

W

December 16, 1998

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

FROM: W/Assistant Inspector General for Auditing

SUBJECT: Final Report on the Audit of the
Department of Health and Human Services
Audit Services Provided to NASA
Assignment Number A-HA-98-037
Report Number IG-99-002

The subject final report is provided for your use. Your comments on a draft of this report were responsive to our recommendations. Our evaluation of your responses has been incorporated into the body of the report. We consider all recommendations closed.

If you have questions concerning the report, please contact Mr. Lorne A. Dear, Program Director, Procurement and International Agreements Audits, at (818) 354-3360, or Ms. Anh Doan, Auditor-in-Charge, at (818) 354-9773. We appreciate the courtesies extended to the audit staff. See Appendix C for the report distribution.

[original signed by]

Russell A. Rau

Enclosure

cc:

G/General Counsel

JM/Management Assessment Division

bcc:

AIGA, IG, Reading (w/o Encl.) Chrons

JPL/180-300/L. Dear

JPL/180-300/A. Doan

IG-99-002

AUDIT REPORT

DEPARTMENT OF HEALTH AND HUMAN SERVICES AUDIT SERVICES PROVIDED TO NASA

DECEMBER 16, 1998



National Aeronautics and
Space Administration

OFFICE OF INSPECTOR GENERAL

ADDITIONAL COPIES

To obtain additional copies of this audit report, contact the Assistant Inspector General for Auditing at 202-358-1232.

SUGGESTIONS FOR FUTURE AUDITS

To suggest ideas for or to request future audits, contact the Assistant Inspector General for Auditing. Ideas and requests can also be mailed to:

Assistant Inspector General for Auditing
NASA Headquarters
Code W
300 E St., SW
Washington, DC 20546

NASA HOTLINE

To report fraud, waste, abuse, or mismanagement, contact the NASA OIG Hotline by calling 1-800-424-9183, 1-800-535-8134 (TDD), or by writing the NASA Inspector General, P.O. Box 23089, L'Enfant Plaza Station, Washington, DC 20026. The identity of each writer and caller can be kept confidential, upon request, to the extent permitted by law.

Acronyms

DHHS	Department of Health and Human Services
DoD	Department of Defense
FY	Fiscal Year
NASA	National Aeronautics and Space Administration
NPG	NASA Procedures and Guidelines
OMB	Office of Management and Budget

NASA OFFICE OF INSPECTOR GENERAL

IG-99-002
A-HA-98-037

DECEMBER 16, 1998

DEPARTMENT OF HEALTH AND HUMAN SERVICES AUDIT SERVICES PROVIDED TO NASA

Introduction

The National Aeronautics and Space Administration (NASA) Office of Inspector General is performing a review of the Department of Health and Human Services (DHHS) audit services provided to NASA. Our overall objective is to evaluate NASA's management and use of DHHS audit services. During the review, we identified three issues related to an outdated regulation, access to records, and nonreceipt of audit reports. Our recommendations on these issues could assist in the upcoming negotiation of the interagency agreement between DHHS and NASA. Details on our scope and methodology are in Appendix A.

Results in Brief

NASA can improve monitoring and evaluating of DHHS audits by incorporating references to current regulations and an access to records clause in the DHHS proposed interagency agreement for fiscal year (FY) 1999. Further, NASA should ensure DHHS submits copies of audit reports to NASA in order for the Agency to adequately perform oversight responsibilities over educational institutions and non-profit organizations.

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. In October 1997, NASA entered into an interagency agreement with the DHHS Office of Inspector General to provide audit services at educational institutions and non-profit organizations under DHHS cognizance.¹ The interagency agreement is in effect through September 30, 1998, and may be renewed annually by mutual consent of both parties.²

¹ "A cognizant agency" means a Federal awarding agency that provides the predominant amount of direct funding to a recipient unless the Office of Management and Budget designates a specific cognizant agency for an audit assignment. The cognizant agency is also responsible for negotiating and approving facilities and administrative rates for an educational institution for all Federal agencies.

² NASA is awaiting the results of its Inspector General review of DHHS working papers before signing the FY 1999 agreement.

DHHS performs audits for NASA on a cost-reimbursable basis. In addition to audits requested by NASA users, DHHS initiates audits³ and bills NASA for the effort. Negotiated DHHS audit services for FY 1998 were estimated to cost NASA \$277,335. DHHS has proposed \$319,379 for FY 1999 audit services.

The NASA Financial Management Division, Office of the Chief Financial Officer, negotiates interagency agreements for audit services performed for NASA, and the Analysis Division, Office of Procurement, is responsible for monitoring and evaluating the audit services.

Reference to Rescinded Regulation

Finding. The FY 1998 interagency agreement between DHHS and NASA references Office of Management and Budget (OMB) Circular A-88.⁴ The reference is inaccurate because DHHS did not update the agreement for FY 1998 to reflect that the circular had been rescinded during FY 1996. Further, the DHHS-proposed agreement for FY 1999 also references the outdated OMB circular. As a result, the agreement does not reflect new guidance.

