

IG-02-015

**AUDIT
REPORT**

**MANAGEMENT OF FORWARD FUNDING
AND UNDISBURSED COSTS**

March 29, 2002



National Aeronautics and
Space Administration

OFFICE OF INSPECTOR GENERAL

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Acronyms

CFO	Chief Financial Officer
FAR	Federal Acquisition Regulation
FY	Fiscal Year
GAO	General Accounting Office

March 29, 2002

W

TO: A/Administrator

FROM: W/Counsel to the Inspector General

SUBJECT: INFORMATION: Management of Forward Funding and Undisbursed Costs
Report Number IG-02-015

The NASA Office of Inspector General has completed an audit of Management of Forward Funding and Undisbursed Costs.¹ The Agency uses forward funding as a tool of the Federal budget process to allow continuing operations and to avoid funding shortfalls. Forward funding, consisting of unobligated budget authority and uncosted obligations,² sets aside funds for future Agency obligations and expenses. NASA must monitor forward funding balances to fully understand the status of a program or project. Also, large forward funding balances can give the appearance that NASA is carrying over excessive balances from one fiscal year to the next. We evaluated NASA's management of forward funding and undisbursed costs.³ Specifically, we determined whether NASA complied with the Agency-recommended thresholds⁴ for unobligated budget authority, uncosted obligations, and undisbursed costs and whether those thresholds were still appropriate.

NASA provided adequate management of unobligated budget authority and undisbursed costs; however, management of uncosted obligations needs greater emphasis. NASA had more than \$800 million in uncosted obligations that exceeded the 2-month threshold. Limiting the uncosted obligations could have resulted in alternative beneficial uses of Agency funds.⁵ Although we determined that the recommended thresholds were still appropriate, we believe NASA should apply the thresholds at the program or project level rather than at the Center level for the reasons discussed in the finding section of the report.

¹We performed the audit at NASA Headquarters and three NASA Centers.

²Unobligated budget authority consists of funds available but not yet obligated for contract and program requirements. Uncosted obligations are funds already allocated to a program or contract for work not yet performed.

³Undisbursed costs are funds set aside for expenses recognized but not yet paid.

⁴In 1996, the Agency recommended thresholds to assist NASA in managing forward funding. Thresholds stated that unobligated budget authority should consist of 1 month of available funds for new obligations or existing contract actions, uncosted obligations should consist of 2 months of average costs for forward funding, and undisbursed costs should consist of 2 months of average disbursements.

⁵Congressional and Office of Management and Budget notifications/approvals may be required before NASA can reallocate program funds.

Background

Forward funding first became a concern for the Agency when a House Subcommittee raised concerns about forward funding balances to the General Accounting Office (GAO) in 1996.⁶ Both the GAO and an internal NASA steering group reviewed forward funding.⁷ The steering group recommended that NASA (1) establish Center thresholds for unobligated budget authority, uncosted obligations, and undisbursed costs and (2) study the thresholds over time. The GAO recommended that NASA measure the thresholds at the program or project level.

Recommendations

We recommended that the NASA establish and implement a forward funding management policy and incorporate the policy into the Agency's Federal Acquisition Regulation (FAR) Supplement. These actions will help to ensure effective use of Agency funds.

Management's Response and OIG Evaluation

NASA concurred with the report recommendations but expressed concerns about some of the premises in the report. Management stated that uncosted obligations may not always indicate underutilized funds and that the report minimized the role of Agency strategic plans and congressional approvals needed to redistribute Agency funds. Despite those concerns, the Agency plans to issue a forward funding management policy as part of the Agency Financial Management Manual. The Agency will disseminate the policy by issuing a Procurement Information Circular to Agency procurement personnel.

We consider management's planned actions responsive to the recommendations. Details on the status of the recommendations are in the recommendations section of the report.

[original signed by]

Francis P. LaRocca

Enclosure

Final Report on Audit of Management of Forward Funding and Undisbursed Costs

⁶In March 1996, the Chairman of the House of Representatives Subcommittee on Space and Aeronautics raised concerns to the GAO about excessive forward funding balances in some NASA programs.

⁷GAO issued the results of its work in audit report, GAO/NSIAD 96-206, "NASA Budget: Carryover Balances for Selected Programs." The NASA steering group published its results in "The Management and Liquidation of Budget Authority: Issues and Recommendations Associated with Recent Growth in Unliquidated Budget Authority," in June 1996.

