

**IG-02-027**

**AUDIT  
REPORT**

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**NASA'S CONTRACT AUDIT  
FOLLOW-UP SYSTEM**

**September 30, 2002**

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National Aeronautics and  
Space Administration

**OFFICE OF INSPECTOR GENERAL**

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## **Acronyms**

CO	Contracting Officer
CATS II	Corrective Action Tracking System II
DCAA	Defense Contract Audit Agency
DOD	Department of Defense
DODIG	DOD Inspector General
FAR	Federal Acquisition Regulation
FY	Fiscal Year
JPL	Jet Propulsion Laboratory
OMB	Office of Management and Budget
PIC	Procurement Information Circular
RCA	Reportable Contract Audit

September 30, 2002

W

TO: H/Assistant Administrator for Procurement

FROM: W/Assistant Inspector General for Audits

SUBJECT: Final Report on Audit of NASA's Contract Audit Follow-up System  
Assignment Number A-01-044-00  
Report Number IG-02-027

Enclosed please find the subject final report. Please refer to the Executive Summary for the overall audit results. Our evaluation of your response has been incorporated into the body of the report. We consider management's proposed or completed corrective actions responsive to the recommendations. The corrective actions completed for recommendations 2 and 4 are sufficient to close those recommendations for reporting purposes. Recommendations 1 and 3 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 I.

We appreciate the courtesies extended to the audit staff. If you have questions concerning the report, please contact Mr. Lorne A. Dear, Program Director, Procurement Audits, at (818) 354-5634; Mr. Patrick A. Iler, Program Manager, at (216) 433-5408; or Mr. Steven K. Siu, Auditor-in-Charge, at (818) 354-3451.

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Enclosure

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JPL/180-801/Director, NASA Management Office, Jet Propulsion Laboratory

JSC/AA/Director, Johnson Space Center

LaRC/106/Director, Langley Research Center

MSFC/DAO1/Director, Marshall Space Flight Center

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# NASA Office of Inspector General

IG-02-027  
A-01-044-00

September 30, 2002

## NASA's Contract Audit Follow-up System

### Executive Summary

**Background.** NASA uses the services of other Federal agencies to perform audits of contractors, educational institutions, and non-profit organizations receiving NASA grants and contract awards. The focus of this audit was on audits performed by the Defense Contract Audit Agency (DCAA). The DCAA audits are a critical oversight control over contractors working on major NASA contracts and programs. For fiscal years (FY's) 1999, 2000, and 2001, NASA paid the DCAA a total of \$50.4 million (\$15.4, \$16.4, and \$18.6 million, respectively) for contract audit services.

To improve the effectiveness and efficiency of Government operations, Office of Management Budget (OMB) Circular A-50, "Audit Followup" requires all Federal agencies to establish audit follow-up systems "to assure the prompt and proper resolution<sup>1</sup> and implementation of audit recommendations." Resolution should occur within a maximum of 6 months after issuance of a final report,<sup>2</sup> and corrective action should proceed as rapidly as possible. The Circular also requires that the follow-up systems provide for a complete record of action taken on both monetary and nonmonetary findings and recommendations.

During FY 2000, we completed audits of NASA's contract audit follow-up systems at Goddard Space Flight Center (Goddard), Johnson Space Center (Johnson), and Marshall Space Flight Center (Marshall). NASA management concurred with all our recommendations and took corrective actions, which included issuing Procurement Information Circular (PIC) 00-06, "Contract Administration and Audit Services," dated May 30, 2000. The PIC incorporated the DCAA definition of reportable contract audit (RCA)<sup>3</sup> reports and established requirements for reporting and tracking the reports. Additionally, the PIC required contracting officers (CO's) to maintain a dialog with the Department of Defense (DOD) CO's on the status of significant DCAA audit recommendations on NASA contracts for which NASA delegated resolution and

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<sup>1</sup> Resolution is the point at which the audit organization and agency management or contracting officials agree on action to be taken on reported findings and recommendations; or in the event of disagreement, resolution is the point at which the audit follow-up official determines the matter to be resolved.

<sup>2</sup> OMB Circular A-50 pertains to final audit reports containing findings and recommendations that are issued to Federal agencies or contractors.

<sup>3</sup> RCA reports encompass a variety of DCAA reports, including those with questioned costs of \$100,000 or more. RCA reports are defined in Appendix B.

disposition authority to the DOD. NASA Centers are required to report all RCA reports received to NASA headquarters so it can track the recommendations for reporting purposes.

**Objective.** The overall audit objective was to evaluate the adequacy of NASA's contract audit follow-up system. Additional details on the objective, scope, and methodology are in Appendix A.

**Results of Audit.** The NASA contract audit follow-up system can be improved. Where NASA retained resolution and disposition authority for DCAA audit reports, NASA CO's achieved a significantly lower net savings<sup>4</sup> percentage of the DCAA-reported questioned costs<sup>5</sup> than the DOD. Specifically, for 33 incurred cost, claims, and cost accounting standards audit reports closed during FY's 1999-2001, NASA CO's achieved net savings of only \$14.9 million (19.0 percent) of the questioned costs totaling \$78.6 million. For this same period and same types of reports, DOD CO's achieved net savings of 54.4 percent<sup>6</sup> of the DCAA-reported questioned costs. Further, NASA's net savings have significantly declined over the last 3 years. We estimated that in comparison to DOD net savings for the last 3 years, NASA did not recover an additional \$28 million dollars of DCAA-reported questioned costs (Finding A).

NASA CO's also did not adequately monitor DCAA RCA reports on major NASA contractors when NASA delegated resolution and disposition authority to the DOD. Specifically, the NASA corrective action tracking system (CATS II)<sup>7</sup> did not include

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<sup>4</sup> The DCAA Financial Management Information System Manual defines net savings as the amount of costs and/or profit the Government saves through sustention of DCAA questioned costs (see footnote 5). The amount of net savings is dependent on the type of contract and type of audit (for example, incurred cost, cost accounting standards, or forward pricing audits). Net savings from sustained questioned costs are calculated recognizing the following:

- Under cost-type contracts, the sustained questioned costs will be reported as the net savings amount.
- Under incentive-type contracts, the net savings amount to be reported is the Government's share of any sustained questioned costs.
- For overhead, general and administrative expenses, and home office allocations, net savings will be calculated using the mix of contracts shown above applied to the sustained questioned costs.

<sup>5</sup> OMB Circular A-133, defines questioned cost as follows:

Questioned cost means a cost that is questioned by the auditor because of an audit finding: (1) Which resulted from a violation or possible violation of a provision of a law, regulation, contract, grant, cooperative agreement, or other agreement or document governing the use of Federal funds, including funds used to match Federal funds; (2) Where the costs, at the time of the audit, are not supported by adequate documentation; or (3) Where the costs incurred appear unreasonable and do not reflect the actions a prudent person would take in the circumstances.

<sup>6</sup> The 54.4 percent net savings data was provided by the DCAA and represents all negotiations conducted by DOD CO's (including NASA contractors for those reports NASA delegated to DOD CO's) for incurred cost, claims, and cost accounting standards audit reports closed during FY's 1999, 2000, and 2001.

<sup>7</sup> CATS II is the electronic tracking system that NASA uses to monitor the resolution and disposition of audit recommendations, including DCAA contract audit recommendations and questioned costs.

records for 24 sampled DCAA RCA reports for which NASA delegated resolution and disposition authority to the DOD. This is a repeat finding<sup>8</sup> and shows that NASA CO's are still not complying with the requirements of PIC 00-06. As a result, NASA could not ensure that audit recommendations were resolved in a timely manner or determine that the resolutions were in NASA's best interest. For the 24 sampled reports, the DOD sustained \$12.5 million in questioned costs that applied to NASA contracts. However, CATS II did not contain current and accurate information on any of the reports, so NASA could not rely on CATS II for reporting purposes. Further, NASA officials were not aware of the \$12.5 million that DOD had sustained on major NASA contracts and programs (Finding B).

**Recommendations.** We recommended that NASA improve its procedures for preparing for, conducting, and documenting negotiations of contract audit questioned costs. We also recommended that NASA improve its procedures for tracking and monitoring the resolution of contract audit questioned costs.