The OMB rescinded Circular A-88 in July 1996 and revised Circular A-21⁵ to incorporate cost negotiation responsibility for educational institutions and cognizant agency responsibilities. OMB Circular A-21 assigns cost negotiation responsibilities to DHHS or the Department of Defense (DoD) Office of Naval Research, depending on which agency provided more funds to the educational institution during the most recent 3 years.

OMB also revised Circular A-133⁶ which states that the cognizant agency shall:

Obtain or conduct quality control reviews of selected audits made by non-Federal auditors, and provide the results, when appropriate, to other interested organizations.

Coordinate, to the extent practical, audits or reviews made by or for Federal agencies that are in addition to the audits made pursuant to this [circular], so that the additional audits or reviews build upon audits performed in accordance with this [circular].

Coordinate the audit work and reporting responsibilities among auditors to achieve the most cost-effective audit.

³ Self-initiated DHHS audits are those not specifically requested by NASA. DHHS services consisted of (1) requested audits, such as preawards and contract closings; and (2) self-initiated audits, such as disclosure statement reviews and compliance with laws and regulations audits.

⁴ OMB Circular A-88, "Indirect Cost Rates, Audits, and Audit Followup at Educational Institutions," rescinded effective July 1, 1996.

⁵ OMB Circular A-21, "Cost Principles for Educational Institutions," revised May 19, 1998.

⁶ OMB Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations," revised June 24, 1997.

The cognizant agency is responsible for (a) audits of financial statements in accordance with generally accepted government auditing standards; (b) internal control reviews; (c) reviews for compliance with laws, regulations, and the provisions of contracts or grant agreements;⁷ and (d) follow-up reviews on prior audit findings.

Recommendation 1. The Director, Financial Management Division, NASA Office of the Chief Financial Officer, should request DHHS to update the interagency agreement for FY 1999 to incorporate reference to revised OMB Circulars A-21 and A-133.

Management's Response. Concur. The Chief Financial Officer will incorporate the appropriate reference in any future agreements with DHHS for audit services.

Evaluation of Management's Response. The planned action is responsive to the recommendation.

Access to Records

Finding. NASA does not have access to documentation that explains the DHHS billings to NASA for audit services because (1) NASA does not have an access to records clause in its agreement with DHHS, and because (2) OMB Circular A-133,⁸ which has an access to records clause, was not referenced in the agreement. DHHS provided NASA a schedule identifying NASA contracts and hours expended for audit services; however, the schedule did not explain the nature of the DHHS services. As a result, NASA could not determine the scope of the audits that DHHS performed or the reasonableness of the charges to NASA for those audits.

Recommendation 2. The Director, NASA Office of the Chief Financial Officer, Financial Management Division, should incorporate an access to records clause in the FY 1999 agreement with DHHS to reinforce the provisions in OMB Circular A-133 regarding access to working papers and to facilitate reviews.

Management's Response. Concur. The Chief Financial Officer will incorporate an access to records clause in any future agreements with DHHS for audit services.

Evaluation of Management's Response. The planned action is responsive to the recommendation.

⁷ OMB Circular A-133, Appendix B: May 1998 Compliance Supplement.

⁸ OMB Circular A-133 states: "Audit working papers shall be made available upon request to the cognizant or oversight agency for audit or its designee, ..., to resolve audit findings, or to carry out oversight responsibilities consistent with the purposes of this part. Access to working papers includes the right of Federal agencies to obtain copies of working papers, as is reasonable and necessary."

DHHS Submission of Audit Reports to NASA

Finding. NASA did not receive copies of DHHS self-initiated audits. DHHS policy was to send those reports to NASA's headquarters. However, NASA orally notified DHHS 3 years ago to stop sending copies of the audit reports. Also, NASA does not have a central system to monitor, coordinate, and evaluate audits performed by DHHS for the Agency, as required by NASA Procedures and Guidelines (NPG) 1200.1,⁹ section 2.8. Audit reports issued by the NASA Office of Inspector General¹⁰ and the General Accounting Office¹¹ previously identified the lack of a central monitoring system. Without the reports on the self-initiated audits, NASA cannot determine whether the audit scopes were commensurate with the hours charged and cannot perform other oversight responsibilities over educational institutions and non-profit organizations.

Recommendation 3. The Director, Analysis Division, NASA Office of Procurement, should establish (a) procedures to request copies of the DHHS audit reports and (b) a central system responsible for monitoring, coordinating and evaluating DHHS audits performed for NASA.

Management's Response. Concur. These procedures will be established if NASA elects to obtain audit services from DHHS in the future.

Evaluation of Management's Response. The planned action is responsive to the recommendation.

⁹ NPG 1200.1, "Management Accountability and Control, Audit Liaison, and Audit Followup," October 8, 1997.

¹⁰ "NASA Audit Followup Process: Headquarters Center," HQ-94-009, May 26, 1994.

¹¹ "NASA Contract Management: Improving the Use of DCAA's Auditing Services," GAO NSIAD-94-229, September 30, 1994.