**FINAL REPORT ON AUDIT OF MANAGEMENT OF FORWARD
FUNDING AND UNDISBURSED COSTS**

March 29, 2002

W

TO: B/Acting Chief Financial Officer
H/Assistant Administrator for Procurement

FROM: W/Assistant Inspector General for Audits

SUBJECT: Final Report on Management of Forward Funding and Undisbursed Costs
Assignment Number A-01-016-00
Report Number IG-01-015

Enclosed please find the subject final report. Our evaluation of your response has been incorporated into the body of the report. We consider management's proposed, corrective actions responsive for the recommendations. The recommendations will remain open for reporting purposes until corrective actions are completed. Please notify us when actions have been completed on the recommendations, including the extent of testing performed to ensure corrective actions are effective. The final report distribution is in Appendix E.

We appreciate the courtesies extended to the audit staff. If you have questions concerning the report, please contact Mr. Chester A. Sipsock, Program Director, Financial Management Audits, Quality and Oversight (216) 433-8960, or Ms. Linda Wagner Anderson, Auditor-in-Charge, at (757) 864-3745.

[original signed by]

Alan J. Lamoreaux

Enclosure

cc:

AA/Chief of Staff

AB/Associate Deputy Administrator for Institutions

B/Comptroller

G/General Counsel

BF/Director, Financial Management Division

JM/Director, Management Assessment Division

AA/Director, Kennedy Space Center

106/Director, Langley Research Center

DA01/Director, Marshall Space Flight Center

NASA Office of Inspector General

IG-02-015
A-01-016-00

March 29, 2002

Management of Forward Funding and Undisbursed Costs

Introduction

The Federal Government's ongoing operations are contingent on the annual congressional appropriations;⁸ therefore, NASA faces certain budgeting challenges. One such challenge is to continue funding operations during the period when the Congress and President have not finalized the Agency's appropriations. NASA uses a fundamental tool of the Federal budget process, known as forward funding, to safeguard against funding shortfalls during those periods. Forward funding (1) sets aside certain funds for new obligations and/or planned Agency expenses and (2) consists of the total of unobligated budget authority and uncosted obligations. Forward funding can also decrease the amount of administrative and procurement actions related to incremental funding, thereby decreasing the potential for delays in contract/procurement activities.

It is important that management monitor forward funding balances to fully understand the status of a program or project. Large forward funding balances can indicate that research and development efforts, such as grants⁹ and cooperative agreements,¹⁰ have required more time to actually start work. Large forward funding balances can also give the appearance that NASA is carrying over excessive balances from one fiscal year to the next. As a result of a House subcommittee concern about excessive forward funding balances in some NASA programs, the GAO issued a report¹¹ on its review of NASA's forward funding balances. In response to the GAO report, NASA issued the Draper

⁸Congress appropriates funds to NASA on a fiscal year (FY) basis. NASA allocates and distributes those funds by appropriation to its programs and Centers. NASA Headquarters and Center officials subsequently obligate the funds to meet program and contract requirements for the year. The Agency expenses (costs) funds as work or services are performed and disburses funds against expensed amounts upon receipt of an invoice or other payment request.

⁹NASA awards grants and cooperative agreements to universities and non-profit entities to fund basic and applied research. NASA Procedures and Guidelines 5800.1, "Grant and Cooperative Agreement Handbook," states that a research grant shall be used (1) to accomplish a NASA objective through stimulating the acquisition of knowledge of the subject under study or attempting to determine the potential of scientific discoveries or improvements in technology, materials, processes, methods, devices, or techniques and (2) to advance the state of the art. The recipient will generally conduct the research without assistance from NASA and will provide a final product, usually a report.

¹⁰NASA Procedures and Guidelines 5800.1, "Grant and Cooperative Agreement Handbook," states that a cooperative agreement shall be used when the principal purpose is to transfer something of value to the recipient to accomplish a public purpose of support or stimulation authorized by Federal statute, where substantial involvement is anticipated between NASA and the recipient.

¹¹Details on the GAO findings are in Appendix B of our report.

report, which discusses the results of an internal Agency study¹² of forward funding balances. The report states that when NASA's budget decreased slightly in the 1990's, managers maintained larger forward funding balances to soften the impact of budget reductions in future years. The Draper report recommended the following thresholds to assist NASA in managing forward funding:

- unobligated budget authority should consist of 1 month of available funds for new obligations or existing contract actions,
- uncosted obligations should consist of 2 months of average costs for forward funding, and
- undisbursed costs should consist of 2 months of average disbursements.

The Draper report also recommended that NASA study the thresholds over time to determine whether they should be revised.

Our overall audit objective was to evaluate NASA's management of forward funding (unobligated budget authority and uncosted obligations) and undisbursed costs. Specifically, we determined whether NASA complied with the recommended thresholds for unobligated budget authority, uncosted obligations, and undisbursed costs and whether those thresholds were still appropriate. Details on the audit objectives, scope, and methodology are in Appendix A.

