

W

April 26, 1999

TO: B/Chief Financial Officer

FROM: W/Assistant Inspector General for Auditing

SUBJECT: Final Report on the Audit of Obligations Management – Recording  
Obligations and Adjustments  
Assignment Number A-HA-98-026  
Report Number IG-99-021

The subject final report is provided for your use. Please refer to the Executive Summary for the overall audit results. Our evaluation of your response is incorporated into the body of the report. In response to management's comments on a draft of this report, we revised the recommendations. Regarding corrective actions for the recommendations, please notify us when actions have been taken, including the extent of testing performed to ensure corrective actions are effective. The recommendations are undispositioned and will remain open until completion of corrective actions and until corrective actions are determined to be effective.

If you have questions concerning the report, please call Mr. Chester A. Sipsock, Program Director, Environmental and Financial Management Audits, at (216) 433-8960, or Ms. Teresa J. Danne, Auditor-in-Charge, at (256) 544-2268. We appreciate the courtesies extended to the audit staff. The report distribution is in Appendix D.

**[Original signed by]**

Russell A. Rau

Enclosure

cc:

G/General Counsel

H/Acting Associate Administrator for Procurement

JM/Director, Management Assessment Division

**IG-99-021**

**AUDIT  
REPORT**

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**OBLIGATIONS MANAGEMENT –  
RECORDING OBLIGATIONS AND ADJUSTMENTS**

**April 26, 1999**

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National Aeronautics and  
Space Administration

**OFFICE OF INSPECTOR GENERAL**

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## **Acronyms**

CFO	Chief Financial Officer
FAR	Federal Acquisition Regulation
FMM	Financial Management Manual
FY	Fiscal Year
OMB	Office of Management and Budget
USC	United States Code

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# NASA Office of Inspector General

**IG-99-021**

**AHA-98-026**

**April 26, 1999**

## **Obligations Management - Recording Obligations and Adjustments**

### **Executive Summary**

**Background.** NASA is responsible for ensuring that appropriated funds are used within specified time periods and only for the purposes and amounts authorized by Congress. The NASA accounting procedures are designed to record and control documents and transactions to provide NASA officials with reliable, accurate, timely, and complete financial data. Effective obligation management is one of the fundamental, internal controls designed to produce the data with which to control funds. An integral part of managing obligations is ensuring that obligations are recorded accurately.

Unrecorded or inaccurate obligation record keeping can distort the accuracy of available appropriation balances. Failure to record obligations and adjustments in a timely manner increases the risk of overobligation and the risk that program officials will not have accurate information to use in decisionmaking.

**Objective.** The audit objective was to determine whether obligations and adjustments to obligations were promptly and accurately recorded. We performed audit fieldwork at four NASA Centers: Glenn Research Center (Glenn), Goddard Space Flight Center (Goddard), Johnson Space Center (Johnson), and Marshall Space Flight Center (Marshall) (see Appendix A).

**Results of Audit.** The four Centers we reviewed accurately recorded their obligations and adjustments. However, the Centers sometimes took more than 15 working days to record obligations, and in some cases, had limited or no documentation to support the posted obligation. Also, the Centers did not always promptly record adjustments to obligations. In cases in which costs and disbursements were reported in excess of obligations, adjustments totaling \$42 million remained uncorrected for 6 months or longer. As a result, NASA financial records were not completely current for purposes of preventing overobligation and ensuring fund availability for expenditures.

**Revised Recommendations.** In response to discussions with management and its comments on a draft of this report, we revised the recommendations to more clearly state our audit results and to reflect the extent of the problems identified. Management initially nonconcurred with the draft report recommendations, but provided an acceptable alternative action.

**Recommendations.** We recommend that the NASA Chief Financial Officer implement and refine processes to ensure obligations and adjustments to obligations are promptly recorded.

**Management's Response.** Concur. Management recognized the importance of the timely recording of obligations and correction of errors and, therefore, plans to include metrics to address those factors in its Quality Assurance Evaluation process.