**Management's Response.** Management concurred with all the recommendations. The complete text of the response is in Appendix H. We consider management's proposed or completed corrective actions responsive.

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<sup>8</sup> See Appendix G, "Summary of Prior Coverage" for the three NASA Office of Inspector General audit reports issued in FY 2000.

## **Introduction**

Policies and procedures concerning NASA's contract audit follow-up system are in the NASA Federal Acquisition Regulation (FAR) Supplement 1842.7301<sup>9</sup> and the PIC. The policies and procedures require that the NASA contract audit follow-up system track all RCA reports and that audit recommendations be resolved as expeditiously as possible, but within 6 months of the date of the audit report. The NASA FAR Supplement also requires that when resolution and disposition authority is delegated, NASA CO's should at least semiannually review and document in the contract files the status and disposition of significant audit recommendations. The review and documentation should include findings with questioned costs.

NASA relies on the DCAA to identify the RCA reports for those contracts for which NASA retains responsibility for resolution and disposition. The DCAA provides monthly lists of RCA reports to the NASA Office of Procurement, which forwards the lists to the NASA Centers for their use in contract audit follow-up. The Centers submit to the Office of Procurement quarterly status reports on actions taken on the RCA report recommendations and the targeted dates for resolution and disposition. Records of action taken on recommendations in the RCA reports are subsequently input into NASA's CATS II. For FY's 1999, 2000, and 2001, NASA CO's negotiated the resolution of DCAA audit recommendations, including questioned costs, on 33 incurred cost, claim, and cost accounting standards audits.

When NASA delegates resolution and disposition authority to the DOD, the DCAA forwards copies of audit reports to the NASA Center that awarded the contracts included in the DCAA audits. NASA CO's are responsible for monitoring the actions taken by DOD CO's on NASA's behalf. NASA's policy and procedures require the Centers to report all RCA reports to the NASA Headquarters Office of Procurement on a quarterly basis so the reports can be input into the CATS II. NASA uses the CATS II, which should include all RCA reports, to meet the OMB Circular A-50 requirement to track and promptly resolve audit report findings and to respond to congressional inquiries and internal reporting requirements. The Headquarters Office of Procurement Audit Liaison Representative monitors the status of the RCA reports in the CATS II and prepares a quarterly progress report for the Assistant Administrator for Procurement.

As part of its oversight duties, the NASA Headquarters Office of Procurement conducts procurement management surveys at NASA installations that address, in part, contract audit follow-up of the DCAA RCA reports.

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<sup>9</sup> NASA FAR Supplement 1842.7301, "NASA External Audit Follow-up System" revised February 20, 2002, provides guidance on audit tracking and resolution.

## **Findings and Recommendations**

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### **Finding A. Low Net Savings Rate for NASA-Negotiated Questioned Costs**

Where NASA retained resolution and disposition authority for DCAA audit reports, NASA CO's achieved a significantly lower net savings of the DCAA-reported questioned costs than the DOD. Specifically, for 33 audit reports closed during FY's 1999-2001, NASA CO's achieved net savings of only \$14.9 million (19.0 percent) of the total \$78.6 million in costs questioned. In contrast, for this same period and for the same types of audit reports, DOD CO's achieved net savings of 54.4 percent of the DCAA-reported questioned costs.<sup>10</sup> The lower NASA net savings occurred because NASA CO's did not

- establish a negotiation position,
- involve the DCAA auditors in the negotiation process,<sup>11</sup>
- adequately document the rationale for not accepting DCAA-reported questioned costs, and
- promptly resolve questioned costs.

Consequently, in comparison to DOD net savings, NASA did not recover an estimated additional \$28 million<sup>12</sup> of DCAA-reported questioned cost over the last 3 years--an average of \$9.3 million<sup>13</sup> annually.

### ***OMB, FAR, and NASA Guidance***

**OMB Circular.** OMB Circular A-50, "Audit Followup," section 5, states:

Audit follow-up is an integral part of good management and is a shared responsibility of agency management officials and auditors. Corrective action taken by management on resolved findings and recommendations is essential to improving the effectiveness and efficiency of Government operations. Each agency shall establish systems to assure the prompt and proper resolution and implementation of audit recommendations. These systems shall provide for a complete record of action taken on both monetary and non-monetary findings and recommendations.

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<sup>10</sup> We obtained the data for the NASA net savings rate from sustained questioned costs from NASA's CATS II. The DCAA provided us the DOD net savings rate information.

<sup>11</sup> DCAA was not invited to participate in negotiations or to evaluate any additional information provided by the contractors.

<sup>12</sup> We calculated the estimated additional \$28 million by applying the difference between the DOD net savings rate and the NASA net savings rate (54.4 percent minus 19.0 percent equals 35.4 percent) to the DCAA-reported questioned costs for the 3 years (35.4 percent times \$78.6 million equals \$27.824 million).

<sup>13</sup> We calculated the average annual \$9.3 million by dividing the estimated \$27.824 million by 3 years.

OMB Circular A-50 also requires agencies to assign a high priority to the resolution of audit recommendations and establishes requirements for Agency resolution and corrective action as follows:

(2) Require prompt resolution and corrective actions on audit recommendations. Resolution shall be made within a maximum of six months after issuance of a final report or in the case of audits performed by non-Federal auditors, six months after receipt of the report by the Federal Government. Corrective actions should proceed as rapidly as possible.

(5) Provide a means to assure timely responses to audit reports and to resolve major disagreements between the audit organization and agency management or contracting officials. The process should provide sufficient time to permit resolution to take place within the six-month limit.

**FAR Guidance.** FAR 42.705-1, “Contracting officer determination procedure,” section b.(4), states:

- (4) The Government negotiating team shall develop a negotiation position. Pursuant to 10 U.S.C. 2324(f) and 41 U.S.C. 256(f), the contracting officer shall-
- (i) Not resolve any questioned costs until obtaining-
    - (A) Adequate documentation on the costs; and
    - (B) The contract auditor's opinion on the allowability of the costs.
  - (ii) Whenever possible, invite the contract auditor to serve as an advisor at any negotiation or meeting with the contractor on the determination of the contractor's final indirect cost rates.

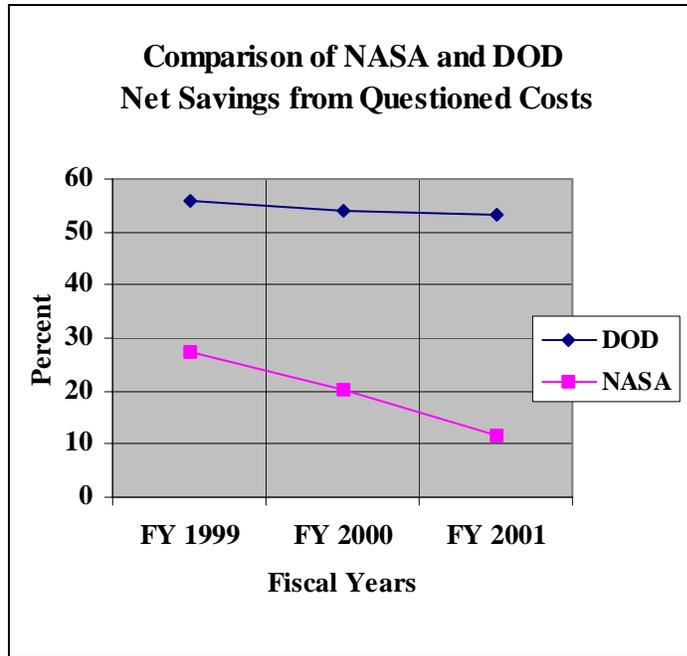
In addition, section b.(5) states that the contracting officer shall, among other things:

- . . . (ii) Prepare a written indirect cost rate agreement conforming to the requirements of the contracts;
- (iii) Prepare, sign, and place in the contractor general file (see 4.801(c)(3)) a negotiation memorandum covering-
- (A) The disposition of significant matters in the advisory audit report;
  - (B) Reconciliation of all costs questioned, with identification of items and amounts allowed or disallowed in the final settlement as well as the disposition of period costing or allocability issues;
  - (C) Reasons why any recommendations of the auditor or other Government advisors were not followed; . . .

