

OFFICE OF INSPECTOR GENERAL

SEMIANNUAL REPORT

OCTOBER 1, 2005–MARCH 31, 2006



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FROM THE INSPECTOR GENERAL

Robert W. Cobb
Inspector General

The Office of Inspector General (OIG) continues to add value to the National Aeronautics and Space Administration (NASA). Through investigations, the OIG holds accountable those who abuse the public trust, and through audits and reviews, it identifies weaknesses and ways to improve Agency programs and operations. The audits and investigations cited in this report demonstrate this office's impact on the Agency.

This semiannual period reflects the advantages of a collaborative approach to solving Agency problems that have been identified by thorough and independent investigative and audit activities. While we have worked hard to identify weaknesses, we have worked collaboratively with NASA to correct the weaknesses. Two examples of issues where the identification of weaknesses was followed by collaboration to improve Agency operations involve integrity in procurement activities and financial management.

Procurement Integrity

We reported to Congress on contracting trouble areas at NASA, describing problems our audits and investigations have identified in the Agency's procurement activities. We then worked closely with the NASA Office of General Counsel to promote NASA's implementation of a new Agency-wide Procurement Integrity Program. Agency leadership has endorsed the program, which is designed to enhance NASA's internal control framework for ensuring integrity in its contracts, promoting competition in contracting, and identifying and addressing wrongdoing by contractors. As part of this, a remedy coordination official will ensure that there is an Agency-wide approach to NASA's administration of civil, administrative, and contractual remedies resulting from investigations, audits, or other examinations related to procurement activities.

The new program will provide NASA with a more structured and thoughtful approach for administering contract remedies, sharing best practices, improving internal controls, and raising employee awareness of procurement fraud indicators. From the standpoint of the role of the Office of Inspector General, the program will facilitate the Agency's resolution of issues we identify and execution of necessary remedies. Our report on NASA's Contracting Trouble Areas is available on the Web at <http://www.hq.nasa.gov/office/oig/hq/reforms.pdf>.

Financial Management

The OIG continues to highlight financial management challenges faced by NASA but also works very closely with the office of the NASA Chief Financial Officer (CFO) to help it establish a clear and viable path forward. In October 2005, I testified at a joint hearing before the House Committee on Science, Subcommittee on Space and Aeronautics, and the House Committee on Government Reform, Subcommittee on Government Management, Finance, and Accountability, on NASA's financial challenges and next steps. I stated that the OIG has been unsuccessful in its continuing efforts to obtain from NASA a comprehensive management corrective action plan. A copy of my written statement is available on the Web at <http://www.hq.nasa.gov/office/oig/hq/congressional/IGTestimony102705.pdf>.

In response, Congress requested that the NASA CFO work with the OIG to finalize a corrective action plan by February 15, 2006. We worked closely with the CFO's office in its development of a corrective action plan that it delivered to Congress on February 15, 2006.

The corrective action plan is a good effort by NASA to address the recommendations in the independent auditor's report on NASA's Fiscal Year (FY) 2005 financial statements. If successfully implemented, the plan should put the Agency in a position to show that it is making progress in addressing its longstanding weaknesses in internal controls. However, ensuring that NASA will successfully implement the plan will not be without challenges. The challenges that NASA faces include (1) ensuring that the CFO's office has sufficient resources in terms of numbers of employees and needed skills to carry out its daily activities and corrective actions; (2) having Agency leadership, including program and Center leadership, endorse the corrective action plan and support its implementation; and (3) ensuring that process changes are fully implemented and institutionalized with a viable Agency-wide quality-assurance process in place.

Appointment of Assistant Inspector General for Investigations

On December 1, 2005, I appointed Kevin H. Winters as the Assistant Inspector General for Investigations. Kevin recently retired from the United States Marine Corps with the grade of Brigadier General. His last post of duty in an illustrious career was Assistant Judge Advocate General of the Navy. Kevin has extensive experience in criminal justice matters, including leading investigations and both prosecuting and defending in criminal trials. He is an outstanding leader, and I am happy to have him aboard.

Looking Forward

With this writing, I have had the opportunity and privilege to lead NASA's Office of Inspector General for the past 4 years. I continue to be impressed by the sustained efforts of so many dedicated personnel.

Our obligations under the Inspector General Act of 1978 are significant, especially given the inherent risks associated with the Agency's mission. Accordingly, we take our statutory obligations very seriously. I stand behind this office's efforts not only to follow the law, but also routinely to confront topics that are contro-

versial or sensitive. We fully appreciate that investigative activity often involves possible breaches of public trust, other victims in addition to the Agency, and allegations with safety connotations that require immediate notice to appropriate parties to prevent harm. We also recognize that our investigative activity can impact individual freedom, livelihoods, and reputations.

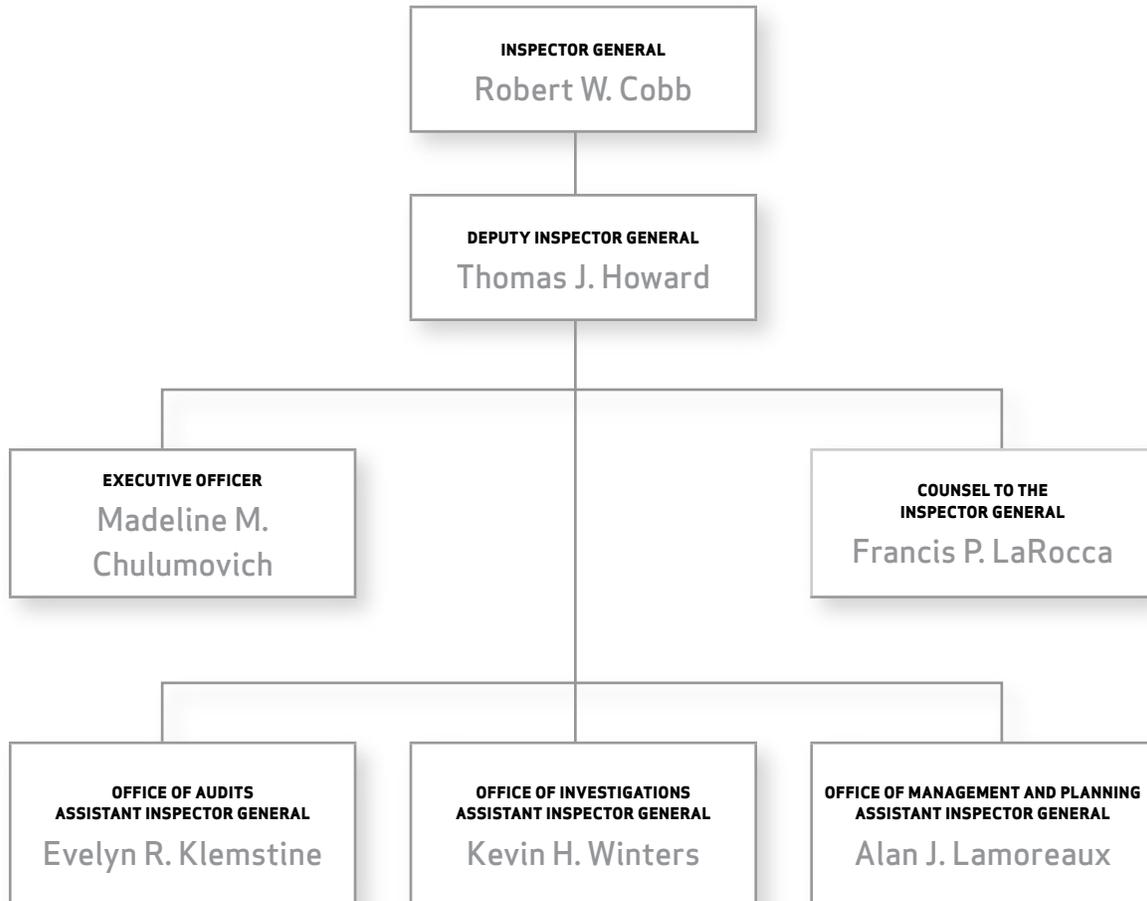
With these sobering considerations in mind, “getting it right” becomes paramount—both as to the facts in question and as to the applicable investigative standards. Likewise, “getting it right” pertains to our audit activities, where substantial resources of the Agency potentially pivot on audit findings and recommendations and where NASA officials and contractors can be held accountable for waste, inefficiency, and noncompliance with applicable requirements. Consequently, we continue to strive to fulfill our statutory mandate in a manner that meets our own high standards of “getting it right.” I am proud of our aggressive approach in ensuring that our work product meets the highest standards for issuance.

The matters discussed in this report are a testament to the tremendous efforts of our dedicated personnel, and the report fairly summarizes the activities of the NASA Office of Inspector General during the reporting period.



Robert W. Cobb
Inspector General

ORGANIZATION



THE NASA OFFICE OF INSPECTOR GENERAL conducts audits, reviews, and investigations of NASA programs and operations to prevent and detect waste, fraud, abuse, and mismanagement and to assist NASA management in promoting economy, efficiency, and effectiveness. The OIG's FY 2006 budget of \$32 million supports the work of audit, investigative, and administrative activities.