**Evaluation of Management's Response.** Management's planned actions are responsive to the recommendations.

## Introduction

NASA is entrusted with public funds and is responsible for control over and accounting for the expenditure of such funds. Management of the funds for the execution of NASA missions and the conduct of NASA activities is an integral and essential element of the total management function and is the responsibility of officials at all levels of the organization. Office of Management and Budget (OMB) Circular A-34, "Instructions on Budget Execution," dated November 7, 1997, requires agencies to maintain systems of accounting, internal control, and administrative control to facilitate effective management of Federal programs. The Agency's system of internal checks and balances is designed to be sufficient to disclose conditions and transactions not in conformance with legal requirements.

NASA uses a system of commitments<sup>1</sup> and obligations<sup>2</sup> to plan and control its appropriated funds. Commitments provide data on the authorizations the Agency has issued to incur obligations. Commitments also help determine the balance of funds available to finance NASA program or project accomplishments. Obligations must be within the limitations established in the Agency's allotments and authorizations. The accounting procedures are designed to meet the requirements by recording and controlling documents and transactions to prevent overcommitment, overobligation, and overexpenditure of appropriations.

The Antideficiency Act (31 United States Code [USC] 1341, 1342, and 1517) provides that Federal employees shall not authorize an obligation under any appropriation in excess of the amount available or for any purpose in advance of authorization by law. While failure to record an obligation is not itself a violation, the Comptroller General considered the failure to record an obligation for the purpose of concealing a violation of the Antideficiency Act to be a violation of 31 USC 1502 (71 Comptroller General Decision 502, 1992). Thus, all obligations must be recorded in the official accounts.

To comply with the statutory requirements, NASA is required to establish procedures to ensure the prompt recording and adjustment of all incurred obligations (see Appendix B for detail on statutory requirements). In addition to the legal requirements, managers, budget analysts, and contract specialists rely on recorded obligation information to determine fund balances. Accurate information is essential to ensure that funds are properly managed and that their use is maximized.

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<sup>1</sup> Commitments are the Agency's reserved funds based on approved requisitions, procurement requests, authorizations to execute contracts, or other written evidence that authorizes the creation of obligations without further recourse to the Agency official responsible for certifying the availability of the funds.

<sup>2</sup> Obligations are amounts of orders placed, contracts awarded, services received, or other similar transactions that require the disbursement of allotted funds.

## **Findings and Recommendations**

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### **Finding A. Recording Obligations Promptly**

At the four Centers reviewed, an estimated 17 percent of obligations were not recorded against applicable allotments within 15 working days. Obligations were not recorded promptly because NASA policy neither identifies a time frame for recording obligations nor specifies control procedures to identify where recording delays occur. Also, supporting documentation for posted obligations was incomplete in some of the cases reviewed. As a result, Center financial records were not completely current for funds control and financial reporting purposes.

#### **Background**

The NASA policy for recording obligations is in Financial Management Manual (FMM) 9040, “Criteria for Recording and Reporting Obligations.” Part 9041-4c states, in part: “Once having been incurred, an obligation shall be recorded promptly against the applicable allotments and resources authority<sup>3</sup> whether or not a sufficient balance is available.”

Part 9041-6b of the FMM states that the contract document has to be signed by all applicable parties and mailed or otherwise delivered to the contractor or other performing agency. Part 9041-6c provides that “The date of mailing or other delivery of the contract determines the date the obligation is incurred.” Although the FMM requires that an obligation be recorded promptly against the applicable allotments and resources authority, the FMM is silent as to the definition of “prompt.”

While the FMM does not specifically define “prompt,” we determined that 15 working days is a reasonable period for promptly recording obligations within NASA. We arrived at this definition based on review of the Federal Acquisition Regulation (FAR) and discussions with NASA officials. FAR part 4.201 states:

Contracting officers shall distribute copies of contracts or modifications within 10 working days after execution by all parties. As a minimum, the contracting officer shall - (a) Distribute simultaneously one signed copy or reproduction of the signed contract to the contractor and the paying office.