**NASA Guidance.** NASA FAR Supplement 1842.7301, “NASA external audit follow-up system,” states that audit recommendations should be resolved within 6 months after receipt of the audit report and should be corrected as expeditiously as possible. The guidance also states that the identification and tracking of contract audit reports under NASA cognizance are accomplished in cooperation with the DCAA.

### *Comparison of NASA Net Savings to DOD Net Savings*

In comparison to DOD CO's, NASA CO's achieved a significantly lower net savings rate for the same type of DCAA-questioned costs. For the 3-year period ended September 30, 2001, NASA's average net savings was only 19.0 percent compared to DOD's average net savings of 54.4 percent for incurred cost, claims, and cost accounting standards audit reports that were closed.<sup>14</sup> Further, the NASA net savings rate trend over the last 3 years has significantly declined as illustrated below:



### *Factors Contributing to NASA's Low Net Savings*

Several factors contributed to NASA's low net savings percentage. Each factor is separately discussed in the following paragraphs:

**Negotiation Positions and Negotiation Memorandums.** Ten (91 percent) of the 11<sup>15</sup> contract files did not contain evidence that the CO's developed a negotiation position prior to negotiations as required by the FAR. Further, negotiation memorandums on the negotiation results either were not in the file or did not describe the rationale for not

<sup>14</sup> We calculated the 3-year average by dividing the total net savings for the 3-year period by the total questioned costs for the 3-year period (see Appendix C).

<sup>15</sup> NASA negotiated DCAA questioned costs in 33 audit reports during FY's 1999, 2000, and 2001. We selected for a detailed analysis a sample of 11 of the 19 audit reports that were negotiated during FY 2001. The sampled audit reports included three at Johnson Space Center, Houston, Texas; three at Glenn Research Center, Cleveland, Ohio; three at the Jet Propulsion Laboratory, Pasadena, California; and two at Marshall Space Flight Center, Huntsville, Alabama. See Appendix C for details on the reports by fiscal year and for information on the FY 2001 reports that we analyzed.

sustaining questioned costs in 9 (82 percent) of the 11 contract files reviewed. The negotiation position is important to help guide the CO's negotiations with the contractor. The negotiation memorandum is needed to document the CO's decisions and to enable reviewers or future CO's to understand the rationale for and the reasonableness of the decisions reached. Further, the negotiation memorandum should provide a reconciliation of all questioned costs and explanations of why the CO did not follow the DCAA recommendations and sustain the questioned costs.

**Use of DCAA Auditors.** NASA procurement officials at Glenn Research Center (Glenn), Jet Propulsion Laboratory (JPL), Johnson, and Marshall did not effectively involve the DCAA auditors in the negotiation process for all 11 reports reviewed. NASA procurement officials did not comply with FAR 42.705-1, which requires CO's to obtain adequate documentation on the costs and the contract auditor's (that is, DCAA's) opinion on the allowability of the costs before resolving questioned costs. Further, we found no evidence that NASA CO's invited the DCAA auditors to serve as advisors at negotiations whenever possible. DCAA auditors involved in the subject audits told us that for 9 (82 percent) of 11 reports sampled, the DCAA auditors did not agree with the NASA CO's decision regarding the resolution of questioned costs. The DCAA audit supervisors and auditors stated that NASA CO's did not ask the supervisors or auditors to attend negotiations or to review subsequent data provided by the contractor in response to DCAA-reported questioned costs. The DCAA audit supervisors and auditors also stated that DOD CO's use the DCAA auditors at negotiations at most of the major contractors. During FY 2001, the DCAA's participation at negotiations, primarily for DOD CO's, totaled 55,886 hours.<sup>16</sup>

**NASA CO's Disagreed with DCAA-Reported Questioned Costs.** NASA CO's or their representatives disagreed with all or part of the DCAA-questioned costs in all 11 reports sampled. For 9 (82 percent) of the 11 audit reports, the CO's or their representatives did not adequately support in the contract files their rationale for such disagreements. In addition, we found no evidence that NASA obtained the DCAA auditors' opinions on the reasons the CO's or their representatives gave for not sustaining the questioned costs. The following examples illustrate these weaknesses:

- At Glenn, NASA sustained only \$195,851 (11.6 percent) on total questioned costs of \$1.7 million for three DCAA audit reports. A price analyst, who had a CO warrant to enable him to settle contract audit questioned costs, conducted the negotiations. NASA procurement officials did not prepare a negotiation position, and the negotiation memorandum did not adequately explain the reasons the price analyst did not follow the DCAA auditor's recommendations.
- At JPL, NASA sustained only \$58,800 (4.3 percent) on total questioned costs of \$1.37 million for three DCAA audit reports. NASA procurement officials did not develop a negotiation position for all questioned costs, and the negotiation

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<sup>16</sup> A DCAA headquarters representative provided us this data on the DCAA's participation at negotiations. The DCAA does not maintain separate statistics for NASA.

memorandums were so inadequately documented that we could not determine why the DCAA auditor's recommendations were not followed. In addition, the negotiation memorandums did not include a reconciliation of all questioned costs, and we could not identify items and amounts sustained or not sustained in the final settlement. The FAR requires that negotiation memorandums include a reconciliation of all costs questioned, with identification of items and amounts allowed or disallowed in the final settlement, and the reasons any recommendations made by the DCAA auditor were not followed.

**Timeliness in Resolving Recommendations.** During FY 2001, NASA procurement officials did not meet the 6-month timeframe in resolving the DCAA-reported questioned costs for 17 (89 percent) of the total 19 negotiated reports. NASA's sustention rates<sup>17</sup> for questioned costs dropped significantly when resolutions of the audit recommendations were delayed. The following table shows NASA's sustention rates for FY 2001 based on the length of time to resolve questioned costs.

**NASA Sustention Rates on Questioned Costs  
(Costs in millions)**

Age of Report <u>(a)</u>	Number of Reports <u>(b)</u>	Costs Questioned <u>(c)</u>	Costs Sustained <u>(d)</u>	Sustention Rate (Percentage) <u>(d/c)</u>
Less than 6 months	2	\$ .402	\$ .357	88.8
6 months to 1 year	4	.984	.358	36.4
1 to 2 years	6	2.340	.447	19.1
More than 2 years	7	26.957	2.443	9.1

By comparison, a review by the Department of Defense Inspector General (DODIG)<sup>18</sup> showed a similar reduction in sustention rates over time. DOD CO's sustained a significantly higher percentage (97 percent) of costs questioned for reports settled within 1 year compared to the percentage (33.5 percent) for those that were more than 2 years old. Appendix D summarizes the DOD sustention rates of questioned costs as presented in the DODIG report.

<sup>17</sup> The sustention rate is calculated by dividing the questioned cost sustained by the questioned cost. As defined in DOD Directive 7640-2, questioned costs sustained means that portion of costs questioned by the auditor upheld as a result of actions taken by either the contractor or the contracting officer during negotiations.

<sup>18</sup> DODIG Audit Report No. 00-03, "The Air Force Contract Audit Followup System," dated October 4, 1999, addressed the effect that delays in negotiating questioned costs had on the sustention rate.

While delays in negotiating questioned costs are sometimes unavoidable, resolving audit issues in a timely manner could result in higher sustention rates of questioned costs. NASA could improve its potential for sustained costs by minimizing processing delays based on the higher sustention rate for audit reports closed within 1 year. By settling reports in a timelier manner, CO's may be able to sustain a significantly higher percentage of future DCAA-reported questioned costs.

**Procurement Management Surveys.** The NASA Headquarters Office of Procurement conducts periodic procurement management surveys of NASA Centers to monitor the effectiveness of internal controls over the procurement process. The surveys cover procurement management contracting officer activities including contract audit follow-up.