INSPECTOR GENERAL Robert W. Cobb provides policy direction and leadership for the NASA OIG and serves as an independent voice to the Administrator and Congress by identifying opportunities and promoting solutions for improving the Agency's performance. The Deputy Inspector General provides overall direction to the Assistant Inspectors General and Counsel to the Inspector General in the development and implementation of diverse audit, investigative, legal, and support operations of the OIG. The Executive Officer serves as the OIG liaison to Congress and other Government entities, conducts OIG outreach both within and outside of NASA, and manages special projects.

THE OFFICE OF COUNSEL TO THE INSPECTOR GENERAL provides advice and assistance on a variety of legal issues and matters relating to OIG review of NASA's programs and operations. The legal staff reviews legislation, regulations, Freedom of Information Act (FOIA) requests, and congressional matters that require OIG attention. Additionally, the staff provides advice and assistance on legal matters to OIG senior management, auditors, and investigators and serves as counsel in administrative litigation in which the OIG is a party or has a substantial interest. The staff also assists the Department of Justice (DOJ) in litigation in which the OIG participates as part of the prosecution or civil team or in which the OIG is a witness or defendant.

THE OFFICE OF AUDITS (OA) is responsible for conducting independent and objective audits, reviews, and other examinations to improve the economy, efficiency, and effectiveness of NASA programs, projects, operations, and contractor activities. In addition, the OA oversees the work of the independent public accountant who is under contract by the OIG to conduct the annual audit of NASA's financial statements.

THE OFFICE OF INVESTIGATIONS (OI) investigates allegations of crime, cybercrime, fraud, waste, abuse, and misconduct that could have an impact on NASA programs, projects, operations, and resources. OI refers its findings either to the DOJ for criminal prosecution or to NASA management for administrative action. Through its investigations, OI identifies crime indicators and recommends effective measures for NASA management that are designed to reduce NASA's vulnerability to criminal activity.

THE OFFICE OF MANAGEMENT AND PLANNING (OMP) provides financial, procurement, human resources, administrative, and information technology (IT) services support to the OIG staff. OMP develops, executes, and controls the OIG budget; acquires supplies and services through NASA contracting officers; and provides personnel services that include recruitment, performance management, qualifications and classification, and employee-relations functions. OMP provides state-of-the-art IT system capabilities for the OIG and coordinates preparation of the strategic plan and the Semiannual Report to Congress.

NASA'S MOST SERIOUS MANAGEMENT AND PERFORMANCE CHALLENGES

Pursuant to the Reports Consolidation Act of 2000, the Inspector General (IG) annually provides to the Administrator the OIG's view of the most serious management and performance challenges NASA faces. (The most recent report, dated November 14, 2005, is available on the Web at <http://oig.nasa.gov/SeriousChallenges2005.pdf>.)

We believe that overcoming these challenges is critical to NASA's ability to build a sound foundation for implementing the President's Vision for Space Exploration. Of the goals and objectives outlined in the President's vision, the fundamental goal is to advance U.S. scientific, security, and economic interests through a robust space exploration program. In support of this advancement, we continue to update and reflect on the challenges NASA must overcome to achieve that goal.

Continuing To Correct the Serious Organizational and Technical Deficiencies That Contributed to the Columbia Accident in 2003

Although the first of two Return to Flight (RTF) missions was completed successfully, NASA is still working to correct the serious organizational and technical deficiencies that contributed to the Columbia accident in 2003. The July 2005 launch of Discovery was the first of two RTF missions to test modifications made since the Columbia accident. However, because pieces of insulating foam broke away from the External Tank during Discovery's launch, which also happened during Columbia's flight, the Shuttle fleet was again grounded. With the recurrence of debris shedding, the orbiter's thermal protection system remains vulnerable to impact; and although tested during the Discovery flight, a viable in-orbit repair capability continues to be a challenge.

Completing the International Space Station

Completing the International Space Station (ISS) and managing the ISS Program schedule and costs are contingent on returning the Space Shuttle to flight on a dependable and consistent basis. However, concerns about debris shedding and a shrinking timeline to Shuttle retirement (scheduled for FY 2010) continue to have an impact on the future of Space Shuttle operations. For example, because of debris shedding, NASA's timeline for completing the second RTF mission has been extended to at least July 2006, thus shortening the time available for ISS assembly. The impending retirement of the Space Shuttle fleet presents an additional obstacle to ISS completion—Shuttle retirement threatens the U.S. segment of the ISS Program's projected budget. NASA has identified various viable usage-configuration options for the ISS in the context of potential future Shuttle flights. Options have been identified in the context of international partner commitments, research utilization, cost, and ISS sustainability while operating under the constraint to cease Shuttle flights no later than FY 2010 and maintaining safety as NASA's highest priority.

Transitioning from the Space Shuttle Vehicle to the Next-Generation Crew Exploration Vehicle (CEV)

As part of the President's Vision for Space Exploration, NASA was directed to return the Space Shuttle to flight as soon as possible, focus the use of the Space Shuttle on completion of the ISS, and retire the Space Shuttle by 2010. With respect to the broader space mission, NASA was directed to pursue lunar exploration activities with the goal of a human expedition no later than 2020, conduct robotic exploration and develop key capabilities (e.g., propulsion and life support) to explore Mars and other destinations, develop a new CEV to provide crew transportation for missions beyond low-Earth orbit, and pursue opportunities for international and commercial partnerships. One of the keys to controlling CEV costs is maximizing the use of existing Space Shuttle technology in the new vehicle. NASA has concluded that the safest, most reliable, and most affordable means of CEV development is to use existing Shuttle systems, such as the Solid Rocket Boosters and the liquid propulsion system. Transitioning existing workforce and facilities toward new vehicle production while, at the same time, flying the Space Shuttle as safely as reasonably possible until 2010 is a tremendous challenge—unique in scope and complexity. The accelerated schedule for implementation and budget constraints contributes to the difficulty in meeting this challenge.

Ensuring That the Integrated Enterprise Management System Improves NASA's Ability To Allocate Costs to Programs Accurately, Efficiently Provides Reliable Information to Management, and Supports Compliance with the Chief Financial Officers Act

The backbone of the Integrated Enterprise Management Program (IEMP) is the Core Financial module, which NASA implemented in FY 2003. Despite substantial investments of both time and money in its development and implementation, the module has not yet produced auditable financial statements—one of its key functions.

NASA has received a disclaimer of opinion from the independent public accountant (IPA) who audited the Agency's financial statements for the past 3 fiscal years because NASA has been unable to provide auditable financial statements and sufficient evidence to support statements throughout the fiscal year. The reports that the IPAs have submitted identify instances of noncompliance with generally accepted accounting principles, material weaknesses, reportable conditions in internal controls, and noncompliance with the Federal Financial Management Improvement Act and the Improper Payments Information Act. Many of NASA's internal control deficiencies are material weaknesses that the IPAs and OIG have reported for several years. Two of the most significant material weaknesses are NASA's management of property, plant, and equipment (PP&E) and materials and its inability to reconcile account balance discrepancies in Fund Balance with Treasury.

SIGNIFICANT AUDITS AND INVESTIGATIONS

Procurement

NASA expends most of its budget through contracts and other procurement vehicles. Effective and efficient procurement practices are critical to NASA's success in achieving its overall mission. Through audits and investigations, the NASA OIG seeks to assist the Agency in improving its procurement practices, as well as to detect and prevent procurement fraud.

NASA Contracting Trouble Areas

Available on the Web at <http://www.hq.nasa.gov/office/oig/hq/reforms.pdf>.

The Conference Report that accompanied the FY 2005 Consolidated Appropriations Act requested that the NASA OIG address NASA's contracting process with regard to timely delivery of both services and hardware, issue a list of contracting "trouble areas," and provide recommendations to address those areas.

We reported to Congress that our audit and investigative work had identified the following "trouble areas" in NASA's acquisition and contracting processes:

- lack of a reliable financial management system to track contract spending,
- inadequate control over Government property held by contractors,
- undefined and changing contract requirements in single-bidder contracts,
- lack of transparency to subcontractors working on NASA programs,
- questionable contract management practices under NASA's Small Business Innovation Research (SBIR) program,
- procurement process abuses by NASA employees and contractors, and
- significant cost overruns in some Agency programs.

To address these identified weaknesses, we recommended that NASA improve its internal control framework by establishing a fully integrated and effective financial management system. Such a system serves as the backbone of a viable internal control framework and is required under several Federal directives and edicts, including Office of Management and Budget (OMB) Circular A-123, "Management's Responsibility for Internal Control." We also recommended that NASA establish institutional procurement officials within the Agency to serve as the accountable internal control for ensuring integrity in acquisition activities. In conjunction with the OIG, the NASA Office of General Counsel promoted a new Agency-wide Procurement Integrity Program. Agency leadership has approved the program and its implementation.

Unallowable Costs Charged to NASA Contracts

Summary available on the Web at <http://www.hq.nasa.gov/office/oig/hq/audits/reports/FY06/s0600100-summary.pdf>.