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<sup>3</sup> Resources authority warrants, granted by NASA Headquarters or other NASA installations, give a particular Center the authority to initiate, commit, and obligate funds for specific, approved projects and activities within the limits of the funds allotted. NASA Headquarters uses allotment authorizations to provide funds to finance projects, activities, and purposes for which resources authorizations have been issued; the allotment authorizations constitute a legal limitation on the amount available for commitments, obligations, and expenditures.



Additionally, the Chief, Accounting, Reporting, and Analysis Branch, Office of the Chief Financial Officer (CFO), stated that 5 working days is reasonable for the financial office to record the obligation once the documentation has been received from the Procurement Office. The Chief indicated that the 15-day time frame is a reasonable standard for recording obligations.

### Recording Obligations

Four Centers were responsible for approximately 75 percent (see Appendix A) of NASA's procurement activity for fiscal year (FY) 1998. To determine the extent to which NASA had met the 15-day time frame for prompt recording, we randomly selected 60 obligations for each of the 4 Centers, from a universe of 3,650 obligations recorded in June and July 1998. Overall, 17 percent of the obligations reviewed, totaling nearly \$2.2 million, took more than 15 days to be recorded (see Tables 1 and 2).

**Table 1. Days to Record Obligations  
(Working Days)**

Center	Obligations Reviewed	0 - 15 days	16 days or more	Percentage more than 15 days (rounded)
<b>Glenn</b>	60	48	12	20%
<b>Goddard</b>	60	46	14	23%
<b>Johnson</b>	60	52	8	13%
<b>Marshall*</b>	60	53	7	12%
<b>Total*</b>	<b>240</b>	<b>199</b>	<b>41</b>	<b>17%</b>

\* We could not determine the obligation date for four obligations at Marshall. These four obligations (valued at \$251,297) represented 7 percent of the obligations sampled at Marshall. Although we could not determine whether the obligations were recorded promptly, we included them in our sample results as being promptly recorded.

Projecting our sample results to the universe (3,650 obligations), we estimated, at a 90-percent level of confidence, that at least 474 obligations were not promptly recorded in the financial records during those 2 months. Based on our sample results, we estimated that this resulted in the failure to promptly record obligations of at least \$17.9 million. In addition, we were unable to determine whether 7 percent of the obligations at Marshall were recorded promptly, because either the dates on the documents showing when the obligations occurred were missing or the paperwork to support the obligations was unavailable.

Our analysis also showed that the time taken to record the late obligations ranged from 16 to as many as 190 working days. Table 2 shows the range of time taken to record obligations in excess of 15 days and the respective dollar amounts.

**Table 2. Days to Record Late Obligations  
(Working Days)**

	<b>16 - 30 days</b>	<b>31-60 days</b>	<b>61-90 days</b>	<b>91 days or more</b>	<b>Total</b>
<b>No. of Obligations</b>	28	8	3	2	41
<b>Value of Obligations</b>	\$1,331,942	\$648,802	\$141,771	\$65,454	\$2,187,969

Because NASA policy does not define “prompt” or establish time frames for recording obligations, NASA financial managers do not have the clear performance measures required for effective program management. Once NASA defines a time frame for prompt recording, controls need to be in place to ensure the metric is followed.

**Management Control Procedures**

Management control procedures varied among the Centers. Johnson and Marshall dated their internal documents at various points in the obligations process, making it possible to track obligating documents through the procurement and financial departments. At Glenn and Goddard, however, we could not determine where delays occurred because the two Centers did not date stamp the documents. When we could identify that recording delays occurred, the causes varied from paperwork processing delays in procurement and finance, inaccurate documentation causing obligations to be returned for further processing, and delays in processing contracts ready for closeout.

Delays can result in financial statement errors. For example, at Goddard, obligations made in FY 1998 were not recorded until FY 1999. Also, occasionally, before disbursements could be made at Goddard, accounting personnel had to locate documents and record obligations. This increased the work load for accounts payable personnel.

**Conclusion**

Because the Centers do not record obligations promptly, NASA managers do not always have the most current data required for decisionmaking and financial records may not be completely reliable. The recording delays result in underrecording of obligations that can have adverse consequences. FMM 9230 identifies underrecording of obligations as “improper,” and underrecording negatively impacts the ability of NASA managers to determine the status of appropriations. Further, underrecording creates a potential for noncompliance with fiscal statutes.

