

OFFICE OF INSPECTOR GENERAL

SEMIANNUAL REPORT

APRIL 1–SEPTEMBER 30, 2006



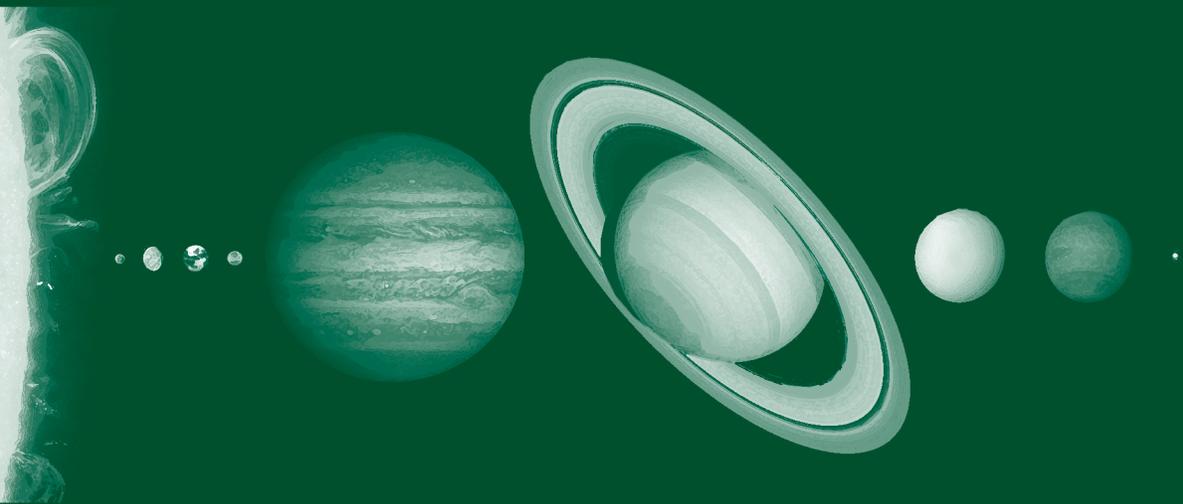


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Robert W. Cobb
Inspector General

FROM THE INSPECTOR GENERAL

A key strategic goal of the Office of Inspector General (OIG) is to maximize value to the National Aeronautics and Space Administration's (NASA's) programs and operations. I am proud of the impact that the investigations and audits cited in this semiannual report have had on NASA. Most notable is the exemplary work of the multidisciplinary team of NASA OIG investigators, procurement specialists, and attorneys on the high-profile fraud investigation involving the Boeing Company. The investigation led to a record \$615 million settlement to resolve criminal and civil allegations that the Boeing Company improperly used a competitor's data to procure contracts in launch services worth billions of dollars from the Air Force and NASA. NASA received \$106.7 million from the settlement and will be able to reapply most, if not all, of those funds to programs that were harmed by Boeing's alleged misconduct.

The Boeing settlement represents a significant accomplishment in our continuing fight against fraud, waste, and abuse. The dedicated OIG team tenaciously uncovered the facts, championed the case, and diligently supported the Department of Justice's (DOJ's) efforts to obtain the record settlement. The OIG also worked closely with the NASA Office of the General Counsel during the settlement negotiations, which has led to heightened cooperation between the OIG and the Office of the General Counsel on programs intended to prevent and deter fraud and to coordinate enforcement where appropriate.

Our investigations and audits demonstrate the breadth and quality of our work, as well as the value our products and services bring to NASA, Congress, and the public. The Office of Investigations completed investigations involving matters as diverse as selling illegal and fraudulent parts, using NASA purchase cards illegally, falsifying test data, possessing and distributing child pornography, distributing drugs, and allegations of violations of standards of conduct. The scope of our audit activities addressed such issues as managing Hurricane Katrina relief efforts; identifying information security weaknesses; tracking problems, root causes, and corrective actions in the Space Shuttle Program; and mitigating risks in international agreements.