OIG auditors and investigators reviewed a contractor's lease to determine whether the contractor was charging unallowable costs to three contracts at Marshall Space Flight Center. Our analysis of the lease costs charged to the three contracts determined that the contractor charged \$253,000 in unallowable costs from the beginning of 1997 through early 2003. During that same period, associated general and administrative costs of roughly \$80,000 were also improperly applied to the contracts, and applied interest on those amounts totaled \$118,000. We recommended that the Center's Procurement Officer pursue recovery of \$451,000 from the contractor. Management concurred with our recommendation and issued a Notice of Intent to Disallow Costs to the contractor.

Procurement of Organizational Development and Training Services

Available on the Web at <http://www.hq.nasa.gov/office/oig/hq/audits/reports/FY06/S-06-00200.pdf>.

We conducted a review of Goddard Space Flight Center's internal controls and procedures related to the procurement of development (consulting/coaching) and training services to determine whether there was adequate separation of duties and sufficient training requirements to avoid fraud, waste, and abuse. The Goddard Center Director requested the review after an OIG investigation found that a Goddard Office of Human Resources employee fraudulently issued purchase orders, approved payments, and conspired with an acquaintance to collect payments totaling over \$194,000 for organizational development services that were not needed or rendered.

We found that Goddard's internal controls over procurement of organizational development and training services needed improvement in two areas: (1) separation of duties related to procuring these services and (2) standardized training requirements for Office of Human Resources personnel who have been delegated limited contracting officer warrants by the Goddard Procurement Operations Division. Inadequate separation of duties and a lack of standardized training requirements are control weaknesses that, if not corrected, could leave Goddard vulnerable to additional instances of fraud, waste, and abuse. We made two recommendations to correct these weaknesses. Goddard concurred with both recommendations and has completed or has planned corrective actions that are responsive.

NASA's "Classroom of the Future" Cooperative Agreement with Wheeling Jesuit University

Available on the Web at <http://www.hq.nasa.gov/office/oig/hq/audits/reports/FY06/S-05-01300.pdf>.

We reviewed the NASA "Classroom of the Future" (COTF) cooperative agreement with Wheeling Jesuit University (WJU) in response to complaints we received alleging misuse of Federal funds and other improper-

eties under the agreement. We identified a serious oversight deficiency related to the NASA Grants Office's lack of involvement in the oversight of the agreement. Specifically, we found that the Grants Office relied almost exclusively on the NASA COTF Program Office for oversight of the agreement, which was inappropriate and contributed to other agreement management problems. In addition, we identified questionable WJU expenditures charged to the agreement that were not approved by NASA in advance or reviewed by the grant officer for allowability, reasonableness, and necessity, as required by Federal and Agency guidelines.

We recommended that NASA management take appropriate action to ensure that any future renewals of the agreement with WJU for COTF support are structured with clear descriptions of the work to be performed and the program objectives to be accomplished. We also recommended that NASA management ensure that its grant officers receive adequate training that covers their roles and responsibilities in administering grants and cooperative agreements. Finally, we recommended that the NASA grant officer for the agreement, in coordination with the designated administrative contracting officer, conduct a complete review of all WJU expenditures charged to the agreement to ensure that WJU is adhering to all Federal and Agency administrative and cost principle regulations and requirements. NASA concurred with our recommendations and has taken or is taking appropriate corrective actions.

IEMP Contract Oversight Improvement

Available on the Web at <http://www.hq.nasa.gov/office/oig/hq/audits/reports/FY06/ig-06-003-R.pdf>.

We conducted an audit of NASA's oversight of its IEMP contracts to determine whether NASA performed sufficient oversight of contractor activities to ensure that IEMP products and services were procured in a satisfactory, cost-effective manner. Of the five major contracts we reviewed, NASA's oversight practices for two, with a value of \$49.7 million for IEMP services, were satisfactory. However, NASA's oversight and contract modification practices for the remaining three IEMP awards reviewed, valued at about \$163.8 million, needed improvement.

Specifically, we found that proper oversight was not always conducted because contracting officers (COs) failed to appoint contracting officer's technical representatives (COTRs) or job monitors and failed to ensure that surveillance plans were properly developed. In addition, COs and COTRs did not ensure that monitor responsibilities were established or that COTRs and monitors adequately documented key oversight activities. Also, COs continually allowed one IEMP contractor to submit late, inaccurate, incomplete, or unsupported invoices and did not ensure that invoice errors were properly resolved. Further, a CO did not properly modify a contract, and a CO and a COTR allowed a contractor to perform work without a contract.

We made several recommendations to improve NASA's oversight of IEMP contracts. Following NASA's response to our recommendations, we requested that management provide additional comments to include details for more specific procedures for the improvement, monitoring, oversight, and surveillance of IEMP contracts.

Virginia Company Agrees to Civil Settlement with U.S. Government

A Government contractor agreed to a civil settlement resulting in the payment of \$165,333 to the Government, with \$66,384 to NASA. Our investigation found that the contractor, while performing work under several SBIR contracts for NASA and the Department of Defense (DOD), admitted to duplicating research proposals and providing identical final reports.

Former NASA Employee Sentenced for Conflict of Interest

A former NASA employee was sentenced to 5 years' probation and ordered to pay a fine of \$5,000 after an OIG investigation revealed that while still with NASA, the former employee steered contract work to companies with which he maintained a business relationship.

Former NASA Contractor Employee Pleads Guilty to Theft

A former NASA contractor employee pled guilty to one count of theft of NASA funds totaling \$75,000. An investigation disclosed that the contractor's employee created a fictitious company and mailed fraudulent invoices to his employer, a NASA prime contractor, which the contractor paid.

University Agrees to Civil Settlement

A university working under a series of Federal grants agreed to a civil settlement resulting in the repayment of \$2.5 million to the Government. A joint investigation by the NASA OIG and several other Federal law-enforcement organizations revealed that the university had submitted grant applications that contained incorrect or overstated estimates for anticipated expenses. The university also charged expenses to Federal grants and submitted invoices for payment of expenses that were false in nature.

NASA Subcontractor Convicted and Sentenced

A subcontractor pled guilty to violating the Sherman Act, which outlaws contracts and conspiracies that unreasonably restrain interstate and foreign trade, and was ordered to serve 4 years' probation and pay a fine of \$175,000. An OIG joint investigation with the Air Force Office of Special Investigations and the DOJ's Antitrust Division revealed that the subcontractor and unnamed coconspirators tried to suppress and eliminate competition by rigging bids on construction contracts with respect to the Evolved Expendable Launch Vehicle program at Space Launch Complex 37 at Cape Canaveral Air Force Station.

Indictments Follow Contractor Settlement

Two individuals involved in a scheme to defraud NASA were indicted for conspiracy to commit mail fraud and mail fraud related to false invoices mailed to a NASA contractor. The indictments followed a civil settlement with NASA for \$1.275 million by a contractor after an investigation revealed that an employee of the contractor had submitted false claims for payment that the contractor subsequently billed to NASA.

Contractor Companies To Pay the Government \$25.6 Million for Travel-Rebates Fraud

Three companies (KPMG LLP, Booz Allen Hamilton Inc., and Ernst & Young LLP [E&Y]) agreed to settle and pay the Government \$25.6 million, with \$208,228 to NASA, to resolve fraud allegations related to travel rebates. A Federal False Claims Act lawsuit alleged that the companies billed Government agencies substantially more for travel expenses and credit card purchases than was actually incurred. A joint investigation by several Federal agencies involved determined that the companies overbilled the Government by purposely failing to take into account and declare commissions, rebates, and incentives provided to them by travel companies and charge card issuers.

Former Contractor Purchasing Agent Indicted for Fraud Scheme

Following a joint investigation by the OIG and the U.S. Army Criminal Investigation Command, two people were indicted and charged with multiple counts of mail fraud related to a scheme to defraud NASA and the Army. The indictment also seeks forfeiture to the Government of any and all property they derived from the proceeds of the scheme. One person, who was formerly employed as a purchasing agent for a NASA and Army contractor, allegedly created fictitious companies in order to submit over \$240,000 in fraudulent invoices to the Government contractor.

Information Technology Security

NASA's IT leadership has been addressing many of the IT security and management control concerns we raised in past audits and reviews. IT security and management controls are crucial to NASA's IT systems and to NASA's achieving its overall mission. Although our reports are featured here, not all of our IT reports are publicly available because of the sensitivity surrounding IT security vulnerabilities; however, summaries are provided on the Web.

Use of Voice Over Internet Protocol at NASA

Available on the Web at <http://www.hq.nasa.gov/office/oig/hq/audits/reports/FY06/a-05-025.pdf>.

In August 2005, we began a review of NASA's implementation of Voice Over Internet Protocol (VOIP), which allows a data network to carry telephone traffic. We found that the NASA Chief Information Officer (CIO) had not issued Agency-wide requirements and guidance that included security requirements for implementing VOIP systems. Agency-wide requirements and guidance for the coordination of VOIP implementation NASA-wide are critical to ensuring that compatible technologies are used and that NASA's IT architecture is followed. On September 30, 2005, we recommended to the CIO that NASA issue requirements and guidance for implementing and securing VOIP systems across the Agency. On October 25, 2005, the CIO issued a memorandum to all Centers to halt all work on VOIP implementations pending a review for compatibility, architecture adherence, and security. In addition, the CIO incorporated VOIP security into the draft NASA Procedural Requirements (NPR) 2810.1, "Security of Information Technology," which is now in the review process.