Underrecording of obligated amounts also can impact the propriety of the required annual Certification of Obligations. By certifying the obligations, NASA officials confirm that NASA’s recorded obligations comply with 31 USC 1501, “Documentary Evidence Requirement for Government Obligations.” Prior to making the certification, NASA

Centers must review all outstanding obligations to ensure compliance with FMM 9040, which requires that obligations be recorded promptly. Also, the lack of complete supporting documentation concerning posted obligations should be corrected through emphasis of existing requirements to maintain support.

### **Revisions to Report**

As a result of management's comments on a draft of this report, we modified the report to more clearly reflect the extent of the problems identified. Management initially nonconcurred with the draft report recommendations, but provided an acceptable alternative action. Based on management's proposed actions, we revised draft recommendation 1, and deleted draft recommendations 2 and 3 from this finding.

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

- 1. The NASA CFO should implement a process to ensure that Centers promptly record all obligations, as required by the FMM.**

**Management's Response.** Concur. Management recognizes the importance of timely recording of obligations and plans to add specific metrics related to the elapsed time for recording obligations as enhancements to their Quality Assurance Evaluation process.

**Evaluation of Response.** The actions planned by management are responsive to the recommendation.

## **Finding B. Adjusting Obligations**

NASA Centers did not adjust obligations in a timely manner. Based on our analysis of the monthly Financial and Contractual Status Procurement Finance File Overrun Edit Listing,<sup>4</sup> 44 percent of transactions for which costs or disbursement exceeded obligations went uncorrected for extended periods. This condition occurred because the NASA CFO had not established procedures for making timely adjustments and Center personnel were uncertain about who was responsible for making the adjustments. As a result, financial data was not completely accurate and there was increased risk for noncompliance with fiscal statutes, although we found no such noncompliance.

### **Background**

The procurement finance file overrun edit listing is produced by the Financial and Contractual Status system. The purpose of the system is to provide integrated financial and contractual data on NASA activities. The data gives NASA management the information needed to plan, budget, and account for its total resources. The system is designed to (1) maintain the integrity of fund control; (2) identify and recognize the total resources being used in the execution of project activities; (3) serve as a basis for reports to the executive and legislative branches of the Government; and (4) provide all levels of management with the visibility necessary for decisions and accountability.

Each month, the NASA Chief, Accounting Reporting and Analysis Branch, sends a copy of the edit listing to each Center. The listing shows contracts with costs or disbursements in excess of amounts obligated.<sup>5</sup> Center financial officials are to review the listing on a monthly basis and make all necessary corrections to current fiscal year transactions on subsequent monthly submissions to Headquarters. Corrections would include adjusting amounts reported as obligations, costs, or disbursements to properly reflect funding and accounting details.

### **Timeliness of Adjustments**

In comparing the July and January 1998 listings, we found that the Centers had frequently not made adjustments to the transactions. Of the 911 costs and/or disbursements in excess of obligations on the July listing for the four Centers, 397 (44 percent) totaling \$42 million remained unadjusted since January 1998. Table 3 shows the number and value of obligations, costs, and disbursements that were on both the July and January listings.

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<sup>4</sup> A report which shows contracts with costs or disbursements in excess of obligations listed at the program code, program year, reimbursable code, method of authorization, and/or fund source levels.

<sup>5</sup> Contractors generally report contract costs monthly on NASA Form 533. Disbursements are the actual payment to a contractor made after an invoice has been submitted to NASA and certified for payment. Neither costs nor disbursements should exceed the amount obligated.