From 1999 through 2001, the Office of Procurement conducted procurement management surveys at the Centers where we performed detailed audit work.<sup>19</sup> While the survey reports covered the tracking of RCA reports and the timely resolution of audit recommendations, the reports did not address the effectiveness in resolving and implementing audit recommendations, including questioned costs, by Center CO's.

### *Conclusion*

NASA spent a total of \$50.4 million during FY's 1999 through 2001 on DCAA reviews as a critical oversight control on major NASA contracts and programs. In our opinion, NASA did not effectively use such reports for which costs were questioned. By taking more aggressive action in negotiating DCAA-questioned costs, NASA can increase the amount of questioned costs sustained by millions of dollars. If NASA's sustained questioned cost rates were similar to the rates for DOD, NASA would have recovered an additional \$28 million of DCAA-reported questioned costs over the last 3 years, or an average of \$9.3 million annually.

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

**We recommend that the Assistant Administrator for Procurement:**

**1. Require CO's to develop and document a negotiation position prior to negotiations; involve knowledgeable DCAA auditors in the negotiation process and in the review of any data provided by the contractor in response to the DCAA report; fully describe in a negotiation memorandum the reasons the DCAA audit recommendations were not followed; and reconcile all questioned costs with the identification of items and amounts allowed or disallowed.**

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<sup>19</sup> See Scope and Methodology in Appendix A for the Centers where we performed detailed audit work.

**Management's Response.** Concur. The Office of Procurement agreed to issue a PIC by October 31, 2002, reminding the CO's of DCAA's responsibility in the development of the negotiation position and the subsequent negotiations. Management stated that the existing FAR and NASA FAR Supplement language address several of the points made by this recommendation, but did not address DCAA's involvement in the actual negotiations. The complete text of management's response is in Appendix H.

**Evaluation of Management's Response.** Management's planned action is responsive to the recommendation. The recommendation is resolved but will remain undispositioned and open until the agreed to corrective action is completed.

**2. Include in procurement management surveys an assessment of the adequacy of the negotiation documentation related to the resolution of DCAA questioned costs, the timeliness of the resolution of audit recommendations, and the net savings percentage on reported questioned costs.**

**Management's Response.** Concur. For future procurement management surveys, the Office of Procurement directed procurement survey teams to assess the adequacy of the negotiation documentation related to the resolution of DCAA questioned costs, the timeliness of the resolution of audit recommendations, and the net savings percentage on reported questioned costs. Management noted that CO's will not always agree with DCAA questioned costs. When disagreements occur, the procurement survey teams will determine whether the disagreements were addressed in the pre-negotiation objective the CO developed (see Appendix H).

**Evaluation of Management's Response.** Management's actions are responsive to the recommendation. The recommendation is resolved and dispositioned and will be closed for reporting purposes with the issuance of this report.

## **Finding B. Monitoring Delegated Resolution Authority**

NASA CO's did not adequately monitor the DCAA RCA reports on major NASA contractors when NASA delegated<sup>20</sup> resolution and disposition authority to the DOD. Specifically, the NASA CATS II did not include records for 24 sampled DCAA RCA reports covering major NASA contractors for which NASA delegated resolution and disposition authority to the DOD. This occurred because NASA procurement personnel did not comply with OMB Circular A-50 and NASA guidance for coordinating with DOD CO's and for reporting RCA reports to the NASA Office of Procurement when reports were received and because NASA did not receive some reports. As a result, NASA could not ensure that audit recommendations were resolved in a timely manner or that the resolutions were in NASA's best interest. Additionally, the CATS II was not accurate because it had no records on sustained questioned costs of about \$12.5 million (from a total of \$19.0 million). Further, NASA personnel were not aware of the \$12.5 million in questioned costs that DOD had sustained on major NASA contracts and programs.

### ***OMB and NASA Far Supplement Guidance***

**OMB Circular.** OMB Circular A-50 requires that agencies establish contract audit follow-up systems to assure the prompt and proper resolution and implementation of audit recommendations. The systems must maintain complete records of action taken on both monetary and nonmonetary recommendations. In addition, the Circular states that agencies should "maintain accurate records of the status of audit reports or recommendations through the entire process of resolution and corrective action." The Circular objectives are to emphasize the importance of monitoring the implementation of resolved audit recommendations in order to assure that promised corrective action is actually taken and to improve accounting and collection controls over amounts due the Government.

**NASA FAR Supplement.** NASA FAR Supplement 1842 requires NASA CO's to maintain a dialogue with DOD CO's who have been delegated activities on NASA contracts. The NASA CO's are required to conduct a review of the DOD CO's contract files no less frequently than semiannually and to document in the NASA contract files the status and disposition of significant DCAA audit recommendations. In addition, NASA FAR Supplement 1842.7301 states:

All reportable contract audit reports as defined by Chapter 15, Section 6, of the DCAA Contract Audit Manual (CAM) shall be reported quarterly to the Headquarters Office of Procurement (Code HK); . . . .

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<sup>20</sup> At the time of contract award, the CO prepares a letter of contract administration delegation detailing the general and special contract administration functions being delegated and forwards the delegation letter to the cognizant DOD contract administration office.

**NASA PIC.** PIC 00-06, dated May 30, 2000, incorporates the DCAA definition of RCA reports. The PIC states that procurement personnel who receive an RCA report directly from DCAA should immediately report the receipt of the RCA report to the NASA Center point of contact for DCAA<sup>21</sup> for inclusion in the NASA CATS II. Further, the PIC states that it is essential that NASA CO's maintain a dialogue with DOD CO's as required by NASA FAR Supplement 1842.7301 and that NASA CO's should document their files of any action taken by the DOD CO or should include documentation provided by the DOD in the NASA contract file.

### ***NASA Monitoring of Delegated Resolution and Disposition Authority***

NASA delegated to the DOD the authority for resolution and disposition of the audit recommendations in the 24 RCA reports we reviewed (see Appendix E for the individual reports). NASA received 14<sup>22</sup> of the 24 reports. For the other 10 reports, NASA was not listed as an addressee, and the NASA CO's did not identify the RCA reports by maintaining a dialog with the DOD CO's which is required by the NASA FAR Supplement. In addition, the NASA CO's did not monitor the status and resolution of the audit recommendations in the 14 RCA reports received.<sup>23</sup> Therefore, NASA had no knowledge of about \$12.5 million that DOD sustained on NASA contracts that involved NASA major contractors and programs. Further, contract files did not contain documentation on the resolution of the reports, and CO's were unaware of DOD actions that affected their contracts for the 24 reports.

For the 24 reports, the DCAA questioned \$94.2 million, including \$19.0 million that related to NASA contracts. DOD CO's sustained \$12.5 million in questioned costs that related to the NASA contracts. The questioned costs and amounts sustained follow:

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<sup>21</sup> The Center point of contact for DCAA is the NASA employee that is responsible for updating and maintaining the CATS II at each center.

<sup>22</sup> DCAA erroneously sent three reports that addressed Goddard contracts with the California Institute of Technology to the JPL NASA Management Office. The JPL NASA Management Office did not forward the reports to Goddard and did not enter the RCA report into CATS II.

<sup>23</sup> Two of the 14 audit reports received by NASA were sent to the Marshall Procurement Office. At the time of our review, the Marshall contracts covered by the RCA reports were closed, and the contract files had been sent to storage. Consequently, Marshall procurement officials told us they could not reasonably retrieve the contract files to determine whether they contained documentation of coordination with the DOD ACO's.

**FY 2001 Questioned and Sustained Costs\* for Audit Reports where NASA Delegated Resolution Authority (Dollars in millions)**

<u>NASA Center</u>	<u>Number of Reports</u>	<u>Total Questioned Costs</u>	<u>NASA Share of Questioned Costs</u>	<u>Total Sustained Costs</u>	<u>NASA Share of Sustained Costs</u>
Goddard	11	\$38.5	\$ 9.7	\$24.8	\$ 5.7
Johnson	6	19.4	7.1	10.2	5.8
Marshall	<u>7</u>	<u>36.3</u>	<u>2.2</u>	<u>19.3</u>	<u>1.0</u>
<b>Total</b>	<b><u>24</u></b>	<b><u>\$94.2</u></b>	<b><u>\$19.0</u></b>	<b><u>\$54.3</u></b>	<b><u>\$12.5</u></b>

\* Costs in this table represent the questioned and sustained costs, by NASA Center, for the DCAA audit reports negotiated in FY 2001 for contracts for which NASA delegated resolution and disposition authority to the DOD.