IT Patch Management Process

Summary available on the Web at <http://www.hq.nasa.gov/office/oig/hq/audits/reports/FY06/ig-06-007-summary.pdf>.

We conducted an audit to determine whether NASA had established formal requirements, guidance, and milestones for implementation of patch management software and whether NASA had fully implemented an effective patch management process and capability. Patch management controls the deployment and maintenance of interim software releases and helps maintain efficiency and overcome security vulnerabilities in a production environment.

We found that while NASA had established formal requirements, guidance, and milestones, two NASA contractors had not fully implemented the patch management software as required by the CIO. We recommended that the CIO, in coordination with the relevant contracting officers, take appropriate action to ensure that contractors are complying with NASA requirements to implement an effective patch management program. We also recommended that the CIO require the Centers to maintain inventories of computers and use those inventories to ensure up-to-date installation of patch management tools on all applicable computers. NASA management concurred with both recommendations.

Procedures To Define, Recognize, and Protect Meta-Data

Summary available on the Web at <http://www.hq.nasa.gov/office/oig/hq/audits/reports/FY06/A-04-013-01-summary.pdf>.

As part of our ongoing audit of NASA's policies and procedures for protecting Sensitive But Unclassified (SBU) information, we sampled NASA documents available on the Internet. NASA defines SBU information as "official information of a sensitive but unclassified nature that needs to be protected against inappropriate disclosure." We found that several of the sampled documents contained meta-data that could be considered SBU information. Meta-data is hidden data that describes other data in electronic files. We recommended to the CIO that NASA (1) develop policies and procedures to define, recognize, and protect meta-data that may be contained in electronic documents and (2) provide user-awareness training on policies and procedures developed pursuant to the preceding recommendation. NASA concurred with our recommendations and is taking appropriate corrective actions.

Information Assurance Controls [on a NASA Center's Networked Systems] Need Strengthening

Summary available on the Web at <http://www.hq.nasa.gov/office/oig/hq/audits/reports/FY06/ig-06-004-summary.pdf>.

The OIG conducted an audit to determine whether NASA had established adequate controls to provide reasonable assurance of security on IT systems supporting a Center's projects. We found that the Center had implemented fundamental IT security controls on systems supporting its networked projects; however, additional controls were needed to strengthen the security of those systems. Weak IT security controls increased the risk of compromise to the Center's networked systems and data. We did not identify any actual system compromises or quantify the extent of risk associated with these control weaknesses.

We made six recommendations to the Center's management to improve the security of its networked systems. Management concurred with all of our recommendations and provided information on corrective actions planned or taken, which were responsive to our recommendations.

Additional Employees of a San Diego Computer Security Firm Sentenced

The vice president and an administrative assistant of a private San Diego-based computer security firm were sentenced to 10 months' custody, 3 years' supervised release, 2 years' probation, and 90 days' home confinement for their role in compromising Government and private computer systems. An OIG joint investigation with the Federal Bureau of Investigation (FBI) and the U.S. Army Criminal Investigation Command revealed that the company compromised multiple U.S. Government and private computer systems in an attempt to reveal vulnerabilities in computer security practices. We previously reported (Semiannual Report, April 1, 2005–September 30, 2005) that the president of the company also pled guilty and was sentenced.

Former NASA Subcontractor Employee Pleads Guilty to Possession of Child Pornography

A former NASA subcontractor pled guilty to one count of possession of child pornography. An OIG investigation revealed that the former employee used his NASA workstation to download and view child pornography.

Financial Management

Improved financial management continues to be a significant challenge for NASA. During this semiannual period, the OIG continued to monitor NASA's progress in that area and made several recommendations for improved financial management practices.

Audit of NASA's Fiscal Year 2005 Financial Statements and IG Testimony

This report and IG testimony are available on the Web at <http://www.hq.nasa.gov/office/oig/hq/FSauditFY2005.pdf> and <http://www.hq.nasa.gov/office/oig/hq/congressional/IGTestimony102705.pdf>.

The OIG selected the independent public accounting firm Ernst & Young LLP (E&Y) to audit NASA's financial statements. E&Y disclaimed an opinion on NASA's FY 2005 financial statements because NASA was unable to provide E&Y with auditable financial statements and sufficient evidence to support the financial statements throughout the fiscal year and at year-end. E&Y found four reportable conditions; three are considered to be material weaknesses. Material weaknesses were found in NASA's internal controls for (1) financial systems, analyses, and oversight used to prepare the financial statements; (2) reconciling differences in the Fund Balance with Treasury; and (3) ensuring that PP&E and materials are presented fairly in the financial statements. The fourth reportable condition involves weaknesses in NASA's internal controls for estimating unfunded environmental liabilities. In October 2005, the Inspector General testified before the House Committee on Science, Subcommittee on Space and Aeronautics, and the House Committee on Government Reform, Subcommittee on Government Management, Finance, and Accountability, regarding NASA's financial management challenges and next steps, to include how NASA should address the material weaknesses and internal control deficiencies.

OIG Involvement in NASA's Corrective Action Plan for Reportable Conditions Noted in E&Y's FY 2005 Audit

Over the past 3 fiscal years, the OIG has recommended that NASA articulate with clarity a comprehensive corrective action plan for how it will address its internal control deficiencies and financial management problems. Many of NASA's internal control deficiencies are material weaknesses that have been reported for several years and have contributed to the Agency's inability to produce complete and accurate financial statements. At the October 2005 hearing before the House Committee on Science, Subcommittee on Space and Aeronautics, and the House Committee on Government Reform, Subcommittee on Government Management, Finance, and Accountability, the NASA CFO made a commitment to provide a corrective action plan to Congress by February 15, 2006.

The corrective action plan, which was provided to Congress on February 15, 2006, was produced collaboratively by the CFO's Office, IEMP, and the Institutions and Management Office. The plan articulates NASA's strategy for addressing the reportable conditions identified in E&Y's FY 2005 financial statement audit. For

each of the four reportable conditions and related recommendations, the plan defines NASA's goals, objectives, strategies, activities, due dates, and responsibilities for completing the planned corrective actions.

The OIG worked with the CFO to ensure that the plan would articulate a strategy for addressing each recommendation. The CFO considered OIG's and E&Y's comments and incorporated changes into their plan. We believe the corrective action plan is a good effort to address recommendations in the auditor's report on FY 2005 financial statements. If successfully implemented, the plan should put the Agency in a position to begin to show that it is making progress in addressing its longstanding weaknesses in internal controls. However, ensuring successful implementation of the plan will not be without challenges for NASA. We see the major challenges as including (1) ensuring that the CFO has sufficient resources, both in terms of numbers and needed skills to carry out its daily activities and the corrective actions; (2) having Agency leadership (Administrator, Mission Directorates, and Mission Support Offices) buy into and support the plan; and (3) ensuring that process changes resulting from the plan are fully implemented and institutionalized.

NASA's Theme Asset Policy

One of the findings reported for the last 4 years by the IPAs auditing NASA's financial statements is that NASA does not have adequate policies and procedures in place to ensure that all appropriate mission costs are properly capitalized or expensed. These findings have led to a number of discussions among the OIG, the IPAs, the Government Accountability Office, and NASA on how to treat what NASA calls "Theme Assets" and related "Assets-under-Construction." In setting auditing policy for Theme Assets, the OIG and the IPAs have consistently recommended that NASA obtain the judgment of the Federal Accounting Standards Advisory Board (FASAB) or other applicable standards-setting boards on whether the proposed policy on Theme Assets is compliant with Federal generally accepted accounting principles (GAAP). Because NASA has not followed these recommendations, we formalized our recommendation in a March 16, 2006, memorandum to the Deputy CFO that provided our comments on NASA's January 30, 2006, white paper on Theme Assets.

NASA's conclusions in the white paper were based on the guidance for treatment of research and development (R&D) costs provided in the Financial Accounting Standards Board's (FASB's) Statement of Financial Accounting Standards (SFAS) no. 2, "Accounting for Research Development Costs" (effective FY 1976). NASA used the FASB standard because FASAB has not definitively addressed the accounting and recognition of R&D costs for Federal entities. However, FASAB has, over a number of years, offered studied opinions on accounting and reporting approaches for PP&E and materials and specifically addressed space exploration equipment. Given this history and the fact that FASAB standards are the dominant authority in the hierarchy of standards applicable to accounting for Federal agencies, we recommended that NASA approach FASAB to obtain its opinion on whether NASA's proposed policy would be compliant with GAAP.

Safety

NASA performs some of the most technologically complex tasks of any organization in the world, and it must do so without compromising safety. The OIG's Office of Audits (OA) and Office of Investigations (OI) work closely with NASA management to ensure appropriate attention to and resolution of safety issues.