**Table 3. Costs and Disbursements in Excess of Obligations  
on January and July 1998 Edit Listings\*  
(\$ in millions)**

<b>Center</b>	<b>(A) No. of Obligations</b>	<b>(B) Value of Obligations</b>	<b>(C) Value of Costs</b>	<b>(D) Value of Disbursements</b>	<b>(E = B-C-D) Overobligated Costs and/or Disbursements</b>
<b>Glenn</b>	23	18.1	16.5	3.5	(1.9)
<b>Goddard</b>	318	\$410.5	\$442.7	\$0.2	(\$32.4)
<b>Johnson</b>	28	10.1	12.7	0.0	(2.6)
<b>Marshall</b>	28	159.9	165.0	0.0	(5.1)
<b>Total</b>	<b>397</b>	<b>\$598.6</b>	<b>\$636.9</b>	<b>\$3.7</b>	<b>(\$42.0)</b>

\* A contract is shown on the Edit Listing only if either costs and/or disbursements are in excess of obligations. There is, however, no relationship between the value of costs and the value of disbursements.

Additionally at fiscal yearend, 220 adjustments (24 percent of the 911 items) totaling \$18.6 million were on the September Edit Listing. NASA's financial records for the 220 adjustments had not been updated for 8 months or more.

One reason for these results was that although NASA expected adjustments to be made, it had not established procedures for making adjustments. Also, the Centers were uncertain about who was responsible for making adjustments. One Center had identified inconsistencies between its records and the Edit Listings. After determining that Center records were accurate, Center officials were unsure how to proceed in making corrections to the Headquarters database. Center financial personnel stated that corrections were not made because of a lack of personnel to review the Edit Listing. Also, personnel at one Center had moved into new positions and were uncertain about their roles in resolving the errors.

Another reason Centers did not make the adjustments was that the Edit Listing reflected program financial data at a highly detailed funding level. In ensuring costs and disbursements are within obligated amounts, the Center's primary focus is on managing funds at the total contract level and not at the detailed funding level. The Chief, Accounting, Reporting and Analysis Branch, Office of the CFO, acknowledged that the listing was not as useful as it could be to the Centers, and is developing a new format.

The Chief, Accounting, Reporting and Analysis Branch, discussed the lack of adjustments to the obligations in a transmittal letter for the August 1998 Edit Listing. The letter noted the number of uncorrected errors, that some errors had remained unresolved since September 1997 and that the volume of errors at some Centers had increased. However, because Headquarters did not follow up from month to month to determine whether the changes were made, the Centers focused on other priorities and took little or no action on adjustments.

## **Conclusion**

Costs over obligations and disbursements over obligations occur in the course of NASA business due to the nature of contractor cost reporting requirements, timing differences, varying data collection techniques, and differences in financial systems used by each Center. However, discrepancies should be corrected at the earliest opportunity once errors are detected. Reporting costs/disbursements over obligations should raise a red flag to Agency financial personnel that the situation should be researched and the financial records adjusted. Failure to do so could lead to noncompliance with fiscal statutes.

Determining the cause and correcting the adjustment problems are basic to sound financial management of obligations. Failure to promptly record adjustments to obligations impacts the accuracy of financial reporting and can cause inaccuracies in the information needed by management. The fundamental objective for NASA financial accounting systems is to provide Agency officials with reliable, accurate, timely, and complete financial data. Accordingly, adjustments to obligations should be made promptly to meet NASA's financial system objective.

## **Revisions to Report**

As stated earlier, we modified the report, as a result of management's comments, to more clearly reflect the extent of the problems identified. Management initially nonconcurred with the draft recommendations, but provided an acceptable alternative action. Based on the proposed actions, we revised and renumbered draft recommendation 4 and deleted draft recommendation 5 from this finding.

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

- 2. The NASA CFO should refine the existing process to ensure that all adjustments to obligations are recorded promptly.**

**Management's Response.** Concur. Management recognizes the importance of timely correction of errors and plans to revise its Quality Assurance Evaluation process related to the correction of errors.

**Evaluation of Response.** The actions planned by management are responsive to the recommendations.

## Appendix A. Objectives, Scope, and Methodology

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### Objectives

The overall objective of the audit was to evaluate the process for recording obligations and adjustments. Specifically, we determined whether:

- Obligations were recorded promptly and accurately to ensure funds were adequately controlled to prevent overobligation.
- Adjustments to obligations (reprogramming and deobligations) were promptly and accurately recorded to maximize funds available for expenditure.

