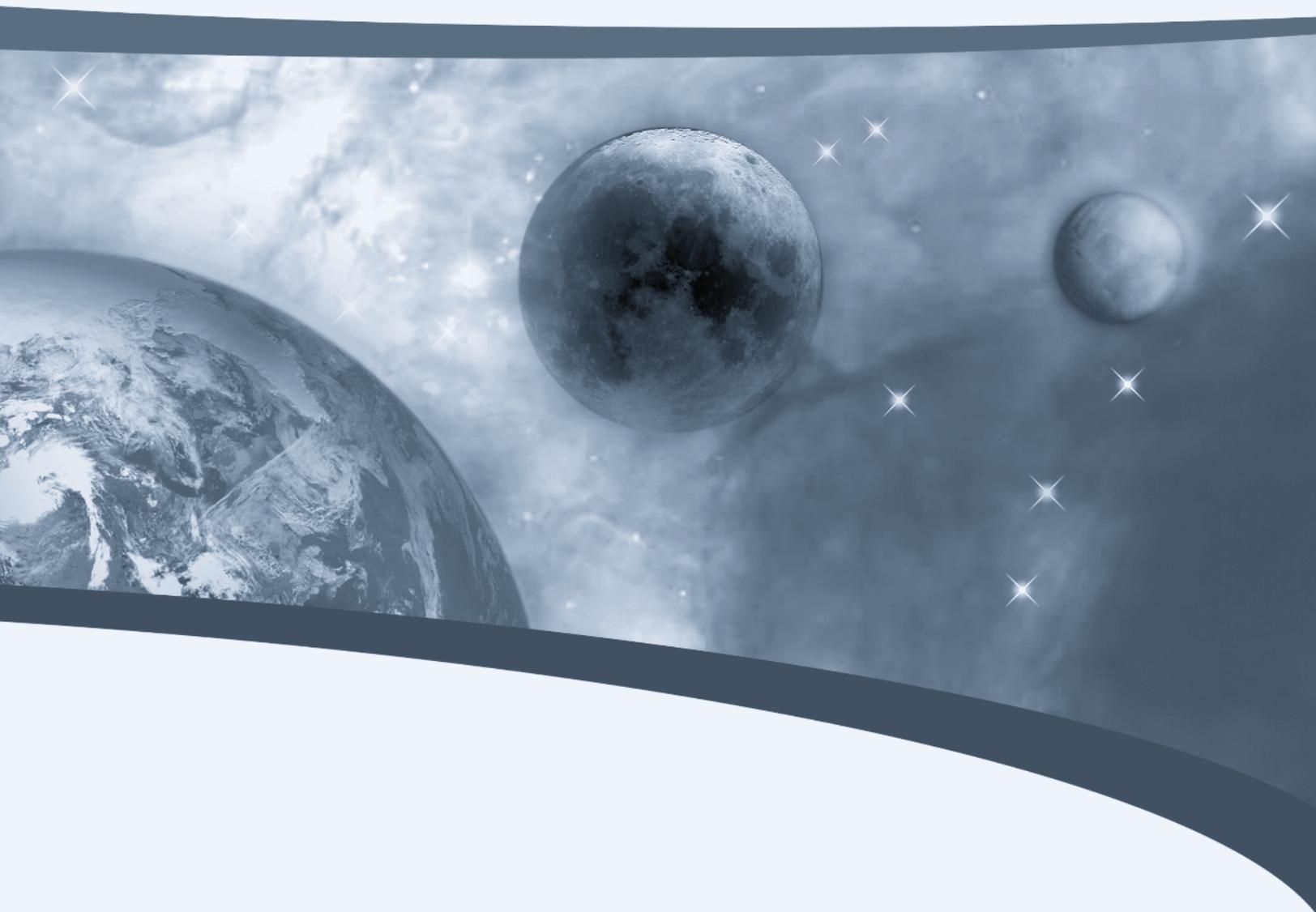


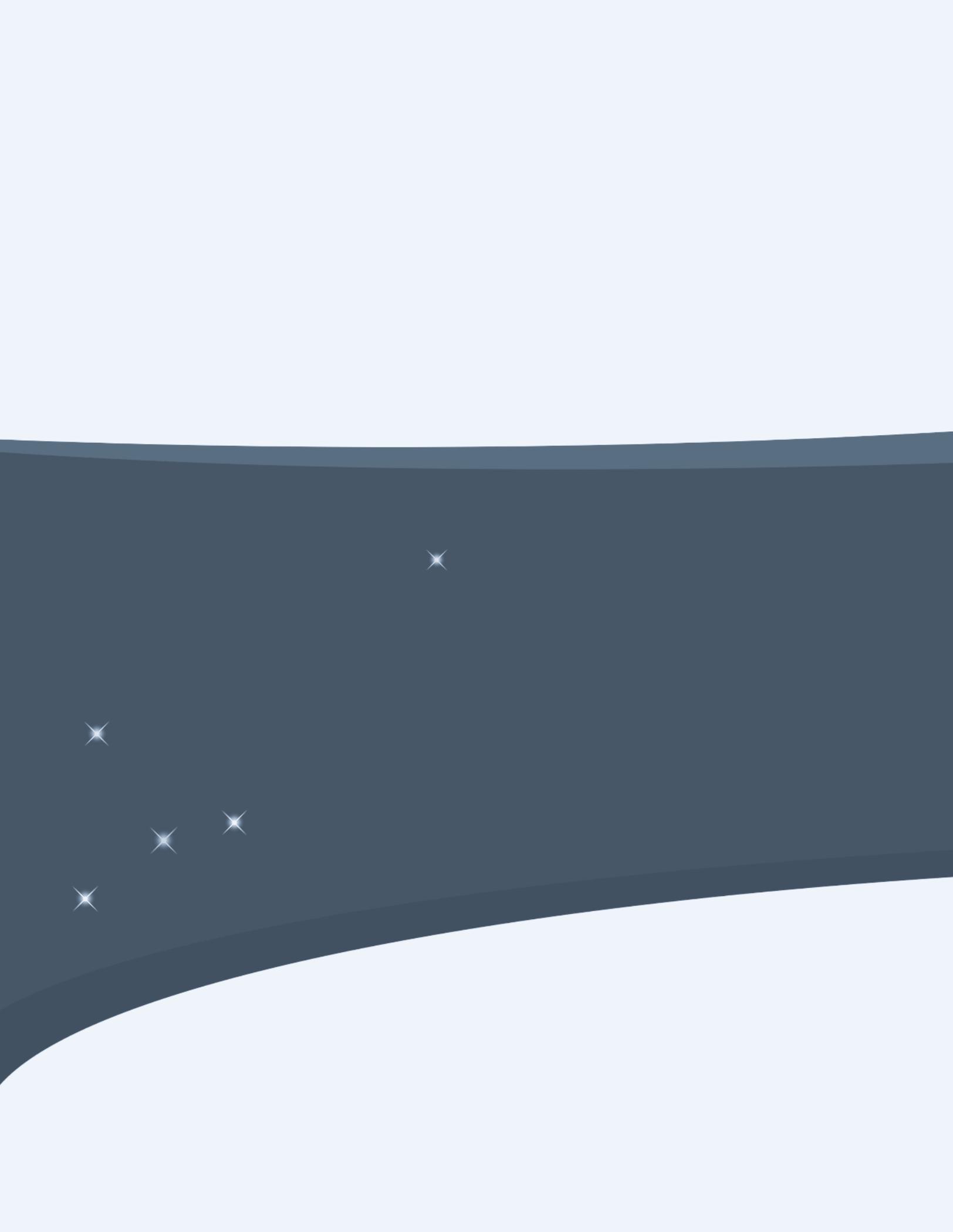


OFFICE OF  
**Inspector General**

SEMIANNUAL REPORT

October 1, 2006—March 31, 2007





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Robert W. Cobb  
Inspector General

## FROM THE INSPECTOR GENERAL

At this critical juncture in NASA history, when the Agency is confronting the most important transition in its programs since the end of the Apollo era, it also confronts a budget shortfall this fiscal year that impacts its ability to accomplish its mission as planned. It is within this challenging context that the OIG continues to conduct its mission: identifying, preventing, and deterring costly fraud, waste, and abuse and identifying economies and efficiencies in the conduct of Agency business.

Our audit and investigative products and services demonstrate the breadth and quality of our work, as well as the value that they provide to NASA, Congress, and the public. In this semiannual period, the OIG has had several successful resolutions of investigations—including safety and conflict-of-interest investigations—resulting in prison sentences and probation, significant fines and restitutions, and debarment. Our audits addressed issues such as NASA’s financial management and system challenges, IT security vulnerabilities, Space Shuttle transition plans, and justification of operational requirements for constructing facilities.