OA is currently conducting four projects that specifically address Space Shuttle Program (SSP) safety. The first project focuses on evaluating the accuracy and completeness of data input to the SSP Problem Reporting and Corrective Action database at Kennedy Space Center and determining whether tracking and trending of that data are being effectively used to identify and correct problems with Shuttle hardware, software, and ground support equipment. The second project is a review of the SSP process for inspecting, reporting, and correcting cold plate damage and the procedures for damage assessment, testing, and technician training. The third project is an audit of the expanded Mission Management Team training program, which was initiated in response to one of the Columbia Accident Investigation Board's recommendations. The fourth is a review of range safety and risk management procedures during Shuttle launches.

With respect to criminal investigations during this reporting period, we continued to dedicate resources in response to allegations of safety-related criminal conduct. Our investigative activity pertaining to unlawful product substitution, counterfeit parts, and false certification have historically resulted in criminal charges against both individuals and companies involved in distributing substandard parts that fail to meet Government contract testing requirements.

Asbestos Contractors Sentenced

An asbestos contractor was sentenced to 5 months in jail, to be followed by 5 months of home detention and 3 years of supervised release, for conspiracy to defraud the Government. In addition, the contractor was ordered to pay a fine of \$1 million. A second contractor was sentenced to 21 months in jail, to be followed by 3 years' supervised probation, and fined \$1.5 million. Both companies involved were sentenced to 5 years' probation, and one was fined \$500,000. These penalties resulted from a joint investigation involving NASA, the Environmental Protection Agency, the Occupational Safety and Health Administration, and the Small Business Administration (SBA) focused on allegations that a contractor bought false training certificates; used unlicensed employees to remove asbestos, lead, and other hazardous waste from public buildings; and submitted false documents to the SBA regarding the contractor's eligibility to participate in SBA's program for minority-owned businesses.

Company Owner Charged

NASA and the Army maintain three Blackhawk helicopters for research at the Ames Research Center in California. Following a joint investigation by the OIG and U.S. Army Criminal Investigation Command, the owner of a company providing parts for use in the UH-60 Blackhawk helicopter pled guilty to three counts of making false statements related to false testing parts.

Other Audit and Investigative Matters

NASA's Hurricane Katrina Recovery Efforts

Beginning in August 2005, three hurricanes—Katrina, Rita, and Wilma—hit the United States Gulf Coast. Damage at NASA's Michoud Assembly Facility and Stennis Space Center was sufficient to disrupt normal operations. It took approximately 9 weeks for both locations to achieve a functional capability. NASA reprogrammed approximately \$100 million of FY 2005 funds to meet immediate, emergency relief needs. In February 2006, Congress passed a \$349.8-million emergency supplemental appropriation for the cost of NASA's reconstruction and recovery efforts.

In conjunction with the President's Council on Integrity and Efficiency (PCIE), we have been evaluating the Federal Government's relief efforts in the aftermath of Hurricane Katrina. The focus of our audit work has been on evaluating NASA's estimation and execution of Hurricane Katrina funds and the processes used to ensure that those funds were used for their intended purposes and on determining whether NASA established the necessary internal controls to manage the recovery and reconstruction efforts. We plan to report on NASA's emergency response plans and the Agency's cost estimation, accounting, and procurement processes for Katrina recovery and reconstruction efforts.

We also conducted and assisted in many criminal investigations during and immediately following the Hurricane Katrina evacuation. NASA OIG dealt with cases involving illegal drugs, illegal solicitation, alleged assault, breaking and entering, theft, diversion of Federal Emergency Management Agency supplies, and an unattended death case related to an elderly evacuee. We also conducted a joint investigation into the use of illegal aliens on critical infrastructure projects. Five illegal aliens were arrested, and one was later indicted for being an aggravated felon.

NASA's Policies for Protecting Exported Technology

Available on the Web at <http://www.hq.nasa.gov/office/oig/hq/audits/reports/FY06/ig-06-006.pdf>.

We conducted an audit of NASA's policies for protecting technology exported to foreign entities. The objectives of the audit were to determine whether NASA's policies were consistent with Federal guidance concerning export license exemptions and whether NASA appropriately used export license exemptions. We also determined whether technology transfer control plans (TTCPs) were prepared and foreign satellite launches were monitored, when required.

We found no systemic issues related to our audit objectives. NASA policies were consistent with Federal guidance concerning export license exemptions, and NASA appropriately used export license exemptions. Although our audit did not reveal any systemic issues, we believe that NASA should ensure that program and project managers prepare TTCPs when required and that NASA should seek a legal opinion from its General Counsel as to the applicability of the satellite monitoring requirement to NASA. In addition, the Goddard Export Control

Office needed to improve its internal controls over the maintenance of export control documents. Management concurred with the finding and recommendations and has taken or is taking appropriate corrective actions.

Export and Theft of Sensitive Technologies

Summary available on the Web at http://www.hq.nasa.gov/office/oig/hq/audits/reports/FY06/Congressional_Letter-summary.pdf.

Public Law 106-391, National Aeronautics and Space Administration Authorization Act of 2000, requires that the OIG conduct an annual audit of NASA policies and procedures related to the export of sensitive technologies and the transfer of scientific and technical information and assess the extent to which NASA is complying with Federal export control laws. Our report also addressed the risks associated with illegal transfer or theft of sensitive technologies, an assessment required by Conference Report 108-401, which accompanied House Resolution (H.R.) 2673, the Consolidated Appropriations Act, 2004.

The report contained the results of audits and investigations completed in FY 2005 and preliminary results of audits to be completed in FY 2006 involving NASA's efforts to protect scientific and technical information from illegal transfer. Findings from those audits and investigations indicated that additional export control policies and procedures needed to be developed and that internal controls over sensitive technologies could be improved. We are working closely with the CIO, the Office of Security and Program Protection, and the Export Control Program staff to continually assess and improve the effectiveness of NASA's Export Control Program and the transfer of sensitive technology.

Contractor Employees Pled Guilty to Conspiring To Steal NASA Property

Two contractor employees admitted that they knowingly conspired to steal NASA property, including 57,374 pounds of metal valued at \$1.2 million for which the defendants received \$22,871 in cash. The property was stolen from a storage facility for NASA's Jet Propulsion Laboratory, then sold to a recycling firm. Both of the contractors pled guilty to one count of conspiracy, and one of the contractors also pled guilty to one count of theft of Government property.

Former Director of a Space Flight Museum Convicted

A U.S. District Court of Kansas jury convicted a former museum director of theft of NASA property, mail fraud, wire fraud, money laundering, and interstate transportation of stolen property and awarded forfeiture counts totaling \$129,137. The director, who was acquitted on one count of interstate transportation of stolen property and one count of money laundering, is awaiting sentencing. The U.S. Attorney for the District of Kansas personally handled the case, with the NASA OIG case agent on the prosecution team.

New Jersey–Based Scientist Sentenced for Government Contract and Tax Fraud

A scientist was sentenced to 12 months of home confinement and 5 years' probation for defrauding the Government of more than \$1 million and for tax evasion. The fraud was in connection with research grants and contracts that the scientist applied for and received under his company's name. The grants and contracts were awarded by various Government agencies pursuant to the Small Business Innovation Development Act under the SBIR Program. The scientist agreed to pay a total of \$1.4 million to the Government to settle allegations of false certifications to NASA and the Internal Revenue Service for the tax evasion.

Former Government Contractor Sentenced for Income Tax Evasion

A former Federal contractor was sentenced to 6 months in prison, to be followed by 6 months of community confinement, and ordered to pay \$76,632 in restitution to the Internal Revenue Service for filing a false 1996 Federal income tax return. An OIG investigation revealed that the contractor did not report his company's earnings on a corporate tax return (necessary in Virginia, where the business was incorporated) and also underreported his income on his Federal income tax return.

Ethics Issue

We concluded that a senior NASA official's actions were inconsistent with applicable conflict-of-interest laws and regulations. Our investigation revealed that the senior NASA official participated as a decision-maker in NASA activities pertaining to a nonprofit organization while serving on its board of directors. In particular, our investigation demonstrated that the official "personally and substantially" participated in NASA's decisionmaking process leading to the approval of a \$60,000 NASA purchase award to the official's nonprofit organization. Management previously disciplined this same official for conducting personal travel at Government expense, abusing a Government-issued travel card, and related violations. Management is reviewing our report of the investigation.

LEGAL MATTERS

Procurement Integrity Program

During this period, we coordinated with NASA's Office of General Counsel to develop and implement a Procurement Integrity Program at NASA. The Agency-wide program is designed to provide NASA with an internal control framework that ensures integrity in Government contracts, promotes competition in contracting, and vigorously addresses wrongdoing by contractors. A remedy coordination official will be responsible for coordinating NASA's administration of criminal, civil, administrative, and contractual remedies resulting from procurement investigations or corruption related to procurement activities.

Export Control Issue

We referred a matter to the Office of General Counsel to ensure that technology, which we believe is subject to export control licensing, is not inadvertently transferred to foreign individuals in violation of export control laws.