### Scope and Methodology

To accomplish the objectives, we reviewed internal controls and tested various transactions to verify that controls were working as designed. These controls are necessary to provide accurate performance measures to assess NASA's progress in meeting the goals defined in its strategic and performance plans. Our review was limited to examining the obligations and adjustments to contracts.

Each NASA Center maintains its own accounting system. To select specific Centers for review, we examined the "Annual Procurement Report" for both FY's 1997 and 1998, to determine the volume of procurement activity (see the table below). Because a total of about 75 percent of NASA's procurement activity occurred at Glenn, Goddard, Johnson, and Marshall, we selected those Centers for a detailed review.

**NASA's FY 1997 and 1998 PROCUREMENT ACTIVITY (in millions)**

Center	FY 1997 Amount	FY 1998 Amount
Johnson Space Center	\$3,998.4	\$3,958.4
Glenn Research Center	\$592.9	\$583.6
Goddard Space Flight Center	\$2,719.6	\$2,752.7
Marshall Space Flight Center	\$2,321.3	\$2,075.4
NASA Management Office/ Jet Propulsion Laboratory	\$1,140.1	\$1,192.0
Langley Research Center	\$544.7	\$501.4
Ames Research Center	\$507.1	\$493.1
Kennedy Space Center	\$446.3	\$454.7
Headquarters	\$217.2	\$168.8
Stennis Space Center	\$169.5	\$224.6
Dryden Flight Research Center	\$132.4	\$156.6
<b>TOTAL</b>	<b>\$12,789.5</b>	<b>\$12,561.3</b>

## Appendix A

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### Statistical Methodology – Finding A

The sampled Centers included flight centers and a research center to add balance to our assessment. Due to the volume of transactions involved, we limited our sampling frame to contract obligations recorded during June and July 1998. Our population contained 3,650 obligations with a total value of \$905 million for an average value of \$248 thousand per obligation. We randomly selected a statistical sample of 60 obligations from each Center. The total value of the sample was \$54 million. We projected the number of obligations recorded late using the lower limit of a 90-percent confidence interval. Two large obligations (over \$100 million each) were excluded from the sample frame and examined separately. These two obligations were promptly recorded. Projections are limited to the four Centers in our sampling frame. A summary of attribute statistics is provided below.

#### Attribute Statistics

Sample Size	Percent Recorded Late	Standard Error <sup>1</sup>	Range <sup>2</sup>	Frame Size
240	17%	0.024	0.13-0.21	3,650

<sup>1</sup>Standard error = [(failures x successes) / number of samples].<sup>1/2</sup>

<sup>2</sup>Confidence interval = .17 ± 1.645 x standard error.

### Management Controls Reviewed

Based on our review of procurement and financial management files and reports, we determined whether:

- obligations had been promptly recorded;
- obligations had been made but were not recorded; and
- obligations had been made but were recorded inaccurately, or the planned obligations were no longer valid and the related commitments should be released for other obligations.

### Audit Field Work

We conducted fieldwork from March through December 1998, at Glenn, Goddard, Johnson, Marshall, and NASA Headquarters. The audit was performed in accordance with generally accepted government auditing standards.



## Appendix B. Statutory Requirements

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Legislation created by congressional authorization committees establishes the purposes and guidelines for specific programs and sets a ceiling on the amount that can be spent on the activity. Congressional appropriation committees create appropriations acts to enable an agency or department to legally obligate the Government to make future payments for goods and services received for authorized purposes. These acts set limits on new obligation authority and specify the period for which obligations can be made for each budget line item.

As specified in 31 USC 3512, the head of each agency shall establish and maintain systems of accounting and internal control that provide reliable accounting for the activities of the agency. The systems are to provide the basis for preparing and supporting budget requests of the agency. The systems also are to provide reasonable assurance that transactions: (1) are properly recorded and accounted for to permit the preparation of reliable financial reports and to maintain accountability over the assets; and (2) are executed in compliance with laws and regulations including those related to obligations and costs.

