

W

September 22, 1999

TO: M/Associate Administrator for Space Flight
AA/Director, John F. Kennedy Space Center

FROM: W/Assistant Inspector General for Auditing

SUBJECT: Final Report on the Review of Costs Incurred for a Barbecue
Sponsored by The Boeing Company
Assignment No. A9902700
Report Number IG-99-046

The subject final report is provided for your information and use. Please refer to the finding paragraph for the overall audit results. Our evaluation of your response is incorporated into the body of the report. The corrective actions planned or completed for recommendations 1 and 2 were responsive. Management's actions are sufficient to close recommendation 1 for reporting purposes. However, recommendation 2 will remain open for reporting purposes. Please notify us when action has been completed on the recommendation, including the extent of testing performed to ensure corrective actions are effective.

If you have questions concerning the report, please contact Mr. Lorne A. Dear, Director, Procurement Audits, at (818) 354-3360; Ms. Nora Thompson, Audit Program Manager, at (757) 864-3268; or Ms. Bonnie Armstrong, Auditor-in-Charge, at (407) 867-4073. We appreciate the courtesies extended to the staff. The final report distribution is in Appendix C.

[original signed by]

Russell A. Rau

Enclosure

cc:

AO/Chief Information Officer

B/Chief Financial Officer

B/Comptroller

BF/Director, Financial Management Division

G/General Counsel

H/Associate Administrator for Procurement

JM/Director, Management Assessment Division

KSC/OP/Director, Procurement Office

bcc:

JPL/W/Mr. L.Dear

KSC/Audit Liaison Representative

KSC/W/Ms. B. Armstrong

LaRC/W/Ms. N. Thompson

IG-99-046

**REVIEW
REPORT**

**COSTS INCURRED FOR A BARBECUE
SPONSORED BY THE BOEING COMPANY**

September 22, 1999



National Aeronautics and
Space Administration

OFFICE OF INSPECTOR GENERAL

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Acronyms

CAS	Cost Accounting Standards
DCAA	Defense Contract Audit Agency
FAR	Federal Acquisition Regulation

NASA Office of Inspector General

IG-99-046
A9902700

September 22, 1999

Costs Incurred for a Barbecue Sponsored by The Boeing Company

Introduction

In December 1998, The Boeing Company (Boeing) sponsored a barbecue near Kennedy Space Center for NASA and contractor personnel who worked on the Mars Climate Orbiter launch.¹ Boeing held the barbecue to celebrate the successful launch of the spacecraft. NASA and contractor personnel attended the barbecue. From January 1998 through June 1999, NASA personnel were given permission to attend 16 events near the Center that were sponsored by contractors and organizations. Boeing participated in sponsoring 4 of those 16 events.²

In February 1999, we requested that the Defense Contract Audit Agency (DCAA) review the costs incurred for the December 1998 barbecue and Boeing's charges for the event. In April 1999, DCAA provided us a letter reporting the results of its review. Subsequently, we conducted additional review work of the December 1998 Boeing barbecue. The overall objective of our review was to evaluate the effect of the barbecue charges to NASA. During our review, we identified three other contractor-sponsored events in 1998 near the Kennedy Space Center. We did not evaluate incurred costs or charging practices for the three events because such an evaluation was outside the scope of our review. Appendix A contains details on our scope and methodology.

Background

The NASA Associate Administrator for Human Resources and Education gave approval in a letter, dated December 10, 1998, for Agency personnel to attend the December 1998 barbecue. The letter concluded that it would "be in the best interests of the Government and for those NASA employees attending the launch to do so in their official capacity and as representatives of NASA." The approval letter stated the reception would be a widely attended gathering of

¹ The Mars Climate Orbiter was launched December 11, 1998, to embark on a study of the planet's climate and current water resources.

² In addition to the barbecue, Boeing participated in sponsoring (1) a reception recognizing the first United States element of the International Space Station on December 2, 1998; (2) a reception and screening of a documentary on John Glenn on October 27, 1998; and (3) tours, a recognition dinner, and a reception commemorating the Spacelab program on April 15 and 16, 1998.

NASA and military personnel, academia, and members of the aerospace industry, most of whom are involved in the Mars Orbiter project and with whom NASA personnel will be involved in additional space-related projects. Accordingly, the Associate Administrator approved Agency employee participation without charge.