Results in Brief

NASA's management of forward funding needs improvement. The Agency complied with the 1-month threshold for unobligated budget authority. However, NASA Headquarters and the three Centers we reviewed¹³ did not comply with the 2-month threshold for uncosted obligations. NASA had more than \$800 million in uncosted obligations as of September 30, 2000, which exceeded the 2-month threshold. If NASA had limited forward funding balances for uncosted obligations as recommended, the Agency could have found alternative beneficial uses for those funds.

In relation to NASA's management of undisbursed costs, we determined that the Agency did not always comply with the 2-month threshold for undisbursed costs. Specifically, NASA had not disbursed funds because contractors had not completed required contract milestones.¹⁴ However, we determined that the withholding of contract payments pending the completion of work or services was in the Agency's best financial interest. Therefore, no action is required for improving management of undisbursed costs and, accordingly, we did not address the excess balances in this report.

¹²Additional details on the study are in Appendix B.

¹³We reviewed forward funding information on 35 contracts at 3 Centers: John F. Kennedy Space Center, Langley Research Center, and George C. Marshall Space Flight Center.

¹⁴Of the 35 contracts we reviewed, 25 contracts had excess undisbursed costs totaling about \$212 million.

Regarding whether the recommended thresholds were still appropriate, we determined that some level of forward funding is necessary to carry out Government programs. We considered the 2-month threshold for uncosted obligations to prevent work stoppages and the 1-month threshold for unobligated budget authority to maintain program reserves sufficient to sustain NASA operations during periods between Agency appropriations. However, we believe NASA should apply the thresholds at the program or project level rather than at the Center level for the reasons discussed in the finding section below.¹⁵ We also considered the 2-month threshold for undisbursed costs reasonable to allow for the various factors¹⁶ contributing to the lag time between cost accruals and payments.

Funds in Uncosted Obligations

Finding. Agencywide, uncosted obligations exceeded the recommended threshold by more than a total of \$800 million for program years¹⁷ 1998 through 2000. The primary reasons for the excess uncosted obligations balances were that:

- the Chief Financial Officer (CFO) had not issued a forward funding policy to assist NASA in assuring sound funds management,
- Agency procurement regulations did not address forward funding management, and
- Center personnel did not always perform resource reviews during the fiscal year to identify and reallocate excess uncosted obligations.

If NASA personnel had monitored the forward funding balances more closely during the fiscal year to identify potential excess uncosted obligations, the Agency may have been able to realize greater benefit from available appropriations.¹⁸

Federal and NASA Guidance for Using Appropriated Funds

The FAR and NASA FAR Supplement require adequate funding of programs to avoid anti-deficiency violations.¹⁹ Specifically, the FAR requires that agencies adequately fund

¹⁵The Draper report recommended that each Center use a total measurement or Center composite to evaluate forward funding. The Center composite is a total of all Center financial transactions for each appropriation including contracts, grants, cooperative agreements, purchase orders, travel, salaries, etc.

¹⁶Various factors, such as type of contractual agreement, determine the proper time for disbursement of funds. However, NASA must accrue costs as incurred to reflect current liabilities, even though the Agency may not make actual disbursements until some later period.

¹⁷A program year identifies the fiscal year in which Congress appropriated funds.

¹⁸Congressional and Office of Management and Budget notifications/approvals may be required before NASA can reallocate program funds.

¹⁹FAR, Part 32, Contract Financing, states that adequate funding should be available to prevent anti-deficiency violations. The Anti-Deficiency Act prohibits a Government employee from obligating or expending funds in excess of the amount available in an appropriation.

programs to cover contract costs. Most NASA contracts are awarded for multiple years and are incrementally funded;²⁰ however, there is no Federal funds management guidance for those types of contracts.

For our audit, we relied on the GAO and Draper reports as guidance to evaluate sound funds management of NASA’s programs. The GAO report recommended that NASA measure forward funding on individual programs because reviewing only Agency and Center totals would not detect large forward funding balances in specific programs (see Appendix B). As discussed earlier, the Draper report recommended specific thresholds for unobligated budget authority, uncosted obligations, and undisbursed costs for each Center.