The head of each agency is required by 31 USC 1514 to prescribe, by regulation, a system of administrative control of funds. The approval of fund control regulations has been delegated to the Director of the OMB. The general requirements for fund control regulation are in OMB Circular A-34. Further guidance is found in OMB Circular A-123, "Management Accountability and Control," June 21, 1995, which details management accountability and controls.

The importance of management controls is addressed in 31 USC 3512, often referred to as the Federal Managers' Financial Integrity Act. Management controls are the organization, policies, and procedures used to reasonably ensure that programs achieve their intended results. Controls must ensure that (1) resources used are consistent with agency missions; that (2) laws and regulations are followed; and that (3) reliable and timely information is obtained, maintained, reported, and used for decisionmaking. Management controls must also protect agency programs and resources from waste, fraud, and mismanagement.

OMB Circular A-123 requires agency managers to incorporate management controls in the strategies, plans, guidance, and procedures that govern their programs. One required management control is that transactions be promptly recorded, properly classified, and accounted for in order to prepare timely accounts and reliable financial and other reports. The documentation for transactions, management controls, and other significant events must be clear and readily available for examination.

## Appendix B

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Obligations are established and must be recorded in the financial records when orders are placed, contracts are awarded, services are received and similar transactions for bona fide needs existed during a given period that will require payment by the Government. Even if the obligation is not recorded, it exists under the provisions of NASA Policy Directive 9050.3D, "Administrative Control of Appropriations," January 22, 1997. The directive establishes procedures for NASA to meet external requirements for administrative controls over appropriations and funds and identifies the responsibility for and reporting of violations.

Creating and recording an obligation are not the same thing. Principles of Federal Appropriations Law 7-6 to 7-7, 1992, states:

It is important to emphasize the relationship between the existence of an obligation and the act of recording. Recording evidences the obligation but does not create it. If a given transaction is not sufficient to constitute a legal obligation, recording it will not make it one... Conversely, failing to record a valid obligation in no way diminishes its validity or affects the fiscal year to which it is properly chargeable.

An obligation made in advance of an appropriation and an overobligation of an appropriation may result in a violation of the Antideficiency Act (31 USC 1341(a), 1342, and 1517(a)). In accordance with 31 USC 1349 and 1518, an employee violating the Act shall be subject to appropriate administrative discipline. In addition, in accordance with 31 USC 1350 and 1519, an employee convicted of knowingly and willfully violating the act is subject to fines and imprisonment. Antideficiency Act violations must be reported by the Agency head to the President through the Director of OMB and to the Congress.

## Appendix C. Management's Response

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



APR 15 1999

Reply to Attn of: **BF**

**TO:** W/Assistant Inspector General for Auditing  
**FROM:** BF/Director, Financial Management Division  
**SUBJECT:** Draft Report on Audit of Obligations Management – Recording  
Obligations and Adjustments (Assignment A-HA-98-026)

This memorandum provides our comments on the subject draft report.

The National Aeronautics and Space Administration diligently works to ensure timely recording of obligations and timely correction of errors. In that regard, we also recognize that there may be opportunities for improved timeliness.

We concur with the recommendations presented in the draft report and believe that their implementation will support our mutual objective of more timely recording of obligations and timely correction of errors.

As part of the implementation process, we plan to develop metrics regarding the elapsed time for recording obligations and the correction of errors and plan to include these factors as part of the continuing enhancement of our Quality Assurance Evaluation (QAE) process. The QAE process involves the periodic, independent quantitative and qualitative review by Agency Chief Financial Officer staff of Center implementation of Agency financial management policies. We plan to fully implement the recommendations by March 31, 2000.

If you have any questions, please do not hesitate to contact me on 202-358-0978.

  
Stephen J. Varholy

## **Appendix D. Report Distribution**

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

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Chief Counsel, Kennedy Space Center  
Director, George C. Marshall Space Flight Center  
Chief Financial Officer, George C. Marshall Space Flight Center

### **NASA Offices of Inspector General**

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

## **Appendix D**

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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  
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, Committee on Science

### **Congressional Member**

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

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