REGULATORY REVIEW

During this reporting period, we reviewed 18 NASA-wide and Headquarters directives. Of those reviewed, the following were of significance to the OIG: NASA Procedural Requirement (NPR) 8621.1, "NASA Procedural Requirements for Mishap and Close Call Reporting, Investigating, and Recordkeeping"; NASA Policy Directive (NPD) 1600, "NASA Workplace Violence Prevention and Response Policy"; NPD 1200.1, "NASA Internal Control"; and NPR 7123, "Systems Engineering."

SIGNIFICANT OUTREACH ACTIVITIES

During this reporting period, NASA OIG engaged in a number of significant outreach activities that involved coordinating activities with the Agency, other Offices of Inspector General, other Federal agencies, and Congress.

- The IG attended fact-gathering meetings of NASA's Aerospace Safety Advisory Panel in October 2005 and January and March 2006.
- We worked with the FBI and the U.S. Army Criminal Investigation Command, Computer Crimes Investigation Unit, to support resolution of multiple ongoing cyber-related criminal investigations. These joint investigations have helped OIG to identify the targeting of NASA computer networks by hacker groups from within and outside the United States.
- With staff from DOD OIG, we coordinated a review of NASA's contracting procedures related to the use of Governmentwide acquisition contracts.
- We coordinated with the National Science Foundation OIG to ensure that NASA established grant provisions for a specific foundation, in accordance with public law.
- We performed a peer review of the SBA OIG's Office of Investigations.
- We briefed NASA senior management, congressional staff members, and the U.S. Government Accountability Office on the NASA OIG FY 2006 audit plan.
- For the Special Inspector General for Iraq Reconstruction (SIGIR), we deployed an online reporting system that allows SIGIR investigative staff to manage cases on a real-time basis from locations in Iraq and the United States.
- We signed a Memorandum of Agreement to develop and deploy TeamMate®, a Windows-based application for managing audit work papers, for the U.S. Department of Veterans Affairs OIG.
- For U.S. Postal Service OIG investigators, we conducted training on the fundamentals of contracting.
- As part of the National Single Audit Sampling Project, we conducted several quality-control reviews of audits accepted for review by the Federal Audit Clearinghouse to determine the extent to which the audits conform to applicable requirements, standards, and procedures. The project is a collaborative effort of the OIGs of Federal departments and agencies to evaluate the quality of audits performed under the Single Audit Act and OMB Circular A-133.

AWARDS

OIG Employee Contributions Recognized

On October 26, 2005, the Space Shuttle Orbiter Wiring Team received a PCIE Award for Excellence—Audits in recognition of the multidisciplinary team’s exceptional performance. The audit reported that the Space Shuttle Program had not formally assessed the risks of aging and damaged wiring in accordance with NASA procedural requirements.



Space Shuttle Orbiter Wiring Team members with the NASA Inspector General (left to right): Nick DeVillo, Nora Thompson, Inspector General Cobb, and Sandra Leibold.

The IT Service Directorate received a PCIE Award for Excellence—Administrative Support in recognition of providing high-quality, innovative, and cost-effective IT solutions in support of the NASA OIG and the PCIE and Executive Council on Integrity and Efficiency (ECIE) community.



IT Services Directorate staff with the NASA Inspector General (left to right): Alex Machina, Cynthia Lewis, James Akers, Louis Benavides, Inspector General Cobb, Larry Anderson, and Mike Campbell.

On November 9, 2005, six NASA OIG employees were recognized during the 32nd Annual Headquarters Honors Awards ceremony. Each of the employees was recognized with an Exceptional Performance Award for outstanding individual initiative, ability, and accomplishment in the performance of his or her duties in support of NASA's scientific, engineering, technical, or administrative activities at Headquarters.



NASA OIG employees (left to right): Special Agents Michael Mataya, Mark Voegelin, Keith Karnetsky, and Bruce Linder; Program Assistant Karen Rogers; and Special Agent Joseph Schopper.

APPENDICES

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APPENDIX A

Inspector General Act Reporting Requirements

INSPECTOR GENERAL ACT CITATION	REQUIREMENT DEFINITION	CROSS-REFERENCE PAGE NUMBER(S)
Section 4(a)(2)	Review of Legislation and Regulations	24
Section 5(a)(1)	Significant Problems, Abuses, and Deficiencies	3-5, 9-23
Section 5(a)(2)	Recommendations for Corrective Actions	3-5, 9-23
Section 5(a)(3)	Prior Significant Audit Recommendations Yet To Be Implemented	34
Section 5(a)(4)	Matters Referred to Prosecutive Authorities	37
Sections 5(a)(5) and 6(b)(2)	Summary of Refusals To Provide Information	None
Section 5(a)(6)	OIG Audit Reports Issued—Includes Total Dollar Values of Questioned Costs, Unsupported Costs, and Recommendations That Funds Be Put to Better Use	32
Section 5(a)(7)	Summary of Significant Audit Reports	9-23
Section 5(a)(8)	Total Number of Reports and Total Dollar Value for Audits with Questioned Costs	34
Section 5(a)(9)	Total Number of Reports and Total Dollar Value for Audits with Recommendations That Funds Be Put to Better Use	None
Section 5(a)(10)	Summary of Prior Audit Reports for Which No Management Decision Has Been Made	None
Section 5(a)(11)	Description and Explanation of Significant Revised Management Decisions	None
Section 5(a)(12)	Significant Management Decisions with Which the Inspector General Disagreed	None
Section 5(a)(13)	Reporting in Accordance with Section 05(b) of the Federal Financial Management Improvement Act of 1996 Remediation Plan	18

Debt Collection

The Senate Report accompanying the supplemental Appropriations and Rescissions Act of 1980 (Public Law 96-304) requires Inspectors General to report amounts due to the agency as well as the amounts that are overdue and written off as uncollectible. NASA's Financial Management Division provides this data each November for the previous fiscal year. For the period that ended September 30, 2005, the receivables due from the public totaled \$60,709,285, of which \$5,700,022 is delinquent. The amount written off as uncollectible for the period October 1, 2004, through September 30, 2005, was \$22,930.

APPENDIX B

Statistical Reports

During the period October 1, 2005, through March 31, 2006, the Office of Audits issued 16 products.

Table 1: Audit Reports and Impact

REPORT NO./ DATE ISSUED	REPORT TITLE	IMPACT
AUDIT AREA: PROCUREMENT		
Letter 12/20/05	NASA's Contracting Trouble Areas	NASA established a new Agency-wide Procurement Integrity Program.
Memorandum 12/20/05	Review of Unallowable Costs Charged to NASA Marshall Space Flight Center Contracts	The Agency initiated action to disallow unallowable costs totaling \$451,000 charged to three NASA contracts.
Memorandum 01/23/06	Procurement of Organizational Development and Training Services at Goddard Space Flight Center	Improved internal controls and procedures related to the procurement of organizational development and training services, thus reducing opportunities for fraud, waste, and abuse.
Memorandum 01/30/06	Review of NASA's "Classroom of the Future" Cooperative Agreement with Wheeling Jesuit University	Improvements in NASA's overall management of grants and cooperative agreements and potential monetary benefits through identified unallowable costs. Additional assurance that future costs expended under the WJU agreement are allowable, reasonable, and necessary.
IG-06-003 02/06/06	Integrated Enterprise Management Program Contract Oversight Needs Improvement	Assurance that contractors are complying with the contract terms and that funds expended under the contracts are allowable, reasonable, and necessary.
AUDIT AREA: INFORMATION TECHNOLOGY		
Memorandum 02/06/06	NASA Lacks Procedures To Define, Recognize, and Protect Meta-Data	Policies, procedures, and training to enable users to define, recognize, and protect SBU information, including meta-data, to help ensure that such information is adequately protected.
Memorandum 01/19/06	Review of the Use of Voice Over Internet Protocol at NASA	Improved oversight of VOIP systems across the Agency, which should ensure that compatible techniques are used and that NASA's IT architecture is followed.

Table 1: Audit Reports and Impact (continued)

REPORT NO./ DATE ISSUED	REPORT TITLE	IMPACT
IG-06-007 03/17/06	NASA's Implementation of Patch Management Software Is Incomplete	Ensure up-to-date installation and implementation of patch management software on all applicable NASA computers to reduce the risk of attack from computer hackers.
IG-06-004 03/21/06	Information Assurance Controls on [a Center's Networked] Systems Need Strengthening	Improved IT security controls to enhance assurance that NASA project information on a Center's system is fully protected.
AUDIT AREA: FINANCIAL MANAGEMENT		
Memorandum 11/14/05	Inspector General Letter to the Administrator and Chief Financial Officer Enclosing the Ernst & Young LLP (E&Y) Audit of the National Aeronautics and Space Administration's Fiscal Year 2005 Financial Statements	NASA developed a corrective action plan to address material weaknesses in internal controls.
Memorandum 03/16/06	Comments on NASA's Proposed Theme Asset White Paper	NASA will obtain a judgment of the FASAB or other applicable standards-setting board on whether NASA's proposed policy on theme assets is compliant with Federal generally accepted accounting principles.
AUDIT AREA: SPACE OPERATIONS AND EXPLORATIONS		
Letter 02/23/06	NASA's Export Controls	Recommendations to improve controls over the export of sensitive technologies and the transfer of scientific and technical information.
IG-06-006 03/14/06	NASA's Policies for Protecting Technology Exported to Foreign Entities	Policies and internal controls regulating the export of technology have been clarified and improved, which reduces the potential for inappropriate release of sensitive technology.
AUDIT AREA: QUALITY CONTROL REVIEWS		
IG-06-001 11/18/05	Quality Control Review of Deloitte & Touche, LLP, Office of Management and Budget Circular A-133 Audit of the San Jose State University Foundation for Fiscal Year Ended June 30, 2004	Corrective action to comply with Office of Management and Budget Circular A-133.
IG-06-002 11/21/05	Quality Control Review of R.J. Ricciardi, Certified Public Accountant, Office of Management and Budget Circular A-133 Audit of the Molecular Research Institute for Fiscal Year Ended June 30, 2003	Corrective action to comply with Office of Management and Budget Circular A-133.