**Major Contractors with Significant Program Dollars.** Twenty of the 24 reports involved NASA contractors that ranked in the top 20 of all NASA contractors based on contract dollars (see Appendix F). The 24 DCAA audit reports describe NASA contractors working on major NASA programs that involved significant contract dollars:

- One report, with total questioned costs of \$7.9 million, involved a contractor working on the International Space Station Propulsion Module Project.
- One report, with total questioned costs of \$5.9 million, involved a contractor working on maintenance of Space Shuttle engines.
- One report, with total questioned costs of \$1.6 million, involved a \$1.0 billion contract for Earth Observing System data.

**Previously Reported Similar Conditions.** We previously reported similar conditions in four NASA Office of Inspector General audit reports issued since FY 1998 (see Appendix G for a synopsis of conditions in prior reports).<sup>24</sup> As a result of the prior reviews, the NASA Office of Procurement issued PIC 00-06, dated May 30, 2000. The PIC provided additional guidance to ensure NASA compliance with the NASA FAR Supplement Part 1842 and OMB Circular A-50.

***Following NASA Guidance***

**CATS II Tracking.** The NASA Center point of contact for DCAA did not notify the NASA Office of Procurement about RCA reports for contracts where NASA had delegated to the DOD the authority to resolve and disposition contract audit findings. Therefore, the reports were not entered into the CATS II system. NASA uses CATS II to

<sup>24</sup> GAO report GAO/NSIAD-94-229, September 30, 1994, also cited NASA for not adequately monitoring audits resolved by the DOD.

monitor the resolution and disposition of audit recommendations, including DCAA contract audit questioned costs. Data entered into CATS II on RCA reports for which resolution and disposition authority had been delegated to the DOD would serve as an internal control to prompt NASA CO's to follow up with the DOD and to document the resolution of such reports in the contract files.

**Procurement Management Surveys.** During 2000 and 2001, the NASA Headquarters Office of Procurement conducted Procurement Management Surveys at the NASA Centers that had delegated to the DOD authority for the resolution and disposition of contract audit findings, including questioned costs. However, the survey reports did not address the effectiveness of the CO's monitoring of the delegated authority. Including assessments of such monitoring in Procurement Management Surveys would help focus attention on the need for NASA Centers to report all RCA reports to Headquarters and for NASA CO's to coordinate with the DOD CO's and to document the disposition of significant audit findings in the contract files.

### ***Conclusion***

Although NASA spent a total of \$50.4 million on DCAA audits during FY's 1999 through 2001, NASA did not get the full benefit from the DCAA RCA reports for which NASA delegated resolution and disposition authority to the DOD. NASA has overall responsibility for managing its contracts, and NASA CO's should maintain better oversight of contract audit activities. NASA had no knowledge of about \$12.5 million that DOD sustained on NASA contracts that involved NASA major contractors and programs. NASA Centers should more effectively monitor and report to NASA headquarters RCA reports for which significant dollars are questioned to ensure prompt and proper tracking and reporting to meet OMB circular requirements and to respond to congressional inquiries.

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

**We recommend that the Assistant Administrator for Procurement:**

**3. Remind procurement personnel to report to NASA Headquarters all DCAA RCA reports on NASA contracts for which resolution authority was delegated to DOD.**

**Management's Response.** Concur. On July 31, 2002, the Director of DCAA met with the Assistant Administrator for Procurement. They agreed that in addition to the monthly list of RCA reports DCAA currently provides, DCAA would include any report administered by DOD for which the impact of questioned costs to NASA exceeds the RCA threshold. This would ensure that questioned costs exceeding the RCA threshold

are in the NASA tracking system and that NASA officials review the status. DCAA will determine how the monthly reporting will be implemented. The complete text of management's response is in Appendix H.

**Evaluation of Management's Response.** Management's action is fully responsive to the recommendation. The recommendation is resolved but will remain undispositioned and open until DCAA begins providing the agreed-upon monthly reports.

**4. Require procurement management surveys to include an assessment on whether NASA CO's reviewed DOD CO contract files semiannually, reported to NASA Headquarters all RCA reports, and documented contract files on the disposition of significant DCAA audit recommendations as required by NASA FAR Supplement 1842 and NASA PIC 00-06.**

**Management's Response.** Concur. For future procurement management surveys the Office of Procurement directed procurement survey teams to determine whether CO's documented the contract files for actions taken by administrative CO's on NASA's behalf and included any documentation provided by administrative CO's in the contract files (see Appendix H).

**Evaluation of Management's Response.** Management's action is responsive to the recommendation. The recommendation is resolved and dispositioned and will be closed for reporting purposes.

## Appendix A. Objective, Scope, and Methodology

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### Objective

The overall objective of the audit was to evaluate the adequacy of NASA's contract audit follow-up system on Defense Contract Audit Agency (DCAA) audit reports. Specifically, we determined whether:

- NASA's audit follow-up activities ensured the prompt and effective resolution and disposition of contract audit findings and recommendations, including the recording of action taken on all recommendations, and that the follow-up activities were in compliance with Office of Management Budget (OMB) Circular A-50.
- Contracting officers (CO's) obtained an adequate sustentation rate on the settlement of DCAA-reported questioned costs.
- The NASA corrective action tracking system (CATS II) and the semiannual report contained current and accurate information on all applicable DCAA audit reports and subsequent settlement activities.

### Scope and Methodology

The NASA Office of Inspector General is responsible<sup>25</sup> (1) to review NASA's policy for obtaining contract administration and audit services, including those from the DCAA, and (2) to evaluate NASA's follow-up system and specific categories of contract audit work performed in connection with NASA programs.

We performed the detailed audit work at NASA Headquarters, Washington, D.C.; Glenn Research Center, Cleveland, Ohio; the Jet Propulsion Laboratory, Pasadena, California; Johnson Space Center, Houston, Texas; and Marshall Space Flight Center, Huntsville, Alabama. We requested contract audit follow-up documentation from Goddard Space Flight Center, Greenbelt, Maryland. We reviewed OMB Circular A-50 requirements; Federal Acquisition Regulation (FAR) Part 42-705-1 requirements; and NASA's policies, including NASA FAR Supplement 1842.73 and Procurement Information Circular 00-06, and other agencies' policies referenced in NASA guidelines, such as Department of Defense (DOD) Directive 7640.2<sup>26</sup> and the DCAA Contract Audit Manual. We interviewed NASA CO's to determine whether audit recommendations were resolved and dispositioned promptly and

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<sup>25</sup> The Inspector General Act of 1978 assigns responsibility for reviewing Agency policies and operations to the Inspectors General.

<sup>26</sup> DOD Directive 7640.2, "Policy for Follow-up on Contract Audit Reports," August 16, 1995, contains DOD guidance for resolving contract audit findings and questioned costs.

effectively. We also interviewed the NASA representatives in charge of the contract audit follow-up system at the Centers we visited and NASA Headquarters officials in the Office of Procurement.

To determine whether NASA's follow-up activities ensured the prompt and effective resolution and disposition of contract audit findings and recommendations, we selected two samples:

- We reviewed the CATS II listing of 33 DCAA reportable contract audit reports for which NASA retained resolution and disposition authority. The DCAA audit reports contained questioned costs (excluding operations audits) that NASA negotiated during FY's 1999, 2000, and 2001. Nineteen of the 33 audit reports were closed in FY 2001, and we judgmentally selected 11 reports for a detailed analysis, including interviews of NASA and DCAA personnel.
- For DCAA reports that NASA delegated resolution and disposition authority to the DOD, we reviewed 24 DCAA reports with questioned costs of more than \$200,000 each. We selected the reports from a DCAA-provided list of audit reports negotiated during FY 2001.