Segregation of Unallowable Costs

Finding. In April 1999, DCAA reported that Boeing spent a total of \$10,183 for the barbecue. Boeing charged all costs of the barbecue directly to the NASA firm-fixed-price contract NAS5-32933.³ Of the \$10,183 Boeing charged to the contract, the contractor incurred \$675 for alcohol and entertainment costs. We informed the contracting officer of the unallowable costs, and Boeing adjusted its accounting records to correctly reflect the costs. The charges occurred because (1) a Boeing program manager inappropriately advised that all costs of the barbecue be charged directly to the contract and (2) the NASA contracting officer had limited visibility over costs charged to the fixed-price contract. During our review, we notified the NASA contracting officer, who asked Boeing officials to remove the unallowable costs from the estimating base on contract NAS5-32933. Boeing officials moved the \$10,183 cost for the barbecue from the NASA contract to a commercial overhead pool. Additionally, Boeing Rate Management Department officials strengthened internal controls to ensure the detection of unallowable costs. Employees from the Rate Management Department will review and approve all indirect expenditures and will verify the accuracy of cost charge numbers.

Cost Requirements and Allowability

Federal Acquisition Regulation (FAR), Part 31, classifies alcohol and entertainment costs as unallowable.⁴ Federally mandated Cost Accounting Standards (CAS) require that unallowable costs be segregated from other contract costs.⁵ Further, under the contract, Boeing must

³ The contract provides medium- and light-weight expendable launch vehicle services for several NASA spacecraft, one of which is the Mars Climate Orbiter. The current contract value is \$481 million. NASA awarded the firm-fixed-price contract to McDonnell Douglas Aerospace at Huntington Beach, California, in February 1996. Boeing subsequently purchased McDonnell Douglas Aerospace and assumed the contract. The contract also provided launch services for the Deep Space I, Mars Polar Lander, and Stardust spacecraft.

⁴ FAR, Part 31.205-51 states that costs of alcoholic beverages are unallowable, and FAR, Part 31.205-14 states that costs of social activities and amusement are unallowable. FAR 31.001 defines unallowable cost as any cost which cannot be included in prices, cost-reimbursements, or settlements under a Government contract.

⁵ CAS 405 requires contractors to identify unallowable costs and to segregate those costs from allowable contract costs.

comply with CAS in the recording, billing, and reporting of contract costs.⁶ Finally, Boeing accounting policy defines unallowable cost as any cost, which by regulation or Government audit, cannot be included in prices, invoices, or proposals to the Government.⁷

Effect of Charges on NASA

Since Boeing has removed the \$10,183 from the estimating base on contract NAS5-32933, unallowable costs will not affect NASA contract costs or future Boeing proposals to NASA. However, NASA officials gave NASA personnel permission to attend three other contractor-sponsored events, but did not notify the NASA contracting officers. To ensure unallowable costs were not charged to the three other Boeing contracts, the NASA contracting officers should determine whether Boeing billed unallowable costs to the contracts. Additionally, NASA management may want to consider the appearance of such events to the public. Although only \$675 of the incurred costs was unallowable, expending more than \$10,000 for a barbecue may subject NASA to criticism in times of fiscal constraint.

Recommendations, Management's Response, and Evaluation of Response

The Director, Kennedy Space Center, should:

- 1. Require that the Director of the NASA/Kennedy Space Center Procurement Office notify the appropriate NASA/Kennedy Space Center contracting officer(s) of contractor-sponsored events that may result in a cost impact to a locally administered contract, whether approval to attend the events was issued from NASA Headquarters or from NASA/Kennedy Space Center.**

Management's Response. Concur. The Office of the Chief Counsel will continue to ensure that the Procurement Office is informed of approved, widely attended, contractor-sponsored events so that the appropriate contracting officer will receive notification of such events. The complete text of the comments is in Appendix B.

Evaluation of Management's Response. The action taken by management is responsive to the recommendation. The recommendation is resolved, dispositioned, and closed for reporting purposes.

⁶ Contract clause 52.230-2, "Cost Accounting Standards," requires compliance with CAS, including CAS 405. See footnote 5 for that requirement.

⁷ Boeing accounting procedure RMDP-98-23, "Allowability of Indirect Costs," defines unallowable costs. The procedure tasks the Boeing Rate Management Department with determining the allowability of an indirect expenditure and approving a cost charge number.

- 2. Direct the Kennedy Space Center Procurement Office Director to request that NASA contracting officers check the billings on the three Boeing-sponsored social events to ensure that additional unallowable costs were not billed to NASA.**

Management's Response. Concur. The Procurement Officer has directed Boeing to review the costs associated with all similar events that have been charged to NASA contracts and to confirm that the costs have been appropriately accounted for as indirect costs and that no unallowable expenses have been included (see Appendix B).

Evaluation of Management's Response. The action taken by management is responsive to the recommendation. The recommendation is resolved but will remain undispositioned and open until Boeing has reviewed the costs associated with similar events and has confirmed that the costs are appropriately charged.