Status of Uncosted Obligations

Agency Composite of Uncosted Obligations. NASA personnel did not always comply with the recommended 2-month threshold for uncosted obligations. We reviewed the Agency composite²¹ of uncosted obligations balances for program years 1998 through 2000. The balances of the excess uncosted obligations for the 3 years totaled more than \$800 million as shown in the table below (Appendix C contains detailed calculations of the uncosted obligations):

Net Uncosted Obligations Amounts in Excess of 2 Months

<u>NASA Appropriation</u>	<u>Balance of Excess Uncosted Obligations at September 30, 2000</u>
Mission Support	\$133,297,041
Human Space Flight	6,150,156
Science, Aerospace, and Technology	<u>666,544,605</u>
Total	\$805,991,802

It should be noted that when we used the Agency composite to analyze uncosted obligations, we could not detect excess balances in individual programs or projects within each appropriation. For example, some programs or projects may have been under the 2-month threshold, while others may have been over the threshold. Because NASA would not be able to detect excess uncosted obligations when reviewing Agency funds as a whole, we agree with the GAO recommendation that NASA should measure forward funding on individual programs and projects rather than Agency composite totals.

²⁰Incremental funding is a method to fund contracts over time through successive monetary increases.

²¹The Agency composite is a total of all NASA financial transactions for each appropriation.

Uncosted Obligations Related to Grants and Cooperative Agreements. Excess uncosted obligations may be justified in some cases. We determined that excess uncosted obligations for grants and cooperative agreements totaled about \$227 million (or 28 percent of the total uncosted obligations)²² for program years 1998 through 2000. Financial management officials informed us that uncosted obligations for grants and cooperative agreements exceeded the 2-month threshold because NASA generally fully funded the grants and cooperative agreements at award, regardless of when the work was performed. The NASA Grant and Cooperative Agreement Handbook states that NASA reserves the right to either fully or incrementally fund grants based on program considerations. The Handbook further states that grants with anticipated annual funding that exceeds \$50,000 may be incrementally funded for less than the amount stated in the proposal. NASA's Office of Aerospace Technology established a policy to incrementally fund grants valued at more than \$50,000 to make better use of that office's excess uncosted obligations balances. While we agree that some of the \$227 million in forward funding for grants and cooperative agreements may have been justified, NASA management should consider alternatives, such as incremental funding, to fund grants and cooperative agreements.

Reasons for Uncosted Obligations Balances

NASA may not have realized the full benefit from appropriated funds because the Agency's CFO did not establish a funds management policy and personnel were not required to identify excess uncosted obligations during the year.

Funds Management Policy. Although the GAO and NASA financial management officials agreed in 1996 that forward funding thresholds should be established, the NASA CFO has not yet included the thresholds in a forward funding policy. In addition, NASA did not perform additional studies of forward funding to determine whether the thresholds were still appropriate.

In the absence of an Agency forward funding management policy, personnel appropriately followed procurement regulations and obligated the maximum amount of funding available to cover contract performance without considering whether actual costing would occur in the current fiscal year. Federal and Agency procurement regulations allow the Agency to fully fund contracts, which may result in excess uncosted obligations. However, those regulations do not address funds management or forward funding thresholds and, therefore, do not ensure the best use of available resources. NASA should include a forward funding policy in the Agency's procurement regulation, the NASA FAR Supplement.

Reviews of Uncosted Obligations Balances. Early identification of excess uncosted obligations is vital to ensure that excess funds are reallocated before the end of the fiscal

²²NASA also administered many of its congressional earmarks (funds set aside within an appropriation for a specified purpose) through grants. Although financial data for congressional earmarks was not readily available, earmarks are reflected in the \$227 million.

year. Performing periodic reviews during the fiscal year would allow NASA personnel to determine whether excess uncosted obligations could be put to better use. However, procurement, program, and project personnel were not required or trained to identify excess uncosted obligations balances during the year. Because the Draper report addressed forward funding thresholds only at the fiscal year end, personnel reviewed funds balances and reallocated obligations and costs at the year end to meet Agency financial management goals. For example, NASA personnel stated that they forward funded a Center computer maintenance contract over 6 months into 2001 to use expiring funds at the end of FY 2000. Reviews of uncosted obligations during the fiscal year could have resulted in earlier detection of excess balances and greater opportunity for alternative uses for the available funds.

Benefits of Improved Management of Uncosted Obligations Balances

Effective management of appropriated funds becomes more critical as NASA's budgetary resources continue to decrease. Performing reviews of uncosted obligations balances is one way NASA could improve funds management by identifying alternative uses for available funds. For example, in March 1996, the Space Shuttle Program used \$70 million of uncosted obligations balances in the Shuttle program to fund Space Shuttle upgrades to improve Shuttle safety.

If NASA Headquarters and Center financial and program personnel had monitored the forward funding balances more closely, NASA could have found alternative uses for some of the \$800 million in excess uncosted obligations. Further, if the Agency improves forward funding practices on future programs, projects, and contracts, NASA could realize greater benefit from available appropriations.