### **Use of Computer-Generated Data**

We obtained computer-generated data from the NASA CATS II database and tested the data by comparing it to source documents for the sampled DCAA reportable contract audit (RCA) reports. The tests showed errors in the information regarding the resolution of questioned costs in DCAA RCA reports for which NASA retained resolution and disposition authority. The tests also showed the lack of any information on DCAA reports for which NASA delegated resolution and disposition authority to the DOD.

### **Management Controls**

We examined NASA policies and procedures concerning the contract audit follow-up system. We also reviewed NASA practices to track RCA reports and to follow up on audit recommendations for timely resolution and disposition.

We considered management policies and procedures to be adequate. However, controls need to be strengthened to ensure that NASA (1) obtains a higher net savings rate on the DCAA-reported questioned costs (Finding A) and (2) monitors the DCAA RCA reports for which NASA has delegated resolution and disposition authority to the DOD (Finding B).

## **Appendix A**

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### **Audit Field Work**

We performed the audit work from November 2001 through April 2002. We conducted the audit in accordance with generally accepted government auditing standards.

## **Appendix B. Reportable Contract Audit Reports**

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The Defense Contract Audit Agency Contract Audit Manual 7640.1, Volume 2, Chapter 15, defines reportable contract audit reports:

1. Those reports containing findings and recommendations, whether or not the findings are qualified, covering estimating system surveys, accounting and related internal control system reviews, defective pricing reviews, and cost accounting standards (CAS) matters. (Reports containing only favorable findings and recommendations, such as CAS reports recommending that a contractor's proposed accounting change be approved, or estimating system surveys that only contain "suggestions for improvements" are not reportable.)
2. Those reports covering operations audits, incurred costs, settlement of final indirect cost rates, final pricing submissions, termination settlement proposals, and claims if reported costs or rates questioned or unsupported/qualified equal \$100,000 or more.
3. Reports on audit-determined final indirect cost rates and Form(s) 1, to the cognizant Administrative Contracting Officer (ACO) when the auditor cannot reach an agreement with the contractor.

## Appendix C. Audit Reports for Which NASA Negotiated Final Settlement

### Summary by Fiscal Year

<u>Fiscal Year (a)</u>	<u>No. of Reports (b)</u>	<u>Questioned Costs (c)</u>	<u>Sustained Costs <sup>1</sup> (d)</u>	<u>Sustention Rate <sup>2</sup> (d/c)</u>
1999	7	\$23,370,391	\$ 6,376,230	27.3
2000	7	24,530,600	4,925,316	20.1
2001	<u>19</u>	<u>30,683,216</u>	<u>3,605,379</u>	<u>11.8</u>
<b>Totals</b>	<b><u>33</u></b>	<b><u>\$78,584,207</u></b>	<b><u>\$14,906,925</u></b>	<b><u>19.0</u></b>

<sup>1</sup> Sustained cost is that portion of costs questioned by the Defense Contract Audit Agency auditor upheld as a result of actions taken by either the contractor or the contracting officer.

<sup>2</sup> We calculated the sustention rate by dividing the sustained cost by the questioned cost.

(See next page for details on audit reports reviewed in fiscal year 2001.)

**Fiscal Year 2001  
Defense Contract Audit Agency (DCAA) Reports <sup>1</sup>**

<u>Report Number</u>	<u>Report Date</u>	<u>Contractor</u>	<u>NASA Center <sup>3</sup></u>	<u>As Adjusted <sup>2</sup></u>			<u>Reviewed by OIG <sup>4</sup></u>
				<u>Questioned Costs</u>	<u>Sustained Costs</u>	<u>Percent Sustained</u>	
1301-97M10250026	05/25/1999	Analex Corp.	GRC	\$ 392,453	\$ 111,146	28.32	Yes
1301-99M10250029	05/28/1999	Analex Corp.	GRC	1,016,702	83,146	8.18	Yes
1301-98M10100002	09/15/2001	Analex Corp.	GRC	279,406	1,559	0.56	Yes
1701-97J10100080	06/01/2001	D. Thigpen & Assoc.	GRC	288,000	288,000	100.00	No
1701-94J17900002	03/09/2000	Sverdrup Tech.	GRC	115,633	61,285	53.00	No
1681-93A16990006	05/28/1993	Sverdrup Tech.	GRC	293,293	293,293	100.00	No
1681-94J16990014	05/31/1994	Sverdrup Tech.	GRC	29,468	0	0.00	No
1681-94J16990013	09/27/1994	Sverdrup Tech.	GRC	476,684	455,907	95.64	No
1701-93J10100453	05/03/2000	Sverdrup Tech.	GRC	291,453	285,134	97.83	No
6121-99T10150201	06/25/1999	Raytheon STX	GSFC	158,065	158,065	100.00	No
4901-98J10150001 <sup>5</sup>	06/29/1999	CalTech <sup>6</sup>	JPL	523,804	32,064	6.12	Yes
4901-98J10100603 <sup>5</sup>	12/07/1999	CalTech	JPL	544,451	16,896	3.10	Yes
4901-99J10110001 <sup>5</sup>	06/29/2000	CalTech	JPL	297,265	9,840	3.31	Yes
3521-99M10250003	09/25/1999	Northrop Grumman	JSC	494,000	94,000	19.03	Yes
3521-92D19200001	07/29/1994	Rockwell Co.	JSC	24,234,014	1,500,000	6.19	Yes
3521-95D10250026	09/30/1996	Stellacom, Inc.	JSC	514,264	0	0.00	Yes
1661-01B17200002	02/26/2001	Riggins Co., Inc.	LaRC	114,348	69,466	60.75	No
1211-96A10250003	07/28/1999	Micro Craft Inc.	MSFC	383,104	78,972	20.61	Yes
1211-96A10250004	07/30/1999	Micro Craft Inc.	MSFC	236,809	66,606	28.13	Yes
<b>Totals</b>		<b>19 Reports</b>		<b><u>\$30,683,216</u></b>	<b><u>\$3,605,379</u></b>	<b><u>11.75</u></b>	<b><u>11</u></b>

<sup>1</sup> DCAA audit reports resolved by NASA procurement personnel during fiscal year 2001.

<sup>2</sup> We adjusted the amounts shown for questioned costs and sustained costs based on a review of NASA's contract files and the DCAA audit reports.

<sup>3</sup> NASA Centers:

GRC Glenn Research Center  
 GSFC Goddard Space Flight Center  
 JPL Jet Propulsion Laboratory  
 JSC Johnson Space Center  
 LaRC Langley Research Center  
 MSFC Marshall Space Flight Center

<sup>4</sup> The NASA Office of Inspector General reviewed the DCAA reports.

<sup>5</sup> DCAA also questioned a total of \$653,454 of direct material costs in these three reports on JPL. The primary issue in question was the allocation of the costs among NASA projects and not the allowability of the costs.

Therefore, we did not include those questioned costs in our analysis.

<sup>6</sup> California Institute of Technology.

## **Appendix D. Department of Defense Inspector General (DODIG) Review of Sustention Rates on Questioned Costs\***

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We obtained the information below from DODIG Audit Report No. 00-03, “The Air Force Contract Audit Followup System,” dated October 4, 1999. We performed a similar review on NASA’s sustention rates (see table “NASA Sustention Rates on Questioned Costs” on page 6 of this report).

**(Costs in millions)**

<b><u>Age of Report</u></b>	<b><u>Number of Reports</u></b>	<b><u>Costs Questioned</u></b>	<b><u>Costs Sustained</u></b>	<b><u>Sustention Percentage</u></b>
1 year or less*	23	\$ 56.3	\$54.6	97.0
1 to 2 years	13	3.7	3.0	81.1
Over 2 years	25	67.8	22.7	33.5

\* The DODIG Audit Report did not provide statistics for reports resolved within 6 months.