In addition, several of our audits addressed complex technical issues in a variety of disciplines, including procurement, engineering, financial management, and information technology. We initiated three technical audits—on software procurement, the NASA Research Announcement process, and Space Shuttle hardware—because individuals brought matters of abuse and mismanagement to our attention. Our work generally

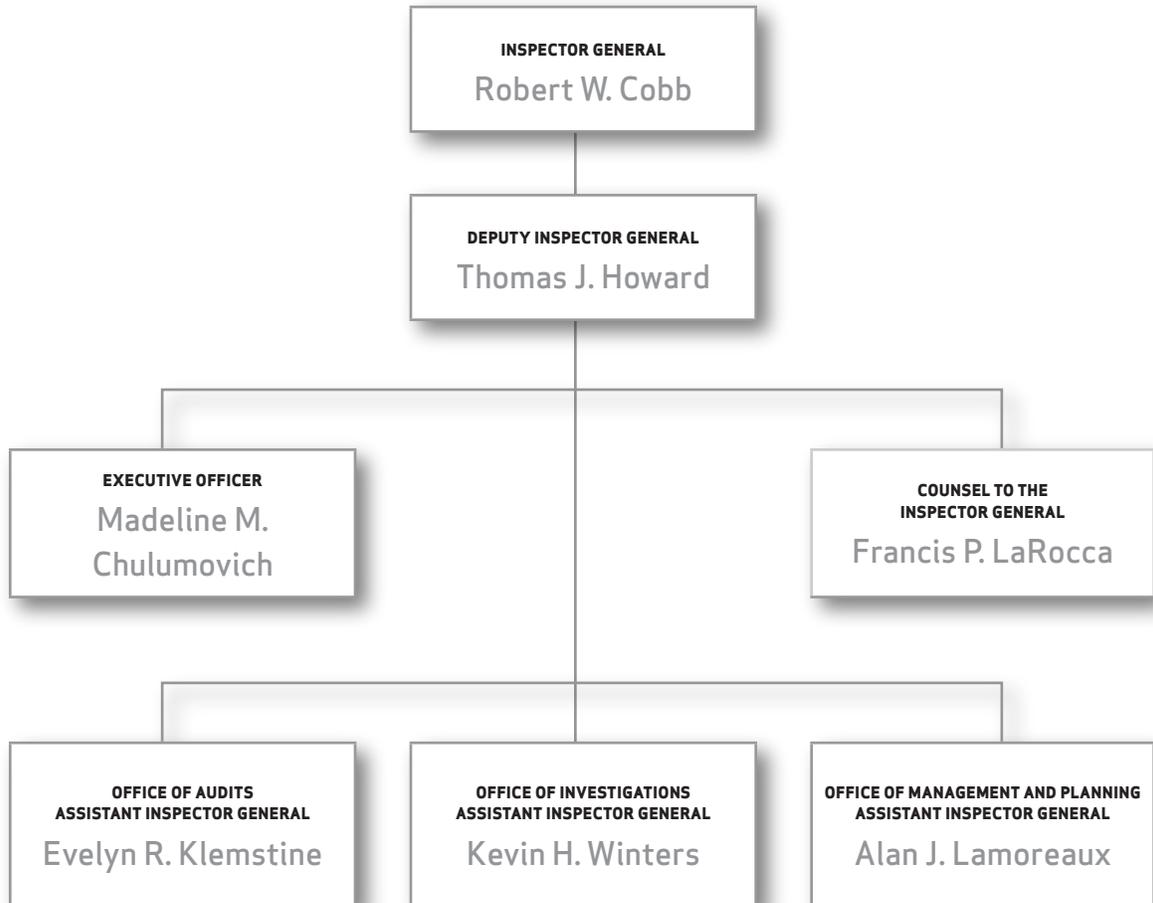
substantiated the complaints. The Agency has accepted our recommendations and has taken or planned corrective actions in response to our recommendations.