We commend the Agency CFO for establishing a performance goal²³ for forward funding. However, formal Agency policy is needed to emphasize the importance of funds management, specifically management of unobligated budget authority and uncosted obligations, throughout the fiscal year.

Recommendations, Management's Response, and Evaluation of Response

1. The NASA CFO, in conjunction with the Assistant Administrator for Procurement, should establish and implement a forward funding management policy. At a minimum, the policy should address the following requirements:

²³NASA's 2001, 2002, and 2003 Performance Plans provide a performance goal (3 months) for forward funding, which represents the total of unobligated budget authority and uncosted obligations. However, the Performance Plans do not address specific goals for unobligated budget authority or uncosted obligations. For example, NASA could forward fund uncosted obligations for 3 months and not forward fund unobligated budget authority, and the Agency would still meet the performance goal.

- **Review forward funding balances and justify them if they exceed established thresholds.**
- **Measure future uncosted obligations at the program or project level at a minimum.**
- **Evaluate forward funding thresholds periodically to determine whether they continue to be appropriate.**
- **Conduct budgetary resource reviews during the fiscal year to identify uncosted obligations balances in excess of established thresholds so that the Agency can reallocate funds whenever possible in accordance with appropriate funding review and approval policies.**
- **Emphasize funds management throughout NASA.**

2. The Assistant Administrator for Procurement should incorporate the NASA CFO's forward funding management policy into the NASA FAR Supplement.

Management's Response. Concur. NASA agreed to establish and implement a forward funding management policy and plans to publish the policy in the Agency's Financial Management Manual by October 1, 2002. Also, the Associate Administrator for Procurement will emphasize the forward funding policy to Agency procurement personnel by issuing a Procurement Information Circular rather than making a regulatory change to the NASA FAR Supplement. The estimated completion date for issuing the Circular is October 1, 2002.

Although the CFO agreed to establish a forward funding management policy, financial management officials expressed concerns about some of the premises associated with the report's findings. Management stated that uncosted obligations may not be a sign of underutilized funds and that using forward funding to continue operations at the beginning of the fiscal year in the absence of a signed appropriation is not the primary purpose of uncosted obligations. Further, the report underestimated the redistribution of uncosted obligations, and management is concerned that the \$800 million identified in the report minimized the role of the Agency's strategic plans and the approval of Congress. Despite these concerns, NASA will determine appropriate targets to use and will base the targets on the type of work being conducted. Finally, the Agency will establish a regular review of unobligated funds and uncosted obligations to determine whether balances are reasonable and redistributions are warranted. The complete text of management's response is in Appendix D.

Evaluation of Response. NASA's planned actions are responsive to the recommendations. The recommendations are considered resolved but will remain undispositioned and open until the agreed-to corrective actions are completed.

With regard to management's concerns, we agree that excess uncosted obligations may be justified in some cases, and we included examples in our report. The report discusses the use of forward funding at the beginning of the fiscal year to continue operations as an example of budget challenges facing NASA and does not state that this is the primary

purpose of uncosted obligations. The report also recognizes the NASA Office of Aerospace Technology for its effective management of grants and cooperative agreements and that approval outside of NASA may be needed in certain cases to redistribute funds. It was not our intent to advise funding of programs or projects without considering Agency priorities. We commend the CFO's approach and planned corrective actions to provide greater emphasis Agencywide for forward funding management.

Appendix A. Objectives, Scope, and Methodology

Objectives

Our overall audit objective was to evaluate NASA's management of forward funding (unobligated budget authority and uncosted obligations) and undisbursed costs. Specifically, we evaluated whether NASA complied with the recommended thresholds for forward funding and undisbursed costs and whether those thresholds were appropriate.

Scope and Methodology

We obtained Agencywide financial balances, by appropriation, as of September 30, 2000, as reported in NASA's Financial and Contractual Status system. We calculated unobligated budget authority, uncosted obligations, and undisbursed costs using average monthly obligations, costs, and disbursements from fiscal year (FY) 2000 financial data. We divided (1) the unobligated budget authority at fiscal year end 2000 by average monthly obligations, (2) the uncosted obligations by average monthly costs, and (3) undisbursed costs by average monthly disbursements. To identify balances in excess of recommended thresholds, we subtracted 1 month of average obligations from the unobligated budget authority, 2 months of average costs from the uncosted obligations, and 2 months of average disbursements from the undisbursed costs. We reviewed forward funding information on 35 contracts at 3 Centers: John F. Kennedy Space Center (Kennedy), Langley Research Center (Langley), and George C. Marshall Space Flight Center (Marshall).