APPENDIX A

SCOPE AND METHODOLOGY

We conducted the audit in accordance with generally accepted government auditing standards. We performed the audit field work for this report from May through September 1998. We examined and tested applicable records and documentation to identify applicable management controls and to verify that the controls were working as described. Specifically, we:

- Reviewed interagency agreements between NASA and the DHHS, applicable NASA procedures and guidance, and applicable OMB Circulars.
- Interviewed representatives at the NASA Office of the Chief Financial Officer, NASA Office of Procurement, and DHHS Office of Inspector General.
- Reviewed audit reports on contract audit management issued by the NASA Office of Inspector General and the U.S. General Accounting Office.

APPENDIX B

Management's Response

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



NOV 12 1998

Reply to Attn of: **BF**

TO: W/Assistant Inspector General for Auditing

FROM: B/Chief Financial Officer

SUBJECT: Draft OIG Report on "Survey of Department of Health and Human Services Audit Services Provided to NASA" - Assignment Number A-HA-98-037

On October 2, 1998, the Director, Financial Management Division, sent a letter to Joe B. Rankin, Director, Human and Financial Resources, Office of Inspector General, Department of Health and Human Services (DHHS), instructing DHHS that NASA would defer signing a fiscal year 1999 agreement for audit services until the NASA Office of Inspector General (OIG) had completed the above audit. In addition, we asked DHHS not to perform audit work on behalf of NASA until they received further notice from us. It is our understanding that the OIG will be providing an additional report to address the major issue of whether or not NASA should enter into an agreement with DHHS at all. That report is also to include a review of DHHS procedures, including hours used by and billed to NASA for audit services.

Since all the recommendations in the draft report pertain to revision of the future DHHS interagency agreements, we will take no actions in regard to these recommendations until the rest of the audit is completed and the Agency has decided whether it will enter into another agreement with DHHS. Code H has concurred with this response. Each of the recommendations is, however, discussed below.

Recommendation 1: The Director, Financial Management Division, NASA Office of the Chief Financial Officer, should request DHHS to update the interagency agreement for FY 1999 to incorporate reference to revised OMB Circulars A-21 and A-133.


Management Response: Concur. Both the Office of the Chief Financial Officer and the Office of Procurement were aware of this discrepancy and had previously brought it to the attention of the OIG. We will incorporate the appropriate reference in any future agreements with DHHS for audit services.

Recommendation 2: The Director, NASA Office of the Chief Financial Officer, Financial Management Division, should incorporate an access to records clause in the FY 1999 agreement with DHHS to reinforce the provisions regarding access to working papers in OMB Circular A-133 and to facilitate reviews.

Management Response: Concur. We will incorporate an access to records clause in any future agreements with DHHS for audit services.

Recommendation 3: The Director, Analysis Division, NASA Office of Procurement, should establish (a) procedures to request copies of the DHHS audit reports and (b) a central system responsible for monitoring, coordinating and evaluating DHHS audits performed for NASA.

Management Response: Concur. These procedures will be established if NASA elects to obtain audit services from DHHS in the future.


Arnold G. Holz

APPENDIX C

REPORT DISTRIBUTION

National Aeronautics and Space Administration (NASA) Headquarters

Code B/Chief Financial Officer
Code C/Associate Administrator for Headquarters Operations
Code G/General Counsel
Code H/Acting Associate Administrator for Procurement
Code J/Associate Administrator for Management Systems and Facilities
Code JM/Director, Management Assessment Division
Code L/Associate Administrator for Legislative Affairs
Code M/Associate Administrator for Space Flight
Code P/Associate Administrator for Public Affairs
Code Q/Associate Administrator for Safety and Mission Assurance
Code R/Associate Administrator for Aero-Space Technology
Code S/Associate Administrator for Space Science
Code U/Associate Administrator for Life and Microgravity Sciences and Applications
Code W/Assistant Inspector General for Inspections, Administrative Investigations and Assessments
Code Y/Associate Administrator for Earth Science
Code Z/Acting Associate Administrator for Policy and Plans

NASA Offices of Inspector General

Ames Research Center
Goddard Space Flight Center
Jet Propulsion Laboratory
Lyndon B. Johnson Space Center
John F. Kennedy Space Center
Langley Research Center
Lewis Research Center
George C. Marshall Space Flight Center
John C. Stennis Space Center

APPENDIX C

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
Budget Examiner, Energy Science Division, Office of Management and Budget
Associate Director, National Security and International Affairs Division, General Accounting
Office
Special Counsel, House Subcommittee on National Security, International Affairs, and
Criminal Justice
Professional Assistant, 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 and Oversight
House Committee on Science
House Subcommittee on Space and Aeronautics

Congressional Member

The Honorable Pete Sessions, U.S. House of Representatives

Major Contributors to the Report

Lorne A. Dear, Program Director, Procurement and International Agreements Audits

Anh Doan, Auditor-in-Charge

Van Tran, Auditor

Nancy C. Cipolla, Report Process Manager