## Appendix E. Reportable Contract Audit Reports for Which NASA Delegated Resolution and Disposition Authority

**Fiscal Year 2001  
(Dollars in Thousands)**

Report Number	Report Date	Resolution Date	Contractor	NASA Center <sup>1</sup>	Total Questioned Cost	NASA Share of Questioned Cost	Total Sustained Cost	NASA Share of Sustained Cost
4901-1995H10150025	09/29/95	02/06/01	Aerojet General Corp.	GSFC	\$ 392	\$ 200	\$ 383	\$ 195
3121-1998H10100058	06/30/00	09/27/01	Ball Aerospace & Technology Corp.	GSFC	2,184	808	0	0
6151-1995H10250021	09/29/95	12/29/00	Orbital Science Corp.	GSFC	878	365	0	0
6121-1998U10250941	05/28/98	03/13/01	Raytheon Information Systems	GSFC	1,574	1,574	1,097	1,097
6121-1998U10250006	09/23/98	03/13/01	Raytheon Information Systems	GSFC	647	647	0	0
2901-1999B10250003	07/09/99	09/30/01	Raytheon Systems Co.	GSFC	2,141	535	1,584	396
2901-1998A10250017	09/30/98	09/30/01	Raytheon Systems Co.	GSFC	1,465	270	1,465	270
4291-1999J10150001	06/30/99	03/21/01	Space Systems Loral Inc.	GSFC	460	437	209	198
4901-1999P10100248	06/29/00	12/29/00	California Institute of Technology	GSFC	11,059	2,621	6,176	1,463
4901-1998P10150001	06/29/99	03/09/01	California Institute of Technology	GSFC	9,786	431	6,218	273
4901-1998P10100248	12/23/99	12/29/00	California Institute of Technology	GSFC	7,904	1,873	7,639	1,810
4181-1999V10150002	07/30/99	06/14/01	Allied Signal Aerospace Co.	JSC	894	617	894	617
4381-1998C10150001	07/06/98	09/28/01	Boeing Co. – BD&S Group	JSC	7,901	869	812	89
4381-1999C10150001	04/30/99	09/28/01	Boeing Co. – BD&S Group	JSC	2,585	284	941	104
3521-2000D17900006	09/27/00	04/04/01	Boeing Co. – S&D Systems	JSC	213	213	0	0
4701-1998L10150001	09/21/98	09/13/01	Boeing North America - Rocketdyne	JSC	5,974	4,164	5,909	4,119
3421-1999D10150001	07/16/99	09/30/01	McDonnell Douglas Corp.	JSC	1,797	952	1,618	858
4291-1998U10150001	09/29/99	05/09/01	United Tech. Corp. – CSD	MSFC	5,502	242	4,422	195
3121-1996K10150001	09/20/96	04/18/01	Lockheed Martin Corp. <sup>2</sup>	MSFC	9,197	276	1,961	59
3121-1997K10150002	09/25/97	04/18/01	Lockheed Martin Corp. <sup>2</sup>	MSFC	6,113	330	3,469	187
3121-1997K10150004	03/27/98	04/18/01	Lockheed Martin Corp. <sup>2</sup>	MSFC	6,413	346	5,077	274
3121-1997K10150003	06/25/98	04/18/01	Lockheed Martin Corp. <sup>2</sup>	MSFC	8,247	445	4,384	237
1461-1995S17900625	10/10/95	03/14/01	Lockheed Martin Information Systems <sup>2</sup>	MSFC	237	237	0	0
2261-1999B10250007	03/31/99	06/07/01	Moog, Inc.	MSFC	632	295	0	0
<b>Totals</b>	<b>24 Reports</b>				<b>\$94,192</b>	<b>\$19,031</b>	<b>\$54,258</b>	<b>\$12,439</b>

<sup>1</sup> NASA Centers:

GSFC Goddard Space Flight Center

JSC Johnson Space Center

MSFC Marshall Space Flight Center

<sup>2</sup> A Marshall procurement official told us that the NASA contracting officer (CO) for Marshall's principal contract, NAS8-36200, with Lockheed Martin maintains a regular dialog with the Department of Defense (DOD) administrative contracting officer. Nevertheless, the NASA CO was unable to determine whether the DOD administrative CO advised NASA about these audit reports.

## Appendix F. Major NASA Contractors

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### Fiscal Year 2001

Contractor	No. of Reports in Sample	Ranking <sup>1</sup>	Contract Dollars (in millions)
Boeing Co.	3	2	\$1,658.5
California Institute of Technology	3	-- <sup>2</sup>	1,451.7
Lockheed Martin Corp.	5	3	608.3
Boeing North American, Inc.	1	6	303.6
McDonnell Douglas Corp.	1	7	282.2
Raytheon Information Systems Co.	4	11	127.7
United Technologies Corp.	1	16	89.1
Ball Aerospace & Technology Corp.	1	19	80.9
Orbital Science Corp.	1	20	74.4
Aerojet General Corp.	1	36	35.3
Space Systems Loral Inc.	1	66	13.6
Moog, Inc.	1	99	7.3
Allied Signal Aerospace Co.	<u>1</u>	--	<u>5.1</u>
<b>Total</b>	<b><u>24</u></b>		<b><u>\$4,737.7</u></b>
<b>Total NASA Procurements FY 2001</b>			<b>\$12,748.1</b>

<sup>1</sup> The source of information for ranking the top 100 NASA contractors is the NASA Annual Procurement Report for Fiscal Year 2001.

<sup>2</sup> The California Institute of Technology (CalTech) is an educational institution that has a NASA contract to operate the Jet Propulsion Laboratory for NASA. We included CalTech on the list because of the significant contract dollars.

## **Appendix G. Summary of Prior Coverage**

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The NASA Office of Inspector General and the U.S. General Accounting Office (GAO) have issued reports related to the use of audit services provided by the Defense Contract Audit Agency (DCAA) and to NASA's contract audit follow-up system. The reports are summarized below. Copies of the NASA reports are available at <http://www.hq.nasa.gov/office/oig/hq/audits.html>.

### **NASA Office of Inspector General (OIG)**

**“NASA Settlement of DCAA’s Incurred Cost Audits at Goddard Space Flight Center,” Report Number IG-00-046, September 18, 2000.** The follow-up system did not include complete records of actions taken on the DCAA reportable contract audit (RCA) reports delegated to the Department of Defense (DOD) contracting officers (CO’s) for resolution and disposition. As a result, Goddard Space Flight Center procurement personnel could not ensure that the DCAA audit recommendations were resolved in a timely manner and that the resolutions were in NASA’s best interest. We identified a similar finding during our follow-up system audits at Marshall Space Flight Center and Johnson Space Center (Report Number IG-00-010, March 6, 2000, and IG-00-032, May 19, 2000).

**“NASA Contract Audit Follow-up System at Johnson Space Center,” Report Number IG-00-032, May 19, 2000.** The follow-up system did not include complete records of actions taken on the DCAA audit reports delegated to the DOD CO’s for resolution and disposition. As a result, Johnson procurement personnel could not ensure that the DCAA audit recommendations were resolved in a timely manner and that the resolutions were in NASA’s best interest. We identified a similar finding during our audit of the NASA contract audit follow-up system at Marshall (Report Number IG-00-010, March 6, 2000). Also, Johnson procurement personnel did not track and report certain DCAA RCA reports and did not resolve or disposition the DCAA-reported audit recommendations within 6-months after report issuance pursuant to Office of Management Budget (OMB) Circular A-50. Consequently, the DCAA audit recommendations were not resolved in a timely fashion, and NASA funds that should have been disallowed, withheld, or reduced could not be reallocated to other NASA programs. Management concurred with the two recommendations and issued Procurement Information Circular 00-06 and a letter to the Team Leader, Procurement Management Survey Team, to include the “Audit Follow-up Process” in all future procurement surveys.

## Appendix G

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**“NASA Contract Audit Follow-up System at Marshall Space Flight Center,” Report Number IG-00-010, March 6, 2000.** The follow-up system did not include complete records of actions taken on the DCAA RCA reports delegated to DOD CO’s for resolution and disposition. As a result, Marshall procurement personnel could not ensure that the DCAA audit recommendations were resolved in a timely manner and that the resolutions were in NASA’s best interest. Also, Marshall procurement personnel did not track and report certain DCAA RCA reports and did not resolve the DCAA-reported audit recommendations within 6 months after report issuance pursuant to OMB Circular A-50. Consequently, the DCAA audit recommendations were not resolved in a timely fashion, and NASA funds that should have been disallowed, withheld, or reduced could not be reallocated to other NASA programs. Management concurred with the four recommendations.