I commend the dedicated efforts of the NASA OIG staff in promoting the economy and efficiency of Agency programs and in thoroughly and effectively pursuing fraud, waste, and abuse. This report fairly summarizes these activities of the NASA Office of Inspector General during this reporting period.

A handwritten signature in black ink, reading "Robert W. Cobb". The signature is written in a cursive, flowing style.

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) 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 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, cybercrime, 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.

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 Received \$106.7 Million from a Record Settlement

The Boeing Company paid the U.S. Government \$615 million to resolve criminal and civil allegations that the company improperly used Lockheed Martin Corporation's information to procure contracts for launch services worth billions of dollars from the Air Force and NASA. NASA received \$106.7 million from the \$615 million settlement. If consistent with applicable appropriations law, NASA will be able to reapply those funds directly to programs that were harmed by Boeing's alleged misconduct. The Department of Defense (DOD), the DOJ, and the NASA OIG worked jointly in pursuing the investigation and the historic settlement—a record recovery for both DOD and NASA in Government procurement fraud.

In December 2003, we received allegations that Boeing unfairly secured a NASA Launch Services task order for 19 NASA expendable launch vehicle missions (the "19 Pack") by using Lockheed's proprietary data. Our investigation disclosed that Boeing's possession and use of Lockheed's proprietary data, combined with the unfair advantage the company had gained in the Air Force's Evolved Expendable Launch Vehicle Program contract, enabled Boeing to persuade NASA to award the 19 Pack on a sole-source basis. The investigation determined that the lack of competition and Boeing's false claims for certain costs resulted in Boeing's charging NASA much more for the 19 Pack than NASA should have paid.

Complaint About Procedural Flaws Resulted in Improvements to the NASA Research Announcement (NRA) Process

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

In response to a complaint alleging procedural flaws and other improprieties in NASA's conduct of an NRA, we conducted a review that substantiated many of the complainant's allegations. Specifically, our independent review identified

- documentation deficiencies relating to NASA's evaluation and selection process under the NRA;
- conflicts of interest involving NASA's "dual use" of researchers who submit proposals and also serve as peer reviewers and/or panel members; and

- deficiencies regarding clauses and provisions pertaining to the availability of an ombudsman review process and protest process, which are required by the Federal Acquisition Regulation (FAR) and the National Science Foundation but were missing from the NRA and were not addressed in NASA's "Guidebook for Proposers Responding to NASA Research Announcements."

We were unable to determine whether the specific deficiencies identified had any material impact on the evaluation and disposition of the complainant's proposal. We made the following six recommendations to NASA to correct the identified deficiencies: (1) review all peer-review guidance to ensure that it is consistent with applicable Federal and Agency regulations and policies, (2) train staff members regarding their responsibilities in properly conducting and documenting the evaluation and selection process, (3) revise guidance to require that all NRA evaluation forms include the name of the reviewer and the reviewer's institution and that all forms are signed and dated by the reviewers, (4) revise or establish NASA peer-review guidance to ensure that adequate management controls are in place to mitigate the potential for conflicts of interest, (5) ensure that the required ombudsman and protest clauses and provisions are included in all future NRAs and addressed in the "Guidebook," and (6) consider whether any specific relief to the complainant is warranted. Management's actions were responsive to the recommendations.

NASA Agrees To Address Deficiencies in Its Process for Acquiring Mechanical Computer Aided Design (MCAD) and Data Management Products Tools

Available on the Web at <http://www.hq.nasa.gov/office/oig/hq/audits/reports/FY06/So6012.pdf>.