We assessed the reliability of computer-processed data contained in NASA's Financial and Contractual Status system and Center-unique financial systems and found them to be adequate. As a result, we concluded that the computer-processed data were sufficiently reliable to meet the audit objectives.

Management Controls Reviewed

We reviewed the processes for recording obligations, costs, and disbursements at each of three Centers, and we considered controls for those processes to be adequate. We also reviewed Federal appropriations and procurement laws as follows:

- Department of Veterans Affairs and Housing and Urban Development Appropriations Acts for FY's 1993 through 2000,
- Cash Management Improvement Act of 1992 and Amendments,
- Federal Acquisition Regulation, and
- Federal Acquisition and Streamlining Act of 1994.

Appendix A

We also reviewed Office of Management and Budget Circulars, the U.S. Treasury Financial Manual, and Federal cash management initiatives. We reviewed applicable NASA regulations and documents to include the:

- NASA Federal Acquisition Regulation Supplement,
- NASA Procedures and Guidelines for program and project management,
- NASA Financial Management Manual,
- NASA Performance Plans for FY's 2000 and 2001,
- Chief Financial Officer's Functional Leadership Plan, and
- NASA's budget instructions for the program years reviewed.

We considered the lack of an Agency policy for forward funding a management control weakness as discussed in the report.

Audit Field Work

We conducted field work from January 2001 through February 2002 at NASA Headquarters, Kennedy, Langley, and Marshall. We performed the audit in accordance with generally accepted government auditing standards.

Appendix B. Agency Forward Funding Thresholds

In March 1996, the Chairman of the House of Representatives Subcommittee on Space and Aeronautics raised concerns to the General Accounting Office (GAO) regarding excessive forward funding balances in some of NASA's programs. As a result, the GAO reviewed forward funding balances in 11 Agency programs at the end of fiscal year (FY) 1995 and identified excess forward funding balances of \$3.6 billion (\$.9 billion in unobligated budget authority and \$2.7 billion in uncosted obligations).²⁴ The GAO reported that NASA's forward funding balances consisted of about 4 months of the unobligated budget authority provided to those programs in FY 1995 to cover costs that would accrue in FY 1996 or later. The GAO recommended that NASA measure forward funding on individual programs because reviewing only Agency and Center uncosted obligations totals would not detect large forward funding balances in specific programs.

In response to the GAO's findings, NASA established a steering group to review forward funding. The steering group published its results in "The Management and Liquidation of Budget Authority: Issues and Recommendations Associated with Recent Growth in Unliquidated Budget Authority," also known as the Draper Report. The steering group recommended specific thresholds for unobligated budget authority, uncosted obligations, and undisbursed costs for each Center. These thresholds are provided earlier in the Introduction section of the report.

The NASA steering group applied the thresholds to the Center composite²⁵ of all types of contracts, programs, and projects and based the thresholds on FY 1995 average monthly obligations, costs, and disbursements. The steering group recommended that NASA study the thresholds over time to determine whether they should be revised. The NASA Chief Financial Officer (CFO) concurred with the recommended thresholds and in 1996 and 1997, directed the Agency's program managers to scrutinize and justify uncosted balances in excess of 2 months. The CFO's direction did not address subsequent years. However, NASA's 2000 Performance Plan and the CFO Functional Leadership Plan required the Agency to cost 70 percent of available resources by the end of each fiscal year.²⁶

²⁴The GAO reported its findings in its July 16, 1996, audit report (GAO/NSIAD 96-206), "NASA Budget: Carryover Balances for Selected Programs."

²⁵The Draper report recommended that each Center use a total measurement or Center composite to evaluate forward funding. The Center composite is a total of all Center financial transactions for each appropriation including contracts, grants, cooperative agreements, purchase orders, travel, salaries, etc.

²⁶The NASA 2001 and 2002 Performance Plans require that the Agency cost 75 percent (the sum of unobligated budget authority and uncosted obligations) or more of available resources by the end of the fiscal year.

Appendix C. NASA's Uncosted Obligations¹ at End of Fiscal Year 2000

Mission Support Appropriation				
Program Years 1998 – 2000	Uncosted Obligations at September 30, 2000	Monthly Average Costs	Number of Months Uncosted	Amounts in Excess of 2 Months ²
Available until Expended ³	\$113,998,877	\$10,161,450	11.2	\$93,675,977
2-year funding ⁴	\$150,452,186	\$55,415,561	2.7	\$39,621,064
Total				\$133,297,041
Human Space Flight Appropriation				
Available until Expended ³	\$8,484,899	\$1,167,372	7.3	\$6,150,156
Science, Aerospace, And Technology Appropriation				
Available Until Expended ³	\$23,438,644	\$1,199,710	19.5	\$21,039,224
2-year funding ⁴	\$1,629,518,018	\$492,006,319	3.3	\$645,505,381
Total				\$666,544,605
Grand Total	\$1,925,892,624	\$559,950,412	3.4	\$805,991,802

Source: NASA's Financial and Contractual Status system as of September 30, 2000.