Table 1: Audit Reports and Impact (continued)

REPORT NO./ DATE ISSUED	REPORT TITLE	IMPACT
IG-06-002 02/23/06	Quality Control Review of PricewaterhouseCoopers LLP and the Defense Contract Audit Agency, Office of Management and Budget Circular A-133 Audit of the Jet Propulsion Laboratory for Fiscal Year Ended September 30, 2001	Corrective action to comply with Office of Management and Budget Circular A-133.

Table 2: Audits with Questioned Costs

	NUMBER OF AUDIT REPORTS	TOTAL COSTS QUESTIONED
No management decision made by beginning of period	0	0
Issued during period	1	\$451,000
Needing management decision during period	0	0
Management decision made during period	1	\$451,000
Amounts agreed to by management	1	\$451,000
Amounts not agreed to by management	0	0
No management decision at end of period	0	0
Less than 6 months old	0	0
More than 6 months old	0	0

Table 3: Prior Significant Audit Recommendations Yet To Be Implemented

REPORT NO./ DATE ISSUED	REPORT TITLE	DATE RESOLVED	NUMBER OF RECOMMENDATIONS		LATEST TARGET CLOSURE DATE
			OPEN	CLOSED	
NEW SINCE LAST REPORTING PERIOD					
Audit Area: Information Technology					
IG-05-016 05/12/05	NASA's Information Technology Vulnerability Assessment Program	05/12/05	1	3	10/31/06
IG-05-21 06/09/05	Use of Peer-to-Peer (P2P) File Sharing at [a NASA Center]	05/25/05	1	1	04/30/06

Table 3: Prior Significant Audit Recommendations Yet To Be Implemented (continued)

REPORT NO./ DATE ISSUED	REPORT TITLE	DATE RESOLVED	NUMBER OF RECOMMENDATIONS		LATEST TARGET CLOSURE DATE
			OPEN	CLOSED	
NEW SINCE LAST REPORTING PERIOD					
Audit Area: Information Technology					
IG-05-025 09/16/05	NASA's Performance Measure Data Under the Federal Information Security Management Act	09/16/05	4	1	10/01/08
IG-05-027 09/30/05	Information Technology Security Controls on NASA's Administrative Systems and Networks in [NASA Installations]	09/29/05	4	1	10/31/06
REPORTED IN PREVIOUS SEMIANNUAL REPORTS					
Audit Area: Information Technology					
IG-00-055 09/28/00	System Information Technology Security Planning	12/29/00	2	8	04/30/06
IG-03-009 03/27/03	Performance Management Related to Agencywide FY 2002 Information Technology Security Program Goals	03/27/03	1	11	04/30/06
IG-04-018 04/15/04	Information Assurance Controls for [a NASA Center's] IT System Need Improvement	04/15/04	1	06	04/30/06
IG-05-011 03/28/05	Information Assurance Controls in [a System] at [a NASA Center]	09/26/05	1	24	09/30/06
IG-05-013 03/30/05	Organizational Structure and Management of Information Technology and Information Technology Security Services at NASA	03/30/05	2	0	07/30/06

Table 4: Legal Activities and Reviews

Freedom of Information Act Matters	12
Inspector General Subpoenas Issued	17
Regulations Reviewed	18

Table 5: Investigations Activities

Cases Opened	51
Cases Closed	41
Cases Pending	157
Hotline Complaints Received	94
Referred to OA	13
Referred to OI	24
Referred to NASA Management	21
Referred to Other Agencies	1
No Action Required	35

Table 6: Investigations Impact

Indictments/Informations	12
Convictions/Plea Bargains/Pretrial Diversions	9
Cases Referred for Prosecution	30
Cases Declined	13
Cases Referred to NASA Management for Action	15
Against NASA Employees	5
Against Contractor Employees	8
Against Firm(s)	0
Other	2

Table 6: Investigations Impact (continued)

Case Recommendations Referred to Management for Action	29
Against NASA Employees	14
Against Contractor Employees	9
Against Firm(s)	3
Other	3
Cases Referred to Other Agencies for Action	0
Suspensions/Debarments from Government Contracting	7
Individuals	6
Firms	1
Administrative/Disciplinary Actions ¹	17
Against NASA Employees	10
Against Contractor Firm(s)	0
Reported Actions Taken by Contractor Against Contractor Employees	7
Total Recoveries (in Dollars)	\$37,615,749
NASA ²	\$1,994,447
NASA Property	\$2,299
Other ³	\$35,619,003

¹ Includes terminations, suspensions, demotions, reassignments, reprimands, and resignations or voluntary retirements.

² Includes administrative recoveries and contract credits.

³ Includes fines, penalties, restitutions, and settlements from criminal and civil investigations, some of which were conducted jointly with other law-enforcement agencies. Also includes miscellaneous receipts received by NASA and returned to the Treasury.

DEFENSE CONTRACT AUDIT AGENCY (DCAA) AUDITS OF NASA CONTRACTORS

The DCAA provides various audit services to NASA on a reimbursable basis. The DCAA provided the following information during this period on reports involving NASA activities, results of NASA actions on those reports, and significant reports that have not been completely resolved.

DCAA Audit Reports Issued

During this period, DCAA issued 273 audit reports (excluding pre-award contractor proposal evaluations) on contractors who do business with NASA. DCAA also issued 169 reports on audits of NASA contractor proposals totaling \$5,072,355,000, which identify cost exceptions totaling about \$43,086,000. However, some of DCAA's reported cost exceptions are attributable to unsuccessful contractor proposals that NASA never accepted or relied upon for contract negotiation. Therefore, the actual amount of potential savings to NASA from DCAA-cited cost exceptions in its audit reports is less than the reported total cost exceptions amount.

NASA Actions

Corrective actions taken on DCAA audit report recommendations usually result from negotiations between the contractor and the Government contracting officer. The following tables show the number of all DCAA audit reports and amounts of questioned costs and funds put to better use for the reporting period. During this period, NASA management resolved 67 reports with \$19,007,000 of questioned costs and 43 reports with \$14,512,000 of funds put to better use. NASA management sustained 53.6 percent of DCAA's questioned costs and 63.3 percent of the funds put to better use.

Table 7: DCAA Audits with Questioned Costs^{1,2}

	NUMBER OF AUDIT REPORTS ³	TOTAL COSTS QUESTIONED
No management decision made by beginning of period ⁴	261	\$232,368,000
Issued during period	52	\$14,165,000
Needing management decision during period	313	\$246,533,000
Management decision made during period	67	\$19,007,000
Dollar value of contract recoveries	n/a	\$10,186,000
Dollar value of costs not recovered	n/a	\$8,821,000
No management decision made by end of period	246	\$227,256,000

¹ This data is provided to the NASA OIG by DCAA and includes incurred costs, Cost Accounting Standards, defective pricing claims, and terminations. Because of limited time between availability of management information system data and legislative reporting requirements, there is minimal opportunity for DCAA to verify the accuracy of reported data. Accordingly, submitted data is subject to change based on subsequent DCAA authentication.

² None of the data presented includes statistics on audits that resulted in contracts not awarded or in which the contractor was not successful. The data in "No management decision made by end of period" may include some audit reports that will ultimately meet this same circumstance but are not yet recorded as such.

³ Number of reports includes only those with questioned costs and, therefore, differs from the total number of reports noted in the paragraph "DCAA Audit Reports Issued."

⁴ Total is the amount beginning October 1, 2005, adjusted for (a) contracts not awarded and (b) revised audit findings and recommendations.

Table 8: DCAA Audits with Recommendations That Funds Be Put to Better Use^{1,2}

	NUMBER OF AUDIT REPORTS ³	TOTAL COSTS QUESTIONED
No management decision made by beginning of period ⁴	51	\$53,531,000
Issued during period	42	\$43,166,000
Needing management decision during period	93	\$96,697,000
Management decision made during period	43	\$14,512,000
Amounts agreed to by management	n/a	\$9,193,000
Amounts not agreed to by management	n/a	\$5,319,000
No management decision made by end of period	50	\$82,185,000

¹ This data is provided to the NASA OIG by DCAA and includes forward pricing proposals and operations audits. Because of limited time between availability of management information system data and legislative reporting requirements, there is minimal opportunity for DCAA to verify the accuracy of reported data. Accordingly, submitted data is subject to change based on subsequent DCAA authentication.