### Combating Procurement Fraud

The most significant development in the fight against fraud, waste, and abuse at NASA is that collaborative efforts between the Agency and the OIG resulted in the establishment of an Acquisition Integrity Program (AIP). One year ago in our semiannual report (October 1, 2005–March 31, 2006), we discussed how our report to Congress on contracting trouble areas at NASA described problems our audits and investigations identified in Agency procurement activities. We also discussed how, as a result of our work, we strongly encouraged NASA to institute an Agency-wide AIP.

The Deputy Administrator approved the AIP’s formation within the Office of General Counsel in April 2006 and on December 13, 2006, announced that it was fully staffed and operational. The AIP is a collaborative effort among the Offices of Inspector General, Procurement, Chief Financial Officer, and General Counsel to minimize fraud, maximize remedies that return funds to Agency accounts for use toward mission success, identify irresponsible contractors for suspension or debarment, and improve the effectiveness of the procurement process.

In March 2007, NASA's Office of General Counsel and the OIG started providing AIP training to NASA senior management and senior program and project managers. This training is being instituted in tiers, with all NASA employees being designated to receive it. The training reinforces NASA's commitment to fighting fraud, waste, and abuse and educates NASA employees about fraud indicators and how to report fraud. As part of the training, the OIG discusses past fraudulent activities at NASA, as well as successful procurement fraud investigation cases, emphasizing how fraud can imperil program and project safety, the financial resources of the Agency, and NASA's credibility.

We are also actively participating in the newly created National Procurement Fraud Task Force. The Department of Justice created the Task Force in October 2006 to promote the prevention, early detection, and prosecution of procurement fraud. The Task Force, chaired by the Assistant Attorney General for the Criminal Division, includes representatives of the FBI, Federal IGs, Defense investigative agencies, and Federal prosecutors from U.S. Attorneys offices across the country, as well as attorneys from DOJ's Criminal, Civil, Antitrust, and Tax divisions. The NASA OIG Assistant Inspector General for Investigations serves on the Task Force's Training and Grant Fraud committees. Even at this early stage, the benefits of our involvement are evident as information is being shared across agencies and geographic boundaries and resources are being focused and prioritized on procurement fraud issues.

## Financial Management Remains a Significant Challenge for NASA

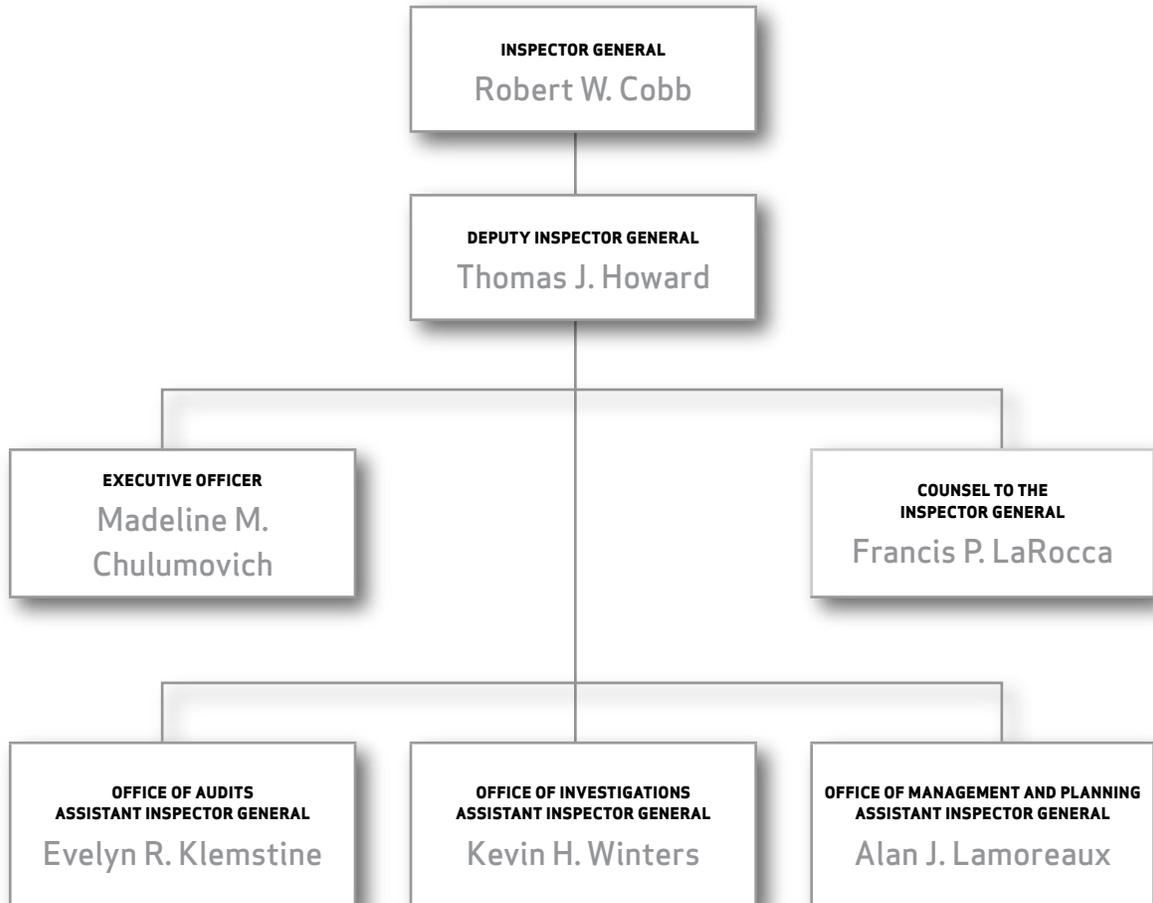
We continue to be actively involved in NASA's efforts to improve financial management. Although NASA is making progress in improving financial management, there are longstanding material weaknesses in internal controls that need to be resolved. For the fourth consecutive year, the independent public accountant could not render an opinion on NASA's financial statements because the Agency could not provide auditable statements and supporting evidence. NASA made significant progress in addressing two of the four control weaknesses noted in FY 2005—specifically, the process for reconciling the Agency's Fund Balance with Treasury and the process for generating supportable estimates of environmental liabilities. However, the two remaining internal control weaknesses—the financial systems, analyses, and oversight processes used to prepare the financial statements and the process for assuring that property, plant, and equipment and materials are presented fairly in the financial statements—still hamper NASA's ability to produce complete and accurate financial statements. We will continue to vigorously monitor the status of financial management at NASA.

This report fairly summarizes the activities of the NASA Office of Inspector General during this reporting period.



Robert W. Cobb  
Inspector General

## ORGANIZATION



THE NASA OFFICE OF INSPECTOR GENERAL (OIG) 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 fiscal year (FY) 2007 budget of \$32 million supports the work of audit, investigative, and administrative activities.

INSPECTOR GENERAL (IG) 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 (AIGs) 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 (IPA) firm that 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, cyber crime, fraud, waste, abuse, and misconduct that could have an impact on NASA programs, projects, operations, and resources. The OI refers its findings either to the DOJ for criminal prosecution and civil litigation or to NASA management for administrative action. Through its investigations, the OI identifies crime indicators and recommends 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. The 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. The OMP provides state-of-the-art IT capabilities for the OIG and coordinates the preparation of the strategic plan and the OIG Semiannual Report to Congress.

# NASA'S MOST SERIOUS MANAGEMENT AND PERFORMANCE CHALLENGES

Pursuant to the Reports Consolidation Act of 2000, the IG annually provides to the NASA Administrator the OIG's determination of the most serious management and performance challenges the Agency faces. The most recent report, dated November 9, 2006, is available on the Web at <http://www.hq.nasa.gov/office/oig/hq/SeriousChallenges2006.pdf>.

We believe that overcoming management and performance challenges is critical to NASA's ability to continue to build a sound foundation for implementing the President's 2004 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. An overarching challenge concerns how the Agency integrates diverse, programmatic, and institutional functions that are geographically dispersed. Each of the challenges listed below is colored by this overarching challenge.

## **Transitioning from the Space Shuttle to the Next Generation of Space Vehicles**

As part of the President's vision, NASA was directed to return the Space Shuttle to flight as soon as practical, focus the use of the Space Shuttle on completing the International Space Station (ISS), and retiring the Space Shuttle by 2010. With respect to the broader space mission, the President directed NASA to develop new vehicles to provide crew transportation for missions beyond low Earth orbit. One of the key challenges associated with achieving the President's vision is for NASA to maintain the capabilities required to fly the Space Shuttle safely and effectively while transitioning human capital and critical skills, real and personal property, and related capabilities to support projects within the Constellation Systems Program—the program responsible for developing the next-generation space vehicles and the related exploration architecture systems.