Appendix A. Scope and Methodology

To evaluate whether Boeing charged NASA any unallowable costs related to the barbecue, we requested that the DCAA review costs billed to NASA for the barbecue. We reviewed contract documents, contract cost charging requirements, and CAS included in the FAR. We also reviewed Boeing accounting policy; interviewed the NASA contracting officer, the Boeing manager, and audit staff from DCAA; and compared cost charging practices on NASA contract NAS5-32933 with Boeing accounting policy. In April 1999, DCAA informed us that expressly unallowable costs were charged to the NASA contract. DCAA based its conclusion on inquiries made of Boeing personnel.

After DCAA identified the unallowable costs, we reviewed approvals granted for NASA employees to attend similar events near Kennedy Space Center. The Chief Counsel at the Center retained the approvals. Although we identified three other events since January 1998, sponsored completely or in part by Boeing, we did not evaluate any costs incurred for those events or assess the allowability of those costs. An evaluation of incurred costs for the three Boeing-sponsored events exceeded the scope of our review.

We performed our field work from February through July 1999.

Appendix B. Management's Response

National Aeronautics and
Space Administration
John F. Kennedy Space Center
Kennedy Space Center, FL 32899



SEP 16 1999

Reply to Attn of: HM

TO: NASA Headquarters
Attn: W/Assistant Inspector General for Auditing

FROM: AA/Director

SUBJECT: Review of Costs Incurred for a Barbecue Sponsored by the Boeing
Company, Assignment Number A9902700

Regarding your letter dated August 13, 1999, subject as above, KSC has considered the recommendations made in your draft report and concur with the recommendations.

We have performed the necessary corrective actions and request that these recommendations be closed upon issuance of the final report.

Specific comments related to this matter are enclosed.


Roy D. Bridges, Jr.

- 3 Enclosures:
1. Response to Recommendations
 2. Copy of Chief Counsel memo to KSC Director of Procurement dated September 3, 1999
 3. Copy of letter from KSC Director of Procurement to McDonnell Douglas (Boeing) Director, NASA/Commercial Programs

Enclosure 1

RECOMMENDATION 1

The Director, Kennedy Space Center, should require that the NASA/KSC Procurement Officer notify the appropriate NASA/KSC contracting officer(s) of all widely attended gathering determinations that may result in a cost impact to a locally administered contract, whether the widely attended gathering determinations were issued from NASA Headquarters or from NASA/KSC.

KSC RESPONSE

Concur. In response to this report, KSC officials from the NASA/KSC Procurement Office, including the KSC Director of Procurement, and a representative from the KSC Chief Counsel's Office met on September 3, 1999, to discuss KSC policy and procedures on widely attended gatherings, and charges to KSC administered contracts related to same.

The Assistant Chief Counsel reiterated KSC Chief Counsel policy at the meeting and documented her statement in a follow-up memo. The memo states, "*Per our meeting of September 3, 1999, the Office of the Chief Counsel will continue to insure that the NASA/KSC Procurement Office is part of the wide distribution for notice of any widely attended gathering determinations issued either through this office or through NASA Headquarters, so that the appropriate contracting officer will receive notification of such events.*"

The NASA/KSC Director of Procurement also addressed the notification of widely attended gathering issue from the contractor end in a letter dated September 7, 1999. Quotes from the text of that letter are contained in the response to recommendation 2, and included as enclosure 3 to this response package.

Based on action taken as documented above, we consider KSC's corrective action on this recommendation to be complete. We request that the closure of this recommendation be reflected in the final report.

RECOMMENDATION 2

The Director, Kennedy Space Center, should direct the Kennedy Space Center Procurement Office Director to request that NASA contracting officers check the billings on the three Boeing-sponsored social events to ensure that additional unallowable costs were not billed to NASA.

Appendix B

KSC RESPONSE

Concur. The staff of the Director of the KSC Procurement Office and the Defense Contract Audit Administration (DCAA) on behalf of NASA/KSC took timely action on this matter. In April of 1999 DCAA communicated to Boeing that the costs for the barbecue to celebrate the Mars Climate Orbiter launch were erroneously charged directly to contract #NAS5-32933 instead of to an appropriate indirect cost center. It was also called to the attention of the contractor that the charges included costs for items that should have been treated as unallowable. In an e-mail dated June 8, 1999, Mr. Albert Bretwieser confirmed that the appropriate accounting charges had been made to properly assign these costs, including segregating the unallowable costs.