² None of the data presented includes statistics on audits that resulted in contracts not awarded or in which the contractor was not successful. The data in “No management decision made by end of period” may include some audit reports that will ultimately meet this same circumstance but are not yet recorded as such.

³ Number of reports includes only those with funds put to better use and, therefore, differs from the total number of reports noted in the paragraph “DCAA Audit Reports Issued” found on the previous page.

⁴ Represents amounts beginning October 1, 2005, adjusted for (a) contracts not awarded and (b) revised audit findings and recommendations.

APPENDIX C

GLOSSARY AND ACRONYMS

Glossary

Final Action (the IG Act of 1978 definition). The completion of all actions management has concluded, in its decision, are necessary with respect to the findings and recommendations included in an audit report. In the event that management concludes no action is necessary, final action occurs when a management decision has been made.

Investigative Recoveries. Investigative recoveries are the total dollar value of (1) recoveries during the course of an investigation (before any criminal or civil prosecution); (2) court (criminal or civil) ordered fines, penalties, and restitutions; and (3) out-of-court settlements, including administrative actions resulting in noncourt settlements.

Investigative Referrals. Investigative referrals are cases that require additional investigative work, civil or criminal prosecution, or disciplinary action. Those cases are referred by the OIG to investigative and prosecutive agencies at the Federal, State, or local level, or to agencies for management or administrative action. An individual case may be referred for disposition to one or more of these categories.

Latest Target/Closure Date. Management's current estimate of the date it will complete the agreed-upon corrective action(s) necessary to close the audit recommendation(s).

Management Decision (the IG Act of 1978 definition). The evaluation by management of the findings and recommendations included in an audit report and the issuance of a final decision by management concerning its response to such findings and recommendations, including actions that management concludes are necessary.

Material Weakness. Reportable conditions that the agency head determines to be significant enough to report outside the agency. A reportable condition is a control deficiency, or combination of control deficiencies, that in management's judgment should be communicated because they represent significant weaknesses in the design or operation of internal controls that could adversely affect the organization's ability to meet its internal control objectives.

Prosecutive Activities. Investigative cases referred for prosecution that are no longer under the jurisdiction of the OIG, except for cases on which further administrative investigation may be necessary. This category comprises cases investigated by the OIG and cases jointly investigated by the OIG and other law-enforcement agencies. Prosecuting agencies will make decisions to decline prosecution; to refer for civil action; or to seek out-of-court settlements, indictments, or convictions. Indictments and convictions represent the number of individuals or organizations indicted or convicted (including pleas and civil judgments).

Questioned Cost (the IG Act of 1978 definition). A cost that is questioned by the OIG because of (1) alleged violation of a provision of a law, regulation, contract, grant, cooperative agreement, or other agreement or document governing the expenditure of funds; (2) a finding that, at the time of the audit, such cost is not supported by adequate documentation; or (3) a finding that the expenditure of funds for the intended purpose is unnecessary or unreasonable.

Questioned Costs for Which a Management Decision Has Not Been Made. Costs questioned by the OIG about which management has not made a determination of eligibility for reimbursement or about which there remains disagreement between the OIG and management. All agencies have formally established procedures for determining the ineligibility of costs questioned. This process takes time; therefore, this category may include costs that were questioned in both this and prior reporting periods.

Recommendation Resolved. A recommendation is considered resolved when (1) management agrees to take the recommended corrective action, (2) the corrective action to be taken is resolved through agreement between management and the OIG, or (3) the Audit Follow-up Official determines whether the recommended corrective action should be taken.

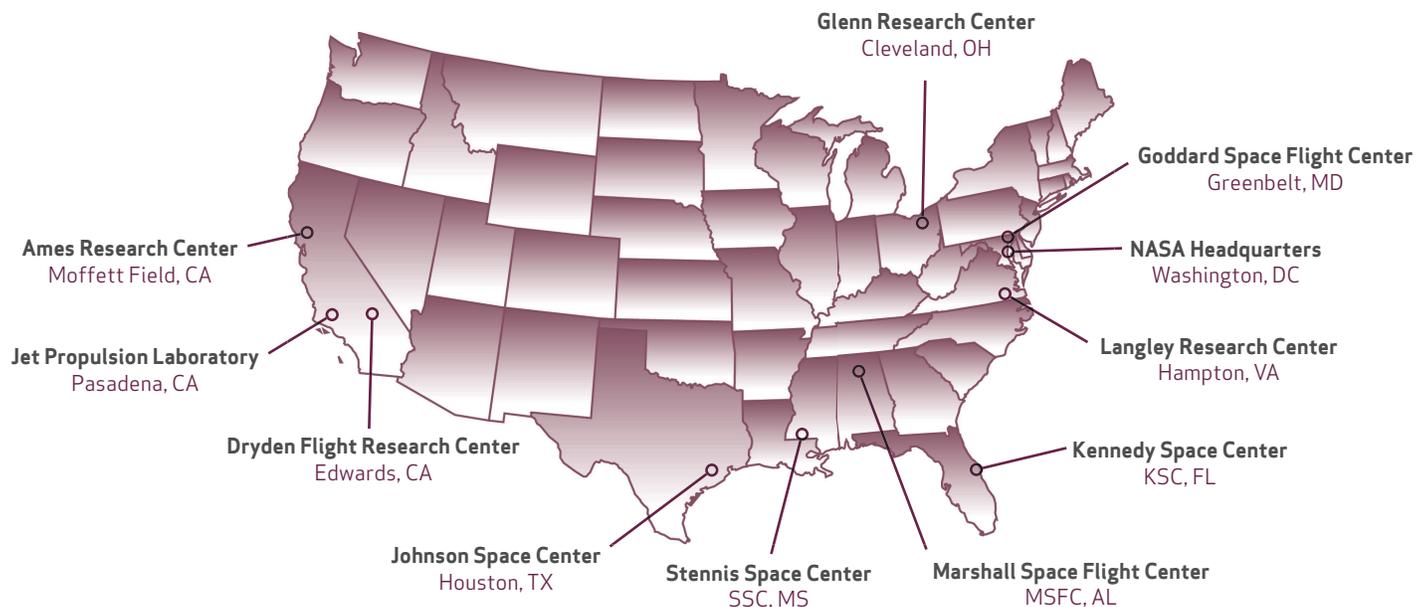
Recommendation That Funds Be Put to Better Use (the IG Act of 1978 definition). A recommendation by the OIG that funds could be more efficiently used if management took actions to implement and complete the recommendation, including (1) reductions in outlays; (2) deobligation of funds from programs or operations; (3) withdrawal of interest subsidy costs on loans or loan guarantees, insurance, or bonds; (4) costs not incurred by implementing recommended improvements related to the operations of the establishment, a contractor, or grantee; (5) avoidance of unnecessary expenditures noted in pre-award reviews of contract or grant agreements; or (6) any other savings which are specifically identified. (Note: Dollar amounts identified in this category may not always allow for direct budgetary actions but generally allow the agency to use the amounts more effectively in the accomplishment of program objectives.)

Unsupported Cost (the IG Act of 1978 definition). An unsupported cost is a cost that is questioned by the OIG because the OIG found that, at the time of the audit, such cost is not supported by adequate documentation.

Work Breakdown Structure. A product-oriented hierarchical division of the hardware, software, services, and data required to produce a program or project's end product(s) that management uses as a tool to track program or project costs more accurately.

CEV	Crew Exploration Vehicle
CFO	Chief Financial Officer
CIO	Chief Information Officer
CO	Contracting Officer
COTF	Classroom of the Future
COTR	Contracting Officer’s Technical Representative
DCAA	Defense Contract Audit Agency
DOD	Department of Defense
DOJ	Department of Justice
E&Y	Ernst & Young LLP
ECIE	Executive Council on Integrity and Efficiency
FASAB	Federal Accounting Standards Advisory Board
FASB	Financial Accounting Standards Board
FBI	Federal Bureau of Investigation
FOIA	Freedom of Information Act
FY	Fiscal Year
GAAP	Generally Accepted Accounting Principles
H.R.	House Resolution
IEMP	Integrated Enterprise Management Program
IG	Inspector General
IPA	Independent Public Accountant
ISS	International Space Station
IT	Information Technology
NASA	National Aeronautics and Space Administration
NPD	NASA Policy Directive
NPR	NASA Procedural Requirements
OA	Office of Audits
OI	Office of Investigations
OIG	Office of Inspector General
OMB	Office of Management and Budget
OMP	Office of Management and Planning
P2P	Peer-to-Peer
PCIE	President’s Council on Integrity and Efficiency
PP&E	Property, Plant, and Equipment
R&D	Research and Development
RTF	Return to Flight
SBA	Small Business Administration
SBIR	Small Business Innovation Research
SBU	Sensitive But Unclassified
SFAS	Statement of Financial Accounting Standards
SIGIR	Special Inspector General for Iraq Reconstruction

- SSP** Space Shuttle Program
- TTCP** Technology Transfer Control Plan
- VOIP** Voice Over Internet Protocol
- WJU** Wheeling Jesuit University



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NP-2006-05-433-HQ