cognizant Federal audit agency. Pursuant to subparagraph E.2.g of 2 CFR Part 230, Cost Principles for Non-Profit Organizations, the cognizant Federal audit agency is required to send the recipient’s negotiated rate agreement to all concerned Federal agencies.

To ensure that the NSSC receives copies of these written rate agreements in a timely manner, the NSSC will provide each cognizant agency (HHS, Office of Naval Research and the Defense Contract Management Agency) current points of contact and mailing information. The estimated completion date for these actions is July 31, 2012.

Recommendation 8: Establish controls to identify when and why a grant is not proceeding through the closeout process in a timely manner so that necessary actions can be taken and update the NSSC Service Delivery Guide, “Agency-Wide Contract Closeout Services,” accordingly.

Management's Response: The NSSC partially concurs with this recommendation. A reporting mechanism exists within the closeout contractor’s database to identify any grant or cooperative agreement with past due deliverables that have not been requested within the last 15 days. This report is run weekly and forwarded to closeout administrators to act upon. Report development and testing at the NSSC began May 21, 2012, in anticipation of this recommendation. Reporting began June 14, 2012, as a result of the draft audit report.

The closeout process will not change due to the addition of this control; therefore, the Service Delivery Guide, “Agency-Wide Contract Closeout Services,” does not need to be updated as a result of this recommendation.

Again, thank you for the opportunity to review and comment on the subject draft report. If you have further questions or require additional information on the NASA response to the draft memorandum, please contact Chris Songy at 228-813-6336.

[Signature]
Michael J. Smith

cc:
Marshall Space Flight Center/Mr. Goldman
Associate Administrator for Education/Mr. Melvin
Assistant Administrator for Procurement/Mr. McNally
6/20/2012

In response to the indirect rate overcharge; the grant was for a period of one year which ended 7/31/11, and at the time of the award the rate was 60%. HudsonAlpha did not receive the final rate until November 7, 2011 in which the grant was logically over. We had reason to believe the final report was filled and closed out.

Kind Regards,

Traci Tyree, CFO
HudsonAlpha Institute for Biotechnology
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AUGUST 3, 2012

REPORT No. IG-12-019

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