In a letter dated September 8, 1999, the Director of NASA KSC Procurement reiterates the action taken on the inappropriate charges to NAS5-32933 to McDonnell Douglas (Boeing) Director, NASA/Commercial Programs. The letter goes on to state, *"You are requested to review the costs associated with all events of this nature that have been charged to NASA KSC contracts and confirm that they have been properly accounted for as indirect costs and that no unallowable expenses have been included."* *"Your reply should include a description of the enhanced internal controls you have initiated to ensure the proper allocation of these costs and the detection of unallowable costs in the future."*

The letter goes on to address the issue set forth in recommendation 1 of your report (A9902700), from the contractor perspective, as follows: *"Another aspect to these events is that invited Government employees often must get permission from NASA Headquarters to attend."* *"Please notify the appropriate Contracting Officer, or myself, if there is an existing contract under which an event is planned and what NASA individual or group will be invited."*

National Aeronautics and
Space Administration
John F. Kennedy Space Center
Kennedy Space Center, FL 32899

Enclosure 2



Reply to Attn of: AF-A

September 7, 1999

TO: OP/Director, Procurement Office
FROM: AF-A/Assistant Chief Counsel
SUBJECT: Response to IG Audit - Barbecue Sponsored by Boeing
Company

Per our meeting of September 3, 1999, the Office of the Chief Counsel will continue to insure that your office is part of a wide distribution for notice of any widely attended gathering determinations issued either through this office, or through NASA HQ, so that the appropriate contracting officer will receive notification of such events.

BRUCE H. S. ANDERSON
CHIEF COUNSEL

BY: *Tracy Lee Crittenden*
Tracy Lee Crittenden

cc:
HM-E/J. Nary

Appendix B

Enclosure 3

OP

SEP 08 1999

McDonnell Douglas
Attention: Mr. Daryl Van Dorn
Director, NASA/Commercial Programs
Mail Code H012-C225
5301 Bolsa Avenue
Huntington Beach, CA 92647-2099

Subject: McDonnell Douglas (Boeing) Sponsored Events

As you know launch service contracts NAS5-32933 and NAS5-30722 were transferred from Goddard Space Flight Center to Kennedy Space Center on October 1, 1998. Since then there have been a number of successful launches that have been celebrated via Boeing sponsored events, in part or in whole, such as a barbecue, reception, or dinner. It has recently been disclosed that the costs for one of these events, the barbecue to celebrate the Mars Climate Orbiter launch, were erroneously charged directly to NAS5-32933 instead of to an appropriate indirect cost center. It was also disclosed that the charges included costs for items that should have been treated as unallowable. These circumstances were communicated to you by DCAA in April 1999. In email dated June 8, 1999, Mr. Albert Breitwieser confirmed that the appropriate accounting changes had been made to properly assign these costs, including segregating the unallowable costs.

You are requested to review the costs associated with all events of this nature that have been charged to NASA KSC contracts and confirm that they have been properly accounted for as indirect costs and that no unallowable expenses have been included. Your reply should include a description of the enhanced internal controls you have initiated to ensure the proper allocation of these costs and the detection of unallowable costs in the future.

2

Another aspect to these events is that invited Government employees often must get permission from NASA Headquarters to attend. Please notify the appropriate Contracting Officer, or myself, if there is an existing contract under which an event is planned and what NASA individual or group will be invited.

If you have any questions, please call Jeanne Burkhart at (407) 476-3676.

**ORIGINAL
SIGNED BY**

James E. Hattaway, Jr.
Director, Procurement Office

bcc:
AA/R.D. Bridges, Jr.
AA-A/J.L. Jennings
HM-E/J. Nary
OP/Read File
OP-AMO/C. Wilcox
OP-OSO/M.Krisberg
OP-OSO/Read File
OP-OSO-ELV/J. Burkhart
 /J. Simon
VA/B.G. Bruckner

Appendix C. Report Distribution

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Branch Chief, Science and Space Programs Branch, Energy and Science Division, Office of Management and Budget
Associate Director, National Security and International Affairs Division, Defense Acquisition Issues, General Accounting Office
Professional Assistant, Senate Subcommittee on Science, Technology, and Space

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Senate Subcommittee on VA, HUD, and Independent Agencies
Senate Committee on Commerce, Science, and Transportation
Senate Subcommittee on Science, Technology, and Space
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House Subcommittee on VA, HUD, and Independent Agencies
House Committee on Government Reform and Oversight
House Subcommittee on National Security, Veterans Affairs, and International Relations

Chairman and Ranking Minority Member – Congressional Committees and Subcommittees (Cont.)

House Committee on Science
House Subcommittee on Space and Aeronautics

Congressional Member

Honorable Pete Sessions, U.S. House of Representatives

Major Contributors to the Report

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