We reviewed NASA's acquisition process for MCAD and data management engineering software tools after receiving multiple complaints about NASA's approach. These tools are used in support of various NASA programs, including the Space Shuttle and the International Space Station programs, as well as exploration programs, including those for next-generation spacecraft such as the Crew Exploration Vehicle and the Crew Launch Vehicle. Specifically, the complaints alleged that NASA was attempting to establish the MCAD and data management products of Parametric Technology Corporation (PTC) as the de facto NASA standard without an Agency-wide technical assessment and analysis to justify and support this standardization. The complaints also alleged that NASA's acquisition approach in implementing the PTC's MCAD and data management products as the standard across the Agency without proper justification violated Federal procurement regulations. Furthermore, the complaints alleged that a related NASA procurement action—proposing to noncompetitively procure renewed and expanded licensing of the PTC products on a long-term basis—was improper and at odds with the corrective actions the Agency stated that it would take in its letter to the Government Accountability Office (GAO) regarding protests filed with the GAO relating to this matter.

Our review substantiated the complaints concerning the acquisition. The Agency was taking actions to recognize PTC's MCAD and data management products in a standard suite of applications, but we were unable to identify a basis for or an official or organization responsible for justifying these products as the

NASA standard. In addition, we identified procurement irregularities associated with NASA's actions in attempting to procure a long-term renewal of the particular vendor's licenses on a noncompetitive basis.

We recommended that the Office of the Chief Engineer conduct an assessment of NASA's Agency-wide requirements for the MCAD and data management engineering software tools. Further, we recommended that the Johnson Space Center Procurement Officer suspend any procurement activity for long-term licensing of PTC's products pending completion of that assessment and that the Senior Attorney in the NASA Office of the General Counsel notify the GAO, in writing, of any deviations from the corrective actions that the Agency stated it would take in its letter to the GAO in regard to the protested procurement matter. NASA's planned corrective actions were responsive; however, we will conduct followup work as necessary to ensure that NASA implements the recommendations.

Elimination of Duplicate Funding for One Grant Results in Funds Put to Better Use

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

During our audit of NASA's educational and training grants, we found that Worcester Polytechnic Institute was awarded separate Graduate Student Researchers Program (GSRP) grants from two Centers—Langley Research Center and Goddard Space Flight Center—funding a fellowship for the same student. NASA guidelines state that any individual accepting a NASA GSRP fellowship may not concurrently hold another Federal fellowship or traineeship. Although we confirmed that the Institute had only drawn funds from the Langley grant, having duplicate active grants for the same fellowship could result in program funds being misused or wasted. We recommended that the Goddard Procurement Officer direct the cognizant Grants Officer to immediately cancel the second grant and deobligate the associated funding. NASA concurred, canceled the second grant, and deobligated the associated funding in the amount of \$24,000.

NASA's Use of Defense Contract Audit Agency (DCAA) Services in Managing NASA Contracts Is Effective but Can Be Enhanced

Available on the Web at <http://www.hq.nasa.gov/office/oig/hq/audits/reports/FY06/ml-06-011.pdf>.

We audited NASA's use of audit services to determine whether there were any gaps between the services needed to effectively manage NASA contracts and the services obtained from DCAA and, if so, whether NASA took appropriate action to mitigate those gaps. We found that NASA generally obtained and used the necessary audit services from DCAA to manage its contracts effectively. However, we found that NASA contracting officers did not always document the adequacy of contractor business systems (for example, purchasing, estimating, accounting, and compensation systems) prior to negotiating contract actions, as required by the FAR and the NASA FAR Supplement.

We recommended that the NASA Office of Procurement issue guidance to the NASA procurement community to emphasize the need for contracting officers to document the current status of contractor business systems. Management concurred with our recommendation, and planned corrective actions were responsive.

NASA's Internal Controls for Funding Processes Were Adequate To Manage Hurricane Katrina Relief Efforts and Ensure That Funds Were Used for Intended Purposes

Available on the Web at <http://www.hq.nasa.gov/office/oig/hq/audits/reports/FY06/ml-06-009.pdf>.