¹Uncosted obligations are funds allocated to a program or contract for work not yet performed.

²"The Management and Liquidation of Budget Authority: Issues and Recommendations Associated with Recent Growth in Unliquidated Budget Authority" (also known as the Draper report) recommended that the Center's limit uncosted obligations to 2 months of average costs for forward funding.

³The available until expended funding includes all funds obligated for construction of facilities including minor repairs, minor revitalization, minor rehabilitation and modifications, planning and design including final design, minor construction and additions, preliminary designs, master planning and facilities engineering functional leadership, discrete projects, and environmental compliance.

⁴The 2-year funding is available for obligation by NASA for 2 fiscal years.

Appendix D. Management's Response

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



March 22, 2002

Reply to Attn of. BR

TO: W/Inspector General
FROM: B/Deputy Chief Financial Officer
SUBJECT: Comments Regarding the Draft Report on Audit of Management of Forward Funding and Undistributed Costs (A-01-016-00)

Thank you for the opportunity to comment on the subject draft report. The report recommends that:

The NASA CFO, in conjunction with the Assistant Administrator for Procurement, should establish and implement a forward funding management policy. At a minimum, the policy should address the following requirements:

- Review forward funding balances and justify them if they exceed established thresholds.
- Measure future uncosted obligations at the program or project level at a minimum.
- Evaluate forward funding thresholds periodically to determine whether they continue to be appropriate.
- Conduct budgetary resource reviews during the fiscal year to identify uncosted obligations balances in excess of established thresholds so that the Agency can reallocate funds whenever possible in accordance with appropriate funding review and approval policies.
- Emphasize funds management throughout NASA.

The Assistant Administrator for Procurement should incorporate the NASA CFO's forward funding management policy into the NASA FAR Supplement.

We concur with the Office of the Inspector General recommendation to establish and implement a forward funding management policy as stated in their report provided above. The question we face is how and where this policy should be incorporated. Despite some concerns we believe it is valuable to establish a regular review of unobligated funds and uncosted obligations, most appropriately at Center and Headquarters Program Management Council meetings where

program status is regularly reviewed. To be most effective from a policy perspective, the Office of Procurement believes it should be incorporated in the Financial Management Manual and passed on to the procurement workforce via a Procurement Information Circular in lieu of a regulatory change. This will have the added benefit of being immediately published and disseminated to the entire procurement workforce, rather than delayed 6 months or more by the regulatory change process.

While we agree with the recommendation for more routine reviews of unobligated and uncosted balances, we are concerned about some of the premises associated with the report's findings. Unobligated funds and uncosted obligations are not necessarily an immediate sign of underutilized funds, and can in appropriate amounts provide for efficiencies in operations by minimizing the amount of paperwork to be processed, facilitate business relationships where a payment schedule is deemed necessary or facilitates the conduct of work, or be a sign that a project manager was more successful in a given year than originally predicted which provides a subsequent hedge against unexpected future problems. The report starts by emphasizing the use of forward funding for continuing operations despite the lack of an appropriation at the beginning of a fiscal year. While forward funding does provide for continuity of operations in such times, these funds are only used on pre-existing approved program activities started in the previous year and continuing into the new fiscal year. The value of a reasonable amount of uncosted obligations reduces the amount of time, workhours, and paperwork spent on the processing of incremental funding actions for Executive and Congressionally approved continuing program activities. This is especially valuable to universities where cash flow can be a problem and incremental funding actions have been cited as overburdensome and disruptive to non-profit research activities. We would prefer if this use of forward funding was not highlighted in the report in this manner that implies it is the primary purpose for the existence of uncosted obligations to continue operations when an appropriation does not exist.

The claim that NASA organizations do not regularly assess the amount of unobligated funds and uncosted obligations may be underestimated, as challenged by the Office of Aerospace Technology. Enterprises regularly consider redistributing funds during the year through Congressional Operating plan requests, in order to accommodate evolving needs often related to the uncertainty of research and development activities, and readjusting funding levels to maintain programmatic commitments within their baseline budgets as part of the annual Agency budget formulation process.