The success of the transition effort depends on the development and timely execution of a comprehensive plan focused on transition requirements and how those requirements intersect with the requirements of three major programs involved in the transition—Space Shuttle, ISS, and Constellation. Success also depends on the recognition that any changes in program requirements will affect the overall transition effort and may also directly affect the other programs. The successful transition from Space Shuttle to next-generation space vehicles and exploration architecture systems poses a tremendous challenge to NASA, and planning, implementing, and measuring transition requirements should be tracked from the highest management levels of the Agency.

## **Managing Risk to People, Equipment, and Mission**

Balancing mission execution within a defined timeframe with the imperfections of hardware, while ensuring that a robust process exists for voicing safety and engineering concerns, is a serious performance and management challenge for NASA. The objective—to complete the ISS by 2010, which requires using the Space Shuttle to ferry people and equipment to the Station, and to retire the Space Shuttle also by 2010—creates an atmosphere of intense scheduling pressure. NASA must guard against allowing this pressure to manifest itself as acceptance of undue risk.

## Financial Management

NASA has made substantial investments of both time and money in developing and implementing the Core Financial Module—the backbone of the Integrated Enterprise Management Program (IEMP). Despite those substantial investments, NASA has not been able to produce auditable financial statements. For the last 4 fiscal years, NASA has received a disclaimer of opinion on its financial statements from the IPA because NASA has been unable to provide auditable financial statements and sufficient evidence to support statements throughout the fiscal year (see summary on NASA's FY 2006 Financial Statement Audit in the Significant Audits and Investigations section).

## Information Technology Security

Despite the progress NASA made in improving its IT security program, systemic weaknesses persist and many IT security challenges remain. Specifically, OIG audits and assessments revealed recurring and significant internal control weaknesses related to IT security, including patch management, monitoring of critical system activities, and certification of IT systems. OIG is currently investigating several IT security incidents at NASA Centers. As a result of recurring and significant IT security issues, NASA's FY 2006 Federal Information Security Management Act report to the Office of Management and Budget (OMB) identified NASA's IT security program as a material weakness.

## Acquisition and Contracting Processes

Given that NASA spends about 85 percent of its annual budget on contracts, weaknesses in NASA's acquisition and contracting processes and management pose significant challenges to NASA's ability to make informed investment decisions and implement appropriate corrective actions. The Government Accountability Office (GAO) first identified NASA's contract management as a high-risk area in 1990 and reiterated that assessment in 2005 and 2007, citing NASA's lack of a modern, fully implemented, integrated financial management system; undisciplined cost-estimating processes in project development; and project managers' inability to obtain information needed to assess contract progress. Over the past year, GAO and OIG audits and investigations have revealed additional indications of systemic problems in NASA's acquisition and contracting processes, to include:

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

# SIGNIFICANT AUDITS AND INVESTIGATIONS

## Financial Management

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

### **NASA Received a Disclaimer of Opinion on Its FY 2006 Financial Statements**

Ernst and Young LLP (E&Y), the IPA firm that audited NASA's financial statements, disclaimed an opinion on NASA's financial statements for the fiscal year ended September 30, 2006. The disclaimer resulted from NASA's inability to provide E&Y auditable financial statements and sufficient evidence to support the financial statements throughout the fiscal year and at year-end. E&Y identified several instances in which NASA's financial management systems did not substantially comply with the requirements of the Federal Financial Management Improvement Act of 1996 (FFMIA). For example, certain subsidiary systems, including property, are not integrated with the Core Financial module and are not complemented by sufficient manual preventative and detect-type controls.

NASA made significant progress in correcting two of the four deficiencies noted in FY 2005; specifically, unreconciled Fund Balance with Treasury and inability to generate auditable estimates of environmental liabilities. However, the two remaining internal control deficiencies—financial systems, analyses, and oversight used to prepare the financial statements and assuring that property, plant, and equipment and materials are presented fairly in the financial statements—have contributed to NASA's inability to produce complete and accurate financial statements and have been reported as material weaknesses for several years. Although NASA, in response to a request by the House Committee on Science, Subcommittee on Space and Aeronautics, prepared a corrective action plan in FY 2006 to address the material weaknesses and recommendations noted in the FY 2005 financial statement audit report, we recommended that NASA update the corrective action plan to address the findings detailed in the FY 2006 financial statements report and to address NASA's internally identified material weaknesses noted in the Administrator's Statement of Assurance.

### **Comments on the Federal Accounting Standards and Advisory Board Issues Draft Guidance Letter on NASA's Theme Asset Policy**

On July 12, 2006, NASA's Office of the Chief Financial Officer (CFO) requested that the Accounting and Auditing Policy Committee (AAPC) of the Federal Accounting Standards and Advisory Board (FASAB) provide guidance for the accounting treatment of NASA's theme assets or space exploration equipment. NASA proposed a change in its capitalization policy for space exploration projects. The proposed change, according to the NASA CFO, would result in a downward adjustment in assets of approximately \$12 billion, with a corresponding decrease to the beginning balance of cumulative results of operations on the Statement of Net Costs. AAPC formed a task force to address NASA's request and on October 16, 2006, FASAB forwarded a draft guidance letter to NASA.

We provided comments to the Executive Director of FASAB on the draft guidance letter, stating that the letter did not provide adequate guidance to assess the appropriateness of NASA's proposed change. We recommended that a technical release, issued in accordance with the AAPC Charter and operating procedures, which specifies due process procedures, AAPC voting requirements, and FASAB approval requirements, would provide NASA with needed authoritative guidance on its proposed change in capitalization policy. We also recommended that if the AAPC did not provide authoritative guidance, it should change the guidance letter to include that existing FASAB rules do not proscribe the proposed expensing of space exploration projects. Lastly, we recommended that the guidance letter state that FASAB participated in the review of the AAPC guidance letter and had no objection with NASA's treating space exploration projects as either an asset or a period expense. On February 1, 2007, the AAPC issued an exposure draft of a proposed technical release, *Clarification of Standards Relating to the National Aeronautics and Space Administration's Space Exploration Equipment*, which adequately addressed our comments.

### **NASA Has Not Met Intermediate Target Dates for Addressing FFMIA Material Weaknesses**

FFMIA requires that agencies establish a remediation plan when their financial systems do not comply with systems requirements provisions of the Act. Those provisions require each agency to implement and maintain financial management systems that comply substantially with Federal financial management systems requirements, applicable Federal accounting standards, and the U.S. Government Standard General Ledger at the transaction level. Agencies are given 3 years to implement their remediation plans, which must include resources, remedies, and intermediate target dates to bring agency systems into compliance. Section 804(b) of FFMIA and implementing guidance require IGs to report when their agency has not met the intermediate target dates established in its remediation plan.

In the *FY 2005 Performance and Accountability Report*, NASA management and the Agency's IPA firm, E&Y, stated that NASA's financial management system did not comply substantially with FFMIA. IEMP and the Office of the CFO are responsible for correcting noncompliances. On May 22, 2006, the Office of the CFO submitted a remediation plan to OMB addressing the FFMIA-related material weaknesses disclosed in E&Y's FY 2005 Report on Compliance with Laws and Regulations.

On September 5, 2006, NASA updated its remediation plan because it had not met the intermediate milestones established in its May 2006 plan. According to the September 2006 plan, NASA was in the process of taking the following remedial actions:

- monitoring progress made in resolving data integrity issues from the initial data conversion and from post-conversion processing as well as configuration issues in the Core Financial Module until the issues are resolved; and
- incorporating reengineered processes into the IEMP Systems, Applications, and Products (SAP) Version Update Project to improve cost accrual processing.

As of March 2007, NASA had not met the intermediate milestones for the remedial actions. According to NASA officials, resource constraints, such as diverting staff to the SAP Version Update Project, affected NASA's ability to meet the intermediate milestones.

## **Governance of the Systems, Applications, and Products Version Update Project Needs Improvement**

Available on the Web at <http://www.hq.nasa.gov/office/oig/hq/audits/reports/FY07/IG-07-003.pdf>

We audited NASA's governance of its SAP Version Update Project to determine whether NASA had established an effective project governance structure and process to manage the SAP upgrade effort. We found that the Integrated Enterprise Management (IEM) Program Director established a governance structure for the SAP Version Update Project in accordance with NASA Procedural Requirements. However, the IEM Program Director and the SAP Version Update Project Manager did not comply with Agency wide project management requirements and project specific guidance for the SAP Version Update Project and did not effectively use the governance structure established to oversee the Project. NASA concurred with our recommendations to improve the governance structure.