**“Review of NASA’s Use of Audit Services Provided by the Defense Contract Audit Agency,” Report Number P&A-98-001, September 30, 1998.** NASA needed to improve its oversight of the use, benefits, and effectiveness of DCAA services. Also, NASA’s audit follow-up system needed improvement to ensure that all reports, including those delegated to DOD for resolution and disposition, were properly accounted for and resolved. The NASA Centers did not have a centralized point to receive and track audit reports, and NASA did not monitor the status of the DCAA audit reports delegated to DOD for resolution and disposition. NASA CO’s were often not informed by the DOD CO’s of the actions taken that affected NASA contracts. Consequently, NASA could not ensure that the DCAA audit recommendations were resolved on a timely basis and that the resolutions were in NASA’s best interest.

### **U.S. General Accounting Office (GAO)**

**“NASA Contract Management: Improving the Use of DCAA’s Auditing Services,” Report Number GAO/NSIAD-94-229, September 30, 1994.** The GAO raised many concerns related to NASA contractors’ unallowable cost claims, the status of contractors’ business systems, NASA’s involvement in the DCAA’s audit planning process, timeliness of contract close out, and contract audit tracking and follow-up systems. The GAO made six recommendations. Two of the recommendations dealt with NASA’s untimely tracking and follow-up for the DCAA RCA reports: (1) monitoring the DCAA audit recommendations that are resolved by the DOD CO’s and (2) documenting the status and disposition of the DCAA audit recommendations in contract files. NASA management agreed that its audit tracking and reporting systems needed improvements.

## Appendix H. Management's Response

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



Reply to Attn of:

HK

September 17, 2002

**TO:** W/Assistant Inspector General for Auditing  
**FROM:** HK/Director, Contract Management Division  
**SUBJECT:** Code H Response to OIG Draft Audit Report on NASA's Contract  
Audit Follow-Up System, Assignment No. A-01-044-00

Enclosed is our response to the subject report dated August 19, 2002. Backup to support our response to recommendations 2, 3 and 4 are also attached.

Please call Lou Becker at 202-358-4593 if you have any questions or need further coordination on this matter.

A handwritten signature in black ink, appearing to read "Scott Thompson".

R. Scott Thompson

Enclosure

## Appendix H

Response to OIG Draft Report on Audit of NASA's Contract Audit Follow-up System -  
Assignment Number A-01-044-00

**Recommendation 1:** Require CO's to develop and document a negotiation position prior to negotiations; involve knowledgeable DCAA auditors in the negotiation process and in the review of any data provided by the contractor in response to the DCAA report; fully describe in a negotiation memorandum the reasons the DCAA audit recommendations were not followed; and reconcile all questioned costs with the identification of items and amounts allowed or disallowed.

**Response:**

Concur

The existing FAR and NFS language addresses several of the points made by this recommendation, but is silent as to DCAA's involvement in the actual negotiations. A PIC will be issued by October 31, 2002 reminding the CO's of their responsibility in the development of the negotiation position and the subsequent negotiation.

**Recommendation 2:** Include in procurement management surveys an assessment of the adequacy of the negotiation documentation related to the resolution of DCAA questioned costs, the timeliness of the resolution of audit recommendations, and the net savings percentage on reported questioned costs.

**Response:**

Concur

Procurement survey teams have been asked to assess the adequacy of the negotiation documentation related to the resolution of DCAA questioned costs, the timeliness of the resolution of audit recommendations, and the net savings percentage on reported questioned costs. However, it should be noted the CO will not always agree with all of the DCAA questioned costs. The survey teams will look to insure those instances of disagreement are addressed in the pre-negotiation objective.

We consider this recommendation closed.

**Recommendation 3:** Remind procurement personnel to report to NASA Headquarters all DCAA RCA reports on NASA contracts for which resolution authority was delegated to DOD.

**Response:**

Concur

On July 31, 2002 the Assistant Administrator for Procurement met with the Director, DCAA to discuss issues of common interest. Included in the discussion was a recommendation that in addition to the monthly list of RCA reports DCAA currently provides, they include any report administered by DOD where the impact of questioned costs to NASA exceeds the RCA threshold. This would insure all questioned costs impacting NASA get into the system and are reviewed monthly. DCAA concurred and will work on determining how this will be implemented. The centers have been advised of this upcoming change in reporting requirements.

We consider this recommendation closed.

**Recommendation 4:** Require procurement management surveys to include an assessment on whether NASA CO's reviewed DOD CO contract files semiannually, reported to NASA Headquarters all RCA reports, and documented contract files on the disposition of significant DCAA audit recommendations as required by NASA FAR Supplement 1842 and NASA PIC 00-06.

**Response:**

Concur

NASA PIC 00-06 does not require NASA CO's to review DOD CO contract files semiannually. Rather the PIC requires NASA CO's to request information on any reportable audit reports and the resolution of those reports. NASA CO's should document their files of any action taken by the ACO or include any documentation provided by the ACO in their file.

The procurement management survey team has been requested to review this on future surveys. We consider this recommendation closed.

## **Appendix I. Report Distribution**

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### **National Aeronautics and Space Administration (NASA) Headquarters**

HQ/A/Administrator  
HQ/AI/Associate Deputy Administrator  
HQ/AA/Chief of Staff  
HQ/B/Acting Deputy Chief Financial Officer  
HQ/B/Comptroller  
HQ/BF/Director, Financial Management Division  
HQ/G/General Counsel  
HQ/H/Assistant Administrator for Procurement  
HQ/HK/Director, Contract Management Division  
HQ/HS/Director, Program Operations Division  
HQ/J/Assistant Administrator for Management Systems  
HQ/JM/Director, Management Assessment Division  
HQ/L/Assistant Administrator for Legislative Affairs  
HQ/M/Associate Administrator for Space Flight

### **NASA Centers**

ARC/D/Director, Ames Research Center  
FRC/0100/Director, John H. Glenn Research Center at Lewis Field  
GSFC/100/Director, Goddard Space Flight Center  
GSFC/150/Chief Financial Officer, Goddard Space Flight Center  
JSC/AA/Director, Lyndon B. Johnson Space Center  
LaRC/106/Acting Director, Langley Research Center  
LaRC/109/Chief Financial Officer, Langley Research Center  
KSC/AA/Director, John F. Kennedy Space Center  
KSC/CC/Chief Counsel, John F. Kennedy Space Center  
MSFC/DA01/Director, George C. Marshall Space Flight Center

### **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

**Non-NASA Federal Organizations and Individuals Continued**

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

**Congressional Member**

Honorable Pete Sessions, U.S. House of Representatives

## NASA Assistant Inspector General for Audits Reader Survey

The NASA Office of Inspector General has a continuing interest in improving the usefulness of our reports. We wish to make our reports responsive to our customers' interests, consistent with our statutory responsibility. Could you help us by completing our reader survey? For your convenience, the questionnaire can be completed electronically through our homepage at <http://www.hq.nasa.gov/office/oig/hq/audits.html> or can be mailed to the Assistant Inspector General for Audits; NASA Headquarters, Code W, Washington, DC 20546-0001.

**Report Title:** NASA's Contract Audit Follow-up System

**Report Number:** \_\_\_\_\_ **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.* \_\_\_\_\_

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**How did you use the report?** \_\_\_\_\_

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**How could we improve our report?** \_\_\_\_\_

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**How would you identify yourself? (Select one)**

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|---|--|
| <input type="checkbox"/> Congressional Staff  | <input type="checkbox"/> Media           |
| <input type="checkbox"/> NASA Employee  | <input type="checkbox"/> Public Interest |
| <input type="checkbox"/> Private Citizen  | <input type="checkbox"/> Other: _____    |
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**May we contact you about your comments?**

Yes: \_\_\_\_\_ No: \_\_\_\_\_

Name: \_\_\_\_\_

Telephone: \_\_\_\_\_

Thank you for your cooperation in completing this survey.

## **Major Contributors to the Report**

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