The report's conclusion that \$800 million could have been applied to other program activities at NASA minimizes the importance of the role that the Agency's strategic priorities play in deciding which activities are funded, and the

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role of the Executive Office and Congress in approving the redirection of funds. In addition, acting on the identification of a level of unobligated funds and uncosted obligations without appropriate consideration of program priorities and the cost estimate at project completion, could penalize effective project management. Reserves maintained or produced by a project manager in a given year, may increase the project's interim level of forward funding, but could also help reduce the risk associated with possibilities of unforeseen problems in the project's future.

It will be necessary to conduct some further research to determine the appropriate target to use, for the consideration of when the level of unobligated funds and uncosted obligations should be further reviewed. It will also be important to base those levels on the type of work being conducted. There is a strong concern that a 2-month threshold for forward funding at the end of the year, proposed by the report, would be disruptive to university research efforts, where these institutions have complained that the government's requirements in regards to the provision and accounting for funding is overburdensome.

However, despite these concerns in some of the report's premises, it is still valuable to establish a regular review of unobligated funds and uncosted obligations, most appropriately at Center and HQ Program Management Council meetings where program status is regularly reviewed, to see if the amount of unobligated and uncosted funds is reasonable and whether redistributions of funds are warranted for consideration in the Congressional Operating Plan and/or Agency Budget Formulation Processes. We will be contacting the Assistant Administrator for Procurement in order to develop the appropriate policy statement and guidance.



Stephen J. Varholy

cc:
H/Mr. Luedtke
JM/Mr. Werner
B/Mr. Isakowitz
BR/Dr. Beck

Appendix E. Report Distribution

National Aeronautics and Space Administration (NASA) Headquarters

A/Administrator
AI/Associate Deputy Administrator
AA/Chief of Staff
AB/Associate Deputy Administrator for Institutions
B/Acting Chief Financial Officer
B/Comptroller
BF/Director, Financial Management Division
C/Acting Director for Headquarters Operations
G/General Counsel
H/Assistant Administrator for Procurement
HK/Director, Contract Management Division
HS/Director, Program Operations Division
J/Assistant Administrator for Management Systems
JM/Director, Management Assessment Division
L/Assistant Administrator for Legislative Affairs
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R/Associate Administrator for Aerospace Technology
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 Chief Counsel, John F. Kennedy Space Center
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Non-NASA Federal Organizations and Individuals

Assistant to the President for Science and Technology Policy
Deputy Associate Director, Energy and Science Division, Office of Management and Budget
Branch Chief, Science and Space Programs Branch, Energy and Science Division, Office of Management and Budget
Managing Director, Acquisition and Sourcing Management Team, General Accounting Office
Senior Professional Staff Member, Senate Subcommittee on Science, Technology, and Space

Chairman and Ranking Minority Member – Congressional Committees and Subcommittees

Senate Committee on Appropriations
Senate Subcommittee on VA, HUD, and Independent Agencies
Senate Committee on Commerce, Science, and Transportation
Senate Subcommittee on Science, Technology, and Space
Senate Committee on Governmental Affairs
House Committee on Appropriations
House Subcommittee on VA, HUD, and Independent Agencies
House Committee on Government Reform
House Subcommittee on Government Efficiency, Financial Management and Intergovernmental Relations
House Subcommittee on Technology and Procurement Policy
House Committee on Science
House Subcommittee on Space and Aeronautics, Committee on Science

Congressional Member

Honorable Pete Sessions, U.S. House of Representatives

NASA Assistant Inspector General for Audits Reader Survey

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Report Title: Management of Forward Funding and Undisbursed Costs

Report Number: _____ **Report Date:** _____

Circle the appropriate rating for the following statements.

	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree	N/A
1. The report was clear, readable, and logically organized.	5	4	3	2	1	N/A
2. The report was concise and to the point.	5	4	3	2	1	N/A
3. We effectively communicated the audit objectives, scope, and methodology.	5	4	3	2	1	N/A
4. The report contained sufficient information to support the finding(s) in a balanced and objective manner.	5	4	3	2	1	N/A

Overall, how would you rate the report?

- Excellent Fair
 Very Good Poor
 Good

If you have any additional comments or wish to elaborate on any of the above responses, please write them here. Use additional paper if necessary. _____

How did you use the report? _____

How could we improve our report? _____

How would you identify yourself? (Select one)

- | | |
|---|--|
| <input type="checkbox"/> Congressional Staff | <input type="checkbox"/> Media |
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May we contact you about your comments?

Yes: _____ **No:** _____

Name:

Telephone: _____

Thank you for your cooperation in completing this survey.

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