## **NASA Implemented the Project Management Information Improvement Initiative but Crosswalk and Training Need to Be Completed**

Available on the Web at <http://www.hq.nasa.gov/office/oig/hq/audits/reports/FY07/IG-07-002.pdf>

In our audit of NASA's \$16.5 million Project Management Information Improvement (PMI2) Initiative—a project to expand the functionality of NASA's Core Financial system—we found that NASA implemented PMI2 on schedule and that there were no material discrepancies related to the implementation. Although there were no material discrepancies, we found that not all projects from 2005 and prior years for which the Agency did not plan any obligations in FY 2006, had been cross-walked to the new financial structure. The cross-walking project was over 10 months behind schedule and its anticipated completion date had slipped twice. Also, NASA had no assurance that its project and resource managers were adequately trained to run and analyze financial reports in the new PMI2 format, necessary to effectively manage their projects. While performing our work, we identified an internal control weakness that was reported by NASA's financial statement auditors in its last two financial statement audits: NASA procedures allow some individuals to have active Core Financial system accounts for up to 180 days after separating from NASA. We made several recommendations to NASA, and its planned actions were responsive to our recommendations.

## Procurement

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

### **Aerospace Company and Owner Indicted**

An aerospace company and its owner were indicted for exporting defense articles without a license, fraud involving aircraft parts, and making a false statement. The indictment sought forfeiture of \$660,000 and property that was alleged to be proceeds of the criminal acts. The joint investigation by the NASA OIG, the U.S. Army Criminal Investigations Command, the Federal Bureau of Investigation (FBI), the Internal Revenue Service, the Defense Criminal Investigative Service (DCIS), and the U.S. Immigration and Customs Enforcement revealed export violations and fraud related to parts utilized in Black Hawk helicopters, three of which are used under a joint research program known as the Army/NASA Rotorcraft Division.

### **Former NASA Contractor Employees Sentenced**

Two former NASA contractor employees, found guilty of conspiracy to commit mail and wire fraud related to false invoices mailed to NASA, were sentenced to prison for terms ranging from 12 to 33 months and probation ranging from 36 to 48 months. The two individuals were also ordered to pay restitution totaling \$1.2 million. (Civil settlement previously reported September 30, 2005, page 14; indictment previously reported March 31, 2006, page 15; and convictions previously reported September 30, 2006, page 10.)

### **Former NASA Contractor Purchasing Agent Sentenced**

A former purchasing agent for a NASA and Army contractor was sentenced to serve 3 months in prison and 3 years probation, while another individual was ordered to serve 6 months in prison and 3 years probation. The two individuals had submitted over \$240,000 in fraudulent invoices to the Government contractor. (Indictment previously reported March 31, 2006, page 15; and convictions previously reported September 30, 2006, page 11.)

### **Former NASA Contractor Employee Convicted and Sentenced**

A former contractor employee pled guilty to income tax evasion related to fraudulent invoices totaling \$119,000 that were submitted to NASA for payment. The former employee was sentenced to 13 months in prison and 3 years probation and was ordered to pay \$195,000 in restitution, which included taxes due the United States. (Indictment previously reported September 30, 2006, page 10.)

### **NASA Contractor Agrees to Civil Settlement**

The owner of a formerly certified Federal Aviation Administration (FAA) repair station has agreed to a civil settlement of \$1.5 million to the Government. The joint investigation with the Department of Transportation OIG, DCIS, and FAA was predicated on information that the company provided various private companies and NASA with parts suspected to be unapproved but that the contractor certified were FAA compliant.

### **Internal Controls to Detect and Prevent Unauthorized and Potentially Fraudulent Purchase Card Transactions at Four NASA Centers Need Improvement**

Available on the Web at <http://www.hq.nasa.gov/office/oig/hq/audits/reports/FY07/IG-07-012.pdf>

We found that internal controls designed to detect and prevent unauthorized and potentially fraudulent purchase card transactions at four Centers—Ames Research Center, Glenn Research Center, Johnson Space Center, and Kennedy Space Center—needed improvement. Out of a universe of 266,626 transactions, we selected 1,749 for review using data mining techniques and judgmental selection. The transactions we reviewed had charges totaling approximately \$2.1 million. Of those, we identified 875 transactions (50 percent), with charges totaling almost \$832,000, that did not comply with regulatory and program guidance. Of the noncompliant transactions, we questioned 186 as being potential misuses of Government funds and referred them to our Office of Investigations for further review. Those transactions totaled approximately \$118,300 and included instances of cardholders (1) not maintaining receipts or supporting documentation, (2) not disputing unauthorized charges, and (3) purchasing prohibited items. We also questioned 689 of the 1,749 reviewed transactions because cardholders either did not comply with the Federal Acquisition Regulation (FAR) or did not follow established NASA policies and procedures. Those questioned transactions totaled approximately \$713,700 and included purchases made as multiple transactions to avoid exceeding the cardholder's single-purchase limit; purchases of restricted items made without the cardholder obtaining required special approvals; and purchases by cardholders who were also contracting officers, a situation not in compliance with FAR.

We made several recommendations to NASA management to improve internal controls by (1) establishing policies and procedures for holding purchase card program participants accountable for complying with regulatory and program guidance, (2) developing procedures to reinforce restrictions on the purchase of prohibited items, and (3) enforcing the requirement for cardholders to follow required competitive procedures in issuing purchase orders as appropriate. NASA management concurred with our recommendations or the intent of the recommendations.

### **Unnecessary Subcontract Costs and Other Deficiencies in Goddard Space Flight Center's Multiple Award Schedule Procurement Process**

Available on the Web at <http://www.hq.nasa.gov/office/oig/hq/audits/reports/FY07/ml-07-006.pdf>

Our March 30, 2007, report addressed a complaint alleging that NASA misused funds on a contract under General Services Administration Multiple Award Schedule Mission Oriented Business Integrated Services (MOBIS) Schedule 874. We found that Goddard Space Flight Center (Goddard) personnel involved in the

MOBIS schedule procurement process improperly directed a prime contractor to subcontract with a particular subcontractor, did not choose the most appropriate and cost-effective procurement method to execute the contract action, and wasted funds by paying \$169,546.70 in unnecessary subcontract costs. We also identified other deficiencies and irregularities in Goddard's multiple award procurement process. For example, Goddard awarded approximately \$26.3 million to three contractors without appropriate competition of fair opportunity under FAR guidelines. We made several recommendations to Goddard management to improve controls by ensuring that procurement personnel clearly understand their roles, responsibilities, and authority; receive the necessary training; and maintain appropriate documentation in the contract files.

The Goddard Procurement Officer concurred with our recommendations, or their intent, and generally agreed with the findings as far as standard procurement processes and procedures. However, the Procurement Officer stated that Goddard did not believe that there were systemic issues that needed to be corrected because the Goddard procurement workforce is trained pursuant to the Federal Acquisition Certification in Contracting program and in other forums.

Our concern is that the problems identified by our review occurred in the context of the existing training programs and statements of contracting officer (CO) and contracting officer's technical representatives (COTRs) responsibilities. Given this, we believed that the collective findings were significant enough to request an assurance from Goddard that CO and COTR responsibilities and ongoing training efforts adequately address the problem areas. While we considered management's comments, which provided such assurances, to be responsive, we also recommended that Goddard incorporate the specific instances of noncompliance we identified as lessons learned in the training regimen.

## Space Operations and Exploration

NASA's most highly visible challenges have to do with space operations and exploration, areas that encompass programs and projects contained within two of the four NASA Mission Directorates—Space Operations and Exploration Systems. OIG audits performed within this area focus on evaluating issues that are essential to the broader space mission of exploration and research, including focus on one of the significant management challenges facing NASA, that of transitioning from the Space Shuttle to the next generation of space vehicles.

### **NASA's Plan for Space Shuttle Transition Could Be Improved by Following Project Management Guidelines**

Available on the Web at <http://www.hq.nasa.gov/office/oig/hq/audits/reports/FY07/IG-07-005.pdf>

We determined that NASA's Human Space Flight Transition Plan did not comprehensively address certain elements that we believe are essential to management and high-level oversight of an activity of the transition's scope and importance. Specifically, the transition plan did not include or comprehensively address a work breakdown structure, an integrated approach to managing transition costs, milestones and metrics for tracking progress, communications plans, a centralized data system, certain end-state requirements, clearly defined responsibilities for all components of the transition governance structure, and long-term responsibility for certain post-2010 activities. For the Agency to have a comprehensive and integrated understanding of the status of the transition on an ongoing basis, it should address each of the elements we identified in a manner that provides assurance of successful implementation and integration among Directorates, programs, and projects. While the Agency did not agree with all of our recommendations, it is currently taking steps to address the majority of the specific issues we have identified.

## 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 and Office of Investigations work closely with NASA management to ensure appropriate attention to and resolution of safety issues.

### **Guilty Aerospace Subcontractor Company Owners and Employees Sentenced**

The co-owners of an aerospace subcontractor company were sentenced to 24 and 27 months in prison, individually, ordered to pay \$396,691 in restitution, and fined \$10,000, for falsifying certifications related to metal sold to NASA contractors. In addition, a former sales manager pled guilty to conspiracy to make false statements, fraud related to aircraft and space vehicle parts, wire fraud, and false statements; and a former clerk pled guilty to making false statements. (Indictments previously reported September 30, 2005, page 20; and related convictions previously reported September 30, 2006, page 15.)

### **Employee of Battery Manufacturer Sentenced and Debarred**

After entering a guilty plea, a laboratory supervisor of a company that manufactures batteries and battery cells for NASA was sentenced to 1 year probation, fined \$1,000, and debarred from engaging in any contracting business with the Government until November 2009. The supervisor was responsible for overseeing the testing of cells for batteries that power Extravehicular Mobility Units (space suits) used by astronauts during flight. When the cell being tested failed prematurely, the supervisor did not report its failure and created false documents that made it appear that the cell functioned as it should have. Such conduct violated a NASA regulation directing that for use in human space flight, materials, manufacturing, and workmanship must be of the highest quality to ensure astronaut safety. NASA, upon learning of the premature failure, took corrective action to ensure the safety of its astronauts. (Guilty plea previously reported September 30, 2006, pages 15-16.)

### **Contractor Altered Risk Assessment of T O Access Stair Trucks**

Available on the Web at <http://www.hq.nasa.gov/office/oig/hq/audits/reports/FY07/ml-07-004.pdf>

We reviewed the United Space Alliance's (USA) risk assessment of T-o Access Stair Trucks after receiving a complaint alleging that USA management pressured its employees and NASA personnel into changing the results of a risk assessment performed on the T o Access Stair Trucks to avoid the cost of replacing those trucks. According to the complainant, the stair trucks had deteriorated to the point that they could cause serious injury to ground support personnel and damage to a Space Shuttle orbiter. We concluded that the stair trucks received proper maintenance, that they were not inherently unsafe, that there was no pressuring of the risk assessment team to lower its risk assessment scores, and that the decisions were not based solely on cost.

We determined that USA management removed data from a risk assessment. USA management stated that the data—a recommendation to procure new stair trucks for Dryden—was removed because a risk assessment is a risk management tool, used to support or reject a business case, and should not include recommendations. A signed document is a record of what the signatories endorsed, and USA personnel should not have revised the document without evidencing the fact of the revision and whether the revision was consented to by the signatories. We found no evidence of fraud in the revision of the document, because the signatories were ultimately notified of the revision and the customer of the document, the Engineering Review Board, was made fully aware of the respective positions of all concerned. We recommended that the Space Shuttle Program Manager verify that USA implements procedures to ensure that employees and managers are prohibited from altering any signed document without ratification by all signatories. USA updated its policy to address this issue.

## **Information Technology Security**

NASA has been responsive to our audit and investigation recommendations regarding IT security and management control issues, and the Office of the Chief Information Officer has implemented policies and procedures that strengthen the Agency's IT security internal controls. However, our work shows that significant weaknesses persist and many IT security challenges remain.

## **Centrally Managed Comprehensive Approach Needed to Address NASA IT Security Vulnerabilities and Intrusions**

In connection with NASA's centrally managed comprehensive review of its IT security posture, we provided the NASA Deputy Administrator with information on our IT security investigations and audits and suggestions for improving IT security within the Agency. Our audit work on IT security issues over the last few years has shown significant vulnerabilities in the Agency's security posture, and we have been investigating numerous cases where Agency IT systems were penetrated. One of the characteristics seen in all of our work is that while Centers or other affected organizations are responsive to dealing with vulnerabilities or intrusions, those responses frequently are not centralized, coordinated, or communicated across the Agency. This constitutes a weakness because the scope, sophistication, timing, and hostile characteristics of some of the intrusions indicate they are coordinated or centrally managed. We endorsed the centrally managed review of IT security directed by the Deputy Administrator as a critical step in addressing this weakness. However, we suggested that a similarly managed and comprehensive approach to addressing vulnerabilities and intrusions would help ensure that the responses are coordinated, adequately resourced, and sustained.

## **Romanian Indicted for Hacking into Government Computers**

A Federal grand jury indicted a Romanian computer hacker for allegedly gaining unauthorized access into more than 150 different Government computers, including machines located at the Jet Propulsion Laboratory, Goddard, Sandia National Laboratory, and the U.S. Naval Observatory. The hacker was charged with conspiracy and nine counts of computer intrusion. As a result of the intrusions and loss of the integrity of the scientific data, the systems had to be rebuilt. NASA sustained approximately \$1.366 million in damages.

## **Former NASA Employee Sentenced for Distributing Child Pornography**

A former NASA employee was sentenced to 5 years in prison and 5 years probation for distributing child pornography. The individual was also required to participate in a sex offender treatment program, register as a sex offender, and be supervised when using a computer during probation. (Indictment and guilty plea previously reported September 30, 2006, page 14.)

## **Other Audit and Investigative Matters**

### **Requirement for Constructing the Altitude Combustion Stand Facility at Glenn Research Center Was Not Adequately Justified**

Final Report: <http://www.hq.nasa.gov/office/oig/hq/audits/reports/FY07/ml-07-001.pdf>

Addendum: <http://oig.nasa.gov/audits/reports/FY07/ml-07-001-a.pdf>

In our November 2, 2006, final report, we concluded that the Glenn Research Center (Glenn) did not adequately justify the operational requirement for construction of the Altitude Combustion Stand (ACS) facility, as required by NASA procedural requirements. We recommended that the Associate Administrator for

Institutions and Management immediately assess and determine whether there is a valid mission need for the facility and consider halting further construction until a determination is made. NASA's comments were not responsive to our recommendations, and we requested additional comments.

In NASA's November 30, 2006, response to our request for additional comments, the Associate Administrator for Institutions and Management stated NASA would use an ongoing Exploration Systems Mission Directorate's study to assess the current need for continuing the ACS "relocations." The Associate Administrator also stated that it is the Agency's opinion that the project is past the "point of no return" from a cost perspective and the only responsible approach is to continue construction of the ACS facility. NASA has argued that it has a fiduciary duty to protect taxpayers' interests by preserving an existing operational capability and that, absent proof that the capability could be of no possible future use, proceeding with construction of the ACS facility is justified. In our view, just the reverse is what is taking place.

In our February 20, 2007, addendum, we acknowledge that it is no longer cost-effective to stop construction, given that the estimated cost of termination now exceeds the cost of completion. We also noted, however, that although events overtook our recommendation, the Agency's failure to comply with its own procedural requirements and ensure the appropriate use of resources remains troubling. Since 1999, NASA has had several opportunities to validate, in accordance with NASA procedural requirements, an operational requirement for constructing the ACS facility, but it has not done so. Justifying the construction of facilities in the absence of a demonstrated need not only violates NASA requirements, but also constitutes a breach of the fiduciary duty that the Agency argues it is upholding. Perhaps most concerning is the apparent belief that once NASA has built a facility to meet certain requirements, the need for those same requirements continues indefinitely and justifies the construction of replacement facilities years later without consideration of whether there is a continuing need. There is no fiduciary duty to preserve capabilities for requirements that are no longer needed. There is, however, a fiduciary duty to not invest in unneeded facilities. This duty is the underpinning for the requirements NASA did not follow in constructing the ACS facility.

### **NASA Clarifies Guidance on Use of Mission Management Aircraft**

At their request, we provided staff of the Senate Committee on Homeland Security and Governmental Affairs with our analysis of changes in NASA's Mission Management Aircraft policies. We found that NASA's 2005 policy revision significantly strengthens oversight, clarifies guidance for NASA's Mission Management Aircraft operations and use of program support aircraft, and more closely aligns with OMB Circular A-126, which establishes Government-wide policy on management and use of Government aircraft. Congressional oversight resulting from reports by our office and GAO that were critical of NASA's Mission Management Aircraft operations prompted some of NASA's policy changes.

### **Former NASA Employee Sentenced on Conflict of Interest and False Statement Charges**

On March 21, 2007, a former Senior Analyst in the Financial Management Program (now Integrated Enterprise Management Program) was sentenced to 2 years probation, ordered to pay a fine of \$25,500, and to perform 500 hours of community service. The individual received \$25,500 in consulting fees from a company attempting to obtain a NASA contract in exchange for the individual recommending that the company receive the contract. The former employee, who failed to disclose the fees on his Public Financial Disclosure Reports, resigned in August 2003.

### **Former NASA Contractor Employee Admitted to Falsifying Inspection Reports**

A former manager and quality assurance technician for a NASA contractor admitted falsifying cleaning and inspection reports for the Orbiter Atlantis. The employee resigned immediately after admitting his actions. If the defendant abides by the terms of a pretrial diversion agreement, prosecution will be deferred for 6 months and then dropped.

### **Individual Sentenced for Arson**

An individual was sentenced to 3 years in prison and ordered to pay \$200 in special assessments and \$170,604 in restitution to NASA for damaging a newly installed \$800,000 12-meter satellite dish at the Jet Propulsion Laboratory. (Guilty plea previously reported September 30, 2006, page 19.)

### **Former NASA Employee Convicted and Sentenced**

A former NASA employee at the Kennedy Space Center pled guilty to one count of conspiracy to distribute cocaine. The individual was sentenced to 27 months in prison and 3 years probation. (Indictment previously reported September 30, 2006, page 19.)

## LEGAL MATTERS AND REGULATORY REVIEW

During this reporting period, we reviewed and commented on 20 NASA-wide and Headquarters directives, including 3 that were withdrawn. Of those reviewed, the following were of particular significance to the OIG: NASA Procedural Requirement (NPR) 7900.3, "Aircraft Operations Management;" NASA Policy Directive (NPD) 3713.6, "EEO Complaint Processing;" NPR 7123.1, "NASA Systems Engineering Processes and Requirements;" and NPR 8590, "NASA Environmental Compliance and Restoration (ECR) Program."

## SIGNIFICANT OUTREACH ACTIVITIES

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

- In conjunction with the NASA Office of General Counsel, the IG, Counsel to the IG, and the AIG for Investigations provided training on the newly established NASA Acquisition Integrity Program to senior officials at NASA Centers.
- The NASA OIG is a member of the National Procurement Fraud Task Force, with the AIG for Investigations serving on the Task Force's Training and Grant Fraud committees.
- On February 28, 2007, the OIG hosted the fourth annual GAO/President's Council on Integrity and Efficiency (PCIE) Financial Statement Audit Roundtable to discuss issues and share experiences associated with the FY 2006 financial statement audit process. Presentations at the roundtable focused on results of the first year of implementing the revised OMB Circular A-123, "Management's Responsibility for Internal Control," new audit and accounting standards, looking ahead to the FY 2007 financial statement audit; and effective communications between the IG, Office of the CFO, and IPA communities. Participants included representatives from the IG community, the IPA community, GAO, OMB, FASAB, and the Office of the CFO community.
- In December 2006, the NASA OIG-led Task Force on Government Property met to discuss a variety of NASA property issues such as the process for recovering and dispositioning pre-Shuttle era items. The task force includes representatives from the OIG, NASA's Office of the Chief Counsel, the Export Control Office, the Astronaut Office, and the Office of Public Affairs as well as representatives of the ISS Program and NASA staff who manage property and artifacts.
- The GSA OIG reviewed the system of quality control for the NASA OIG's audit function in effect for the year ended September 30, 2006. GSA found that the system of quality control for the OA has been designed to meet the requirements of the quality control standards of the generally accepted auditing standards and is providing reasonable assurance that audits were conducted in conformance with applicable auditing standards, policies, and procedures. GSA also identified two areas warranting attention—supervision and evidence, and independence—and recommended corrective actions, which OA has taken. Available on the Web at [http://www.hq.nasa.gov/office/oig/hq/Final\\_Ex.pdf](http://www.hq.nasa.gov/office/oig/hq/Final_Ex.pdf)
- The IG attended fact-gathering meetings of NASA's Aerospace Safety Advisory Panel in October 2006 and January and March 2007.

## AWARDS AND SPECIAL THANKS

### **OIG Employees Recognized for Outstanding Contributions**

At a ceremony held on October 24, 2006, NASA OIG employees received four awards for excellence from the PCIE. The following staff were recognized for their accomplishments:

- Richard Monticello, Special Agent; Diane Choma and William Falter, Auditors; and Misha Kelly, Special Agent, Social Security Administration (SSA) OIG, for interdisciplinary and intra-agency teamwork in uncovering a complex fraud scheme at NASA and SSA and for recommending improvements in NASA's internal controls.



Fraud Scheme Team with the Assistant Inspector General for Investigations and Inspector General Cobb (left to right): AIGI Kevin Winters, Auditor William Falter, Special Agent Richard Monticello, Auditor Diane Choma, Special Agent Misha Kelly, and Inspector General Cobb.

- Michael Mataya, Special Agent, for his outstanding investigative work leading to the recovery of valuable historical artifacts and the successful prosecution of a former director of a space museum.
- Donna Woods, Program Assistant, for her outstanding service in supporting and improving the operations of the OI Computer Crimes Division.



Donna Woods with the AIG for Investigations and the NASA IG (left to right): AIGI Kevin Winters, Donna Woods, and Inspector General Cobb.



Michael Mataya, with the AIG for Investigations and the NASA IG (left to right): AIGI Kevin Winters, Michael Mataya, and Inspector General Cobb.



Multi-agency Travel Rebates Team, including (front row, second from left), NASA OIG Special Agent Bruce Linder.

- Bruce Linder, Special Agent, for outstanding investigative work on a multi-agency Travel Rebates Team, resulting in a settlement of over \$67.5 million.
- The President's Council on Integrity and Efficiency (PCIE) Homeland Security Roundtable recognized Gregory Lokey, Auditor, for his participation on the PCIE Executive Review Board's report, *Oversight of Gulf Coast Hurricane Recovery—A Semiannual Report to Congress, April 1, 2006–September 30, 2006*.

# 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	19
Section 5(a)(1)	Significant Problems, Abuses, and Deficiencies	3-4, 7-19
Section 5(a)(2)	Recommendations for Corrective Actions	3-4, 7-19
Section 5(a)(3)	Prior Significant Audit Recommendations Yet To Be Implemented	28
Section 5(a)(4)	Matters Referred to Prosecutive Authorities	31
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	26
Section 5(a)(7)	Summary of Significant Audit Reports	7-19
Section 5(a)(8)	Total Number of Reports and Total Dollar Value for Audits with Questioned Costs	None
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	10

### 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 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 ended September 30, 2006, the receivables due from the public totaled \$5,423,274, of which \$2,137,551 is delinquent. The amount written off as uncollectible for the period October 1, 2005, through September 30, 2006, was \$11,064.

## APPENDIX B

### Statistical Reports

During the period October 1, 2006, through March 31, 2007, the Office of Audits issued 11 products.

**Table 1: Audit Reports and Impact**

REPORT NO./ DATE ISSUED	REPORT TITLE	IMPACT
<b>Audit Area: Financial Management</b>		
<b>Other</b> 10/20/06	Comments on a draft Accounting and Auditing Policy Committee guidance letter to NASA on assessing the appropriateness of NASA's proposed change in its capitalization policy for space exploration projects (mission-related projects)	Provided input to FASAB on issues that should be addressed in considering NASA's proposed change in capitalization policy
<b>IG-07-002</b> 11/20/06	NASA Implemented the Project Management Information Improvement (PMI2) Initiative But Crosswalk and Training Need To Be Completed	Improved basis for developing future cost estimates and analyzing financial reports to effectively manage projects
<b>IG-07-003</b> 11/21/06	Governance of the Systems, Applications, and Products Version Update Project Needs Improvement	Improved governance structure and process to manage the Systems Applications and Products Version Update Project
<b>ML-07-005</b> 03/13/07	Final Memorandum on Follow-Up Review of the Management of the Headquarters Exchange	Assurance that the Headquarters Exchange Council safeguards, records, and reports on Exchange assets
<b>Audit Area: Procurement</b>		
<b>IG-07-012</b> 03/29/07	Internal Controls to Detect and Prevent Unauthorized and Potentially Fraudulent Purchase Card Transactions at Four NASA Centers Needed Improvement	Improved internal controls for purchase card transactions
<b>ML-07-006</b> 03/30/07	Final Memorandum Addressing Unnecessary Subcontract Costs and Other Deficiencies in Goddard Space Flight Center's Multiple Award Schedule Procurement Process	Improved internal controls for Goddard's multiple award procurement process and identified lessons learned for incorporation into Goddard's procurement training regimen
<b>Audit Area: Space Operations and Exploration</b>		
<b>IG-07-005</b> 01/29/07	NASA's Plan for Space Shuttle Transition Could Be Improved by Following Project Management Guidelines	Development of a comprehensive and integrated plan and approach to managing NASA's transition from flying the Space Shuttle to flying the next generation of manned space vehicles

**Table 1: Audit Reports and Impact (continued)**

REPORT NO./ DATE ISSUED	REPORT TITLE	IMPACT
<b>Audit Area: Safety</b>		
<b>ML-07-004</b> 01/09/07	Final Memorandum on the Review of T-0 Access Stair Trucks Located at Dryden Flight Research Center	Assurance that the trucks were not inherently unsafe and a process to ensure that signed documents are not altered without ratification by all signatories
<b>Audit Area: Other</b>		
<b>ML-07-001</b> 11/02/06	Final Memorandum on Observations on the Review and Approvals of Glenn Research Center's Relocation of the Altitude Combustion Stand Facility	Assurance that NASA constructs only those facilities for which there is a validated operational requirement
<b>Audit Area: Quality Control Reviews</b>		
<b>IG-07-010</b> 12/06/06	Quality Control Review of Argy, Wiltse, & Robinson, P.C., Office of Management and Budget Circular A-133 Audits of the National Institute of Aerospace Associates for Fiscal Year Ended September 30, 2004	Continuing compliance with OMB Circular A-133
<b>IG-07-001</b> 01/17/07	Quality Control Review of KPMG LLP and the Defense Contract Audit Agency, Office of Management and Budget Circular A-133 Audits of the Smithsonian Institution for Fiscal Year Ended September 30, 2005	Corrective actions to comply with OMB Circular A-133

**Table 2: 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	
<b>NEW SINCE LAST REPORTING PERIOD</b>					
<b>Audit Area: Procurement</b>					
<b>Memorandum</b> 08/23/06	Final Memorandum on NASA's Acquisition Approach Regarding Requirements for Certain Engineering Software Tools to Support NASA Programs	08/30/06	1	2	03/09/07 <sup>1</sup>
<b>Memorandum</b> 07/11/06	Final Memorandum on Improvements Needed in NASA's Evaluation and Selection Processes Under NASA Research Announcements	07/11/06	4	2	04/06/07
<b>Audit Area: Information Technology</b>					
<b>IG-06-017</b> 09/14/06	Final Memorandum on NASA's Information Technology Capital Planning and Investment Control	09/14/06	2	1	02/14/07 <sup>1</sup>
<b>IG-06-008</b> 06/02/06	Security of [a NASA Center's Computer] Network	07/06/06	1	12	03/01/07 <sup>1</sup>
<b>IG-06-010</b> 05/09/06	NASA Should Improve Employee Awareness of Requirements for Identifying and Handling Sensitive But Unclassified Information	05/09/06	1	0	07/30/07
<b>Audit Area: Safety</b>					
<b>IG-06-014</b> 08/30/06	Space Shuttle Program Problem Reporting and Corrective Action Process at Kennedy Space Center Needs Improvement	11/21/06	3	2	06/30/07
<b>IG-06-012</b> 04/28/06	Final Memorandum on the Review of Space Shuttle Cold Plates	04/28/06	1	4	04/30/07
<b>Audit Area: Other</b>					
<b>IG-06-020</b> 09/12/06	NASA Can Improve Its Mitigation of Risks Associated with International Agreements with Japan for Science Projects	09/12/06	4	0	09/01/07
<b>IG-06-016</b> 08/29/06	NASA's Implementation of the National Incident Management System	08/29/06	6	0	06/30/07

<sup>1</sup> OIG is reviewing management's request to close the open recommendation.

**Table 2: 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	
<b>REPORTED IN PREVIOUS SEMIANNUAL REPORTS</b>					
<b>Audit Area: Procurement</b>					
<b>IG-06-003</b> 02/06/06	Integrated Enterprise Management Program Contract Oversight Needs Improvement	03/10/06	1	11	05/31/07
<b>Memorandum</b> 01/30/06	Final Memorandum on the Review of NASA's "Classroom of the Future" Cooperative Agreement with Wheeling Jesuit University	01/30/06	1	2	06/30/07
<b>Audit Area: Information Technology</b>					
<b>IG-06-017</b> 03/17/06	NASA's Implementation of Patch Management Software Is Incomplete	09/14/06	2	0	09/30/09
<b>Memorandum</b> 01/19/06	Review of the Use of Voice Over Internet Protocol at NASA	01/19/06	1	1	05/31/07
<b>Memorandum</b> 12/19/05	NASA Lacks Procedures to Define, Recognize, and Protect Meta-Data	12/19/05	1	1	06/30/07
<b>IG-05-025</b> 09/16/05	NASA's Performance Measure Data Under the Federal Information Security Management Act	09/16/06	1	4	09/30/08
<b>IG-05-016</b> 05/12/05	NASA's Information Technology Vulnerability Assessment Program	05/12/06	1	3	09/30/09
<b>IG-05-011</b> 03/28/05	Information Assurance Controls in [a System] at [a NASA Center]	09/26/05	1	24	02/28/07 <sup>1</sup>
<b>Audit Area: Space Operations and Exploration</b>					
<b>IG-06-006</b> 03/14/06	Final Memorandum on NASA's Policies for Protecting Technology Exported to Foreign Entities	03/14/06	1	2	05/30/07

<sup>1</sup> OIG is reviewing management's request to close the open recommendation.

**Table 3: Status of A-133<sup>1</sup> Findings and Questioned Costs Related to NASA Awards**

Total Audits Reviewed	0 <sup>2</sup>
Audits with Recommendations	0
Total Disallowed/Questioned Costs	\$0
Total Disallowed/Questioned Costs Recovered/Sustained	\$468,761
Recommendations:	
Beginning Balance	169
New Recommendations	0
Recommendations Dispositioned	63
Ending Balance	106

**Table 4: Legal Activities and Reviews**

FOIA Matters, Including 3 FOIA Appeals	13
Inspector General Subpoenas Issued	17
Regulations Reviewed	20

**Table 5: Investigations Activities**

Cases Opened	31
Cases Closed	34
Cases Pending	135
Hotline Complaints Received	85
Referred to OA	1
Referred to OI	24
Referred to NASA Management	35
Referred to Other Agencies	1
No Action Required	24

<sup>1</sup> OMB Circular No. A-133, "Audits of States, Local Governments, and Non-Profit Organizations," requires Federal award recipients to obtain audits of their Federal awards.

<sup>2</sup> NASA point of contact and the NASA OIG agreed not to refer any additional audit recommendations during this reporting period due to a backlog of prior audit recommendations in resolution.

**Table 6: Investigations Impact**

Indictments/Informations	12
Convictions/Plea Bargains/Pretrial Diversions	40
Cases Referred for Prosecution	38
Cases Declined	27
Cases Referred to NASA Management for Action	9
Against NASA Employees	0
Against Contractor Employees	5
Against Firm(s)	2
Other	2
Case Recommendations Referred to Management for Action	14
Against NASA Employees	8
Against Contractor Employees	0
Against Firm(s)	3
Other	3
Cases Referred to Other Agencies for Action	6
Suspensions/Debarments from Government Contracting	1
Individuals	1
Firms	0
Administrative/Disciplinary Actions <sup>1</sup>	7
Against NASA Employees	7
Against Contractor Firm(s)	0
Reported Actions Taken by Contractor Against Contractor Employees	0
Total Recoveries (in Dollars)	\$4,348,974
NASA <sup>2</sup>	\$697,588
NASA Property	\$0
Other <sup>3</sup>	\$3,651,386

<sup>1</sup> Includes terminations, suspensions, demotions, reassignments, reprimands, and resignations or voluntary retirements.

<sup>2</sup> Includes administrative recoveries and contract credits.

<sup>3</sup> 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 AUDITS OF NASA CONTRACTORS

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

### DCAA Audit Reports Issued

During this period, DCAA issued 243 audit reports (excluding pre-award contractor proposal evaluations) on contractors who do business with NASA. DCAA also issued 155 reports on audits of NASA contractor proposals totaling \$9,424,601,000, which identify cost exceptions totaling about \$355,085,000. However, some of DCAA's reported cost exceptions may be attributable to unsuccessful contractor proposals that NASA never accepted or relied on for contract negotiation. Therefore, the actual amount of potential savings to NASA from DCAA-cited cost exceptions in its audit reports may be less than the reported total cost exceptions amount.

### Corrective Actions

Corrective actions taken in response to DCAA audit report recommendations usually result from negotiations between the contractor and the Government contracting officer. The agency administering the contract under audit (e.g., Defense Contract Management Agency and NASA) is responsible for resolution of the audit report recommendations. 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, the appropriate Federal agency administering the contract under audit resolved 76 reports with \$14,588,000 of questioned costs and 30 reports with \$18,802,000 of funds put to better use. Management sustained 81.6 percent of DCAA's questioned costs and 56.4 percent of funds put to better use.

**Table 7: DCAA Audits with Questioned Costs<sup>1,2</sup>**

	NUMBER OF AUDIT REPORTS <sup>3</sup>	TOTAL COSTS QUESTIONED
No Management Decision Made by Beginning of Period <sup>4</sup>	255	\$241,341,000
Issued During Period	76	\$121,565,000
Needing Management Decision During Period	331	\$362,906,000
Management Decision Made During Period	76	\$14,588,000
Dollar Value of Contract Recoveries	n/a	\$11,905,000
Dollar Value of Costs Not Recovered	n/a	\$2,683,000
No Management Decision Made by End of Period	255	\$348,318,000

<sup>1</sup> This data is provided to NASA OIG by DCAA and includes incurred costs, Cost Accounting Standards, and defective pricing claims. 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.

<sup>2</sup> 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.

<sup>3</sup> The 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.”

<sup>4</sup> Total is the amount beginning October 1, 2006, adjusted for revised audit findings and recommendations.

**Table 8: DCAA Audits with Recommendations That Funds Be Put to Better Use<sup>1,2</sup>**

	NUMBER OF AUDIT REPORTS <sup>3</sup>	TOTAL COSTS QUESTIONED
No Management Decision Made by Beginning of Period <sup>4</sup>	55	\$401,464,000
Issued During Period	57	\$355,085,000
Needing Management Decision During Period	112	\$756,549,000
Management Decision Made During Period	30	\$18,802,000
Dollar Value of Contract Recoveries	n/a	\$10,609,000
Dollar Value of Costs Not Recovered	n/a	\$8,193,000
No Management Decision Made by End of Period	82	\$737,747,000

<sup>1</sup> This data is provided to 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.

<sup>2</sup> 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.

<sup>3</sup> The 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” on the previous page.

<sup>4</sup> Represents amounts beginning October 1, 2006, adjusted for (a) contracts not awarded and (b) audits not requiring follow-up thus not carried over into subsequent year, and (c) 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 non-court settlements.

**Investigative Referrals.** Investigative referrals are cases that require additional investigative work, civil or criminal prosecution, or disciplinary action. Those cases are referred by 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 it represents 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 OIG, except for cases on which further administrative investigation may be necessary. This category comprises cases investigated by OIG and cases jointly investigated by 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 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 OIG about which management has not made a determination of eligibility for reimbursement or about which there remains disagreement between 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 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 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 preaward reviews of contract or grant agreements; or (6) any other savings that 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 questioned by OIG because OIG found that, at the time of the audit, such cost was not supported by adequate documentation.

## Acronyms

<b>AAPC</b>	Accounting and Auditing Policy Committee
<b>ACS</b>	Altitude Combustion Stand
<b>AIG</b>	Assistant Inspector General
<b>CFO</b>	Chief Financial Officer
<b>CO</b>	Contracting Officer
<b>COTR</b>	Contracting Officer's Technical Representative
<b>DCAA</b>	Defense Contract Audit Agency
<b>DCIS</b>	Defense Criminal Investigative Service
<b>DOJ</b>	Department of Justice
<b>E&amp;Y</b>	Ernst & Young LLP
<b>FAA</b>	Federal Aviation Administration
<b>FAR</b>	Federal Acquisition Regulation
<b>FASAB</b>	Federal Accounting Standards and Advisory Board
<b>FBI</b>	Federal Bureau of Investigation
<b>FFMIA</b>	Federal Financial Management Improvement Act
<b>FOIA</b>	Freedom of Information Act
<b>FY</b>	Fiscal Year
<b>GAO</b>	Government Accountability Office
<b>GSA</b>	General Services Administration
<b>IEM</b>	Integrated Enterprise Management
<b>IEMP</b>	Integrated Enterprise Management Program
<b>IG</b>	Inspector General
<b>IPA</b>	Independent Public Accountant
<b>ISS</b>	International Space Station
<b>IT</b>	Information Technology
<b>MOBIS</b>	Multiple Award Schedule Mission Oriented Business Integrated Services
<b>NASA</b>	National Aeronautics and Space Administration
<b>NPD</b>	NASA Policy Directive
<b>NPR</b>	NASA Procedural Requirement
<b>OA</b>	Office of Audits
<b>OI</b>	Office of Investigations
<b>OIG</b>	Office of Inspector General
<b>OMB</b>	Office of Management and Budget
<b>OMP</b>	Office of Management and Planning
<b>PCIE</b>	President's Council on Integrity and Efficiency
<b>SAP</b>	Systems, Applications, and Products
<b>SSA</b>	Social Security Administration
<b>USA</b>	United Space Alliance

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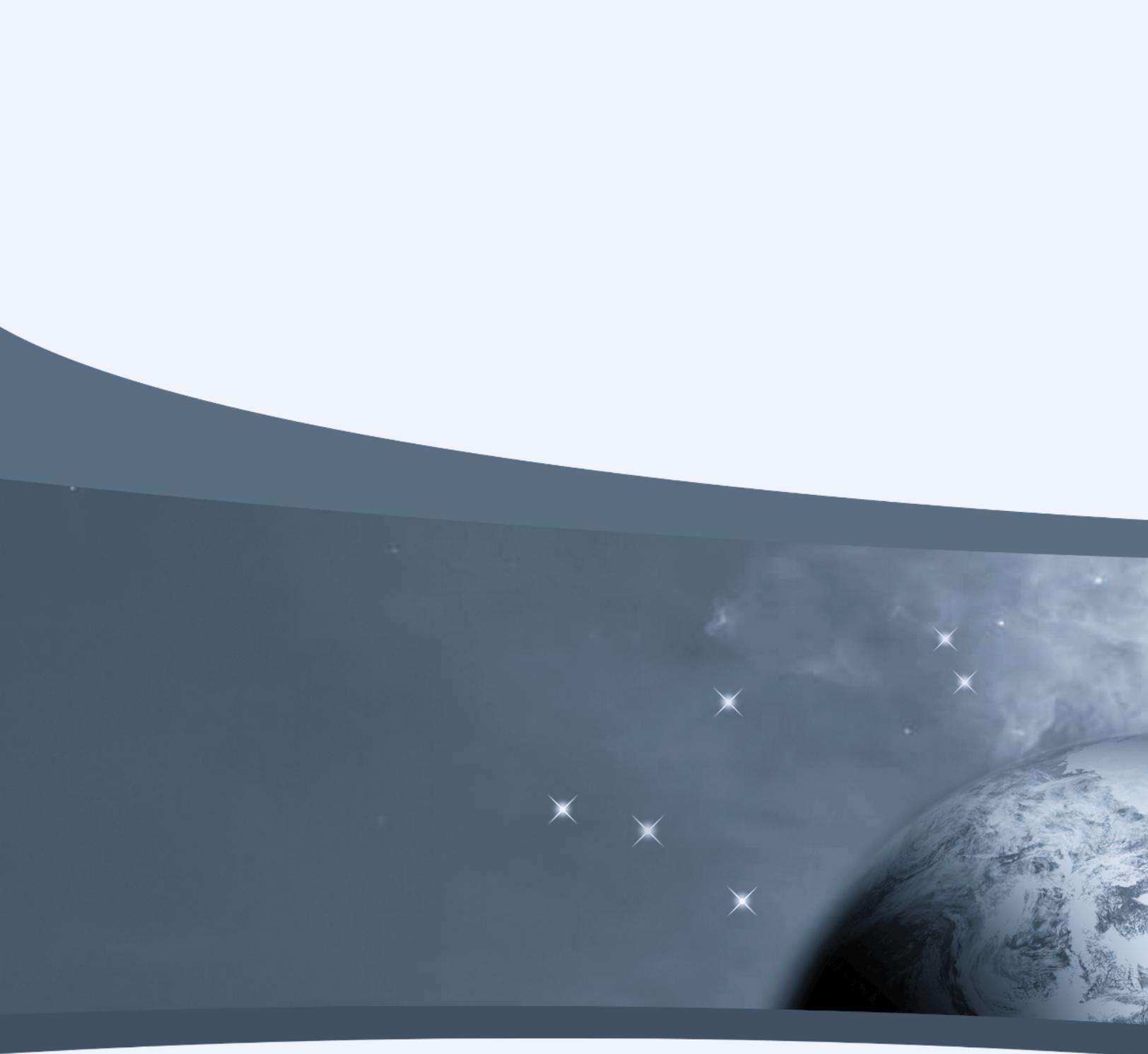
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