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. We conducted an audit to determine whether NASA had established the necessary internal controls to manage Hurricane Katrina recovery and reconstruction efforts and to evaluate NASA's estimation and execution of Hurricane Katrina funds and the processes used to ensure that those funds were used for their intended purposes. We found that NASA had established adequate internal controls for segregating, accumulating, and accounting for FY 2005 funds used for Hurricane Katrina recovery and reconstruction efforts. Also, NASA's estimation of funding was reasonable, and the procedures and processes used for the execution of the funds, in general, were adequate to ensure that those funds were used for their intended purposes. In addition, we found that the relief and recovery procurement methods used were appropriate for expeditiously providing vitally needed products and services in response to the emergency situation. However, we identified deficiencies in contract administration activities at a Center and made several recommendations to correct the identified deficiencies. NASA's planned corrective actions were responsive to our recommendations.

Company President Pleads Guilty to Filing False Claims

Following a joint investigation by the NASA OIG and the Defense Criminal Investigative Service, a Government contractor pled guilty to two counts of filing false and fraudulent claims. The investigation revealed that the company president had provided nonconforming parts to NASA and the DOD. NASA and the DOD procured the parts—considered critical applications—for use in the fuel systems of F-18 engines under a Defense Logistics Agency contract.

Former NASA Contractor Employee Indicted

Following a joint investigation by the NASA OIG and the Internal Revenue Service, a former NASA contractor employee was indicted for theft of Government property and income tax evasion. The investigation uncovered fraudulent invoices totaling \$119,000, which was eventually reimbursed to NASA.

Guilty Verdict and Plea Follow Contractor Settlement

Two individuals involved in a scheme to defraud NASA were found guilty of conspiracy to commit mail fraud and mail fraud related to false invoices mailed to a NASA contractor. The guilty verdict and plea 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. (Civil settlement previously reported September 30, 2005, page 14; indictment previously reported March 31, 2006, page 15.)

Former NASA Contractor Employee Sentenced

A former NASA contractor employee was sentenced to 18 months of prison and 3 years of probation and was ordered to pay restitution of \$211,000 to his former employer and to reimburse \$75,000 to NASA. 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. (Guilty plea previously reported March 31, 2006, page 14.)

Former NASA Contractor Purchasing Agent Pleads Guilty in Fraud Scheme

Two individuals, one a former purchasing agent for a NASA and Army contractor, pled guilty to mail fraud and other violations related to a scheme to defraud NASA and the Army. A joint investigation by the OIG and the U.S. Army Criminal Investigation Command found that the individuals created fictitious companies in order to submit over \$240,000 in fraudulent invoices to the Government contractor. (Indictment previously reported March 31, 2006, page 15.)

Former NASA Employees Sentenced for Government Purchase Card Fraud

Two former NASA civil service employees were sentenced to probation and ordered to pay more than \$24,000 in restitution to NASA. Our investigation revealed that the former employees used their Government purchase cards on multiple occasions for personal expenses.

Information Technology (IT) 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. Some of the reports featured here are not publicly available because of the sensitivity surrounding IT security vulnerabilities.

Annual OIG Federal Information Security Management Act (FISMA) Report Identified the Need To Improve NASA's IT Security Posture

Summary available on the Web at <http://www.hq.nasa.gov/office/oig/hq/audits/reports/FY06/ig-06-021-summary.pdf>.

We submitted to the Administrator our annual report, "Federal Information Security Management Act: Fiscal Year 2006 Report from the Office of Inspector General," which provides the Office of Management and Budget (OMB) with our independent assessment of NASA's IT security posture. We plan to identify IT security

as a management and performance challenge in the Agency's FY 2006 "Performance and Accountability Report." We recommended that NASA identify its IT security program as a material weakness reportable in accordance with the Federal Managers' Financial Integrity Act. Our recommendation is based on IT security weaknesses that we identified during this fiscal year, many of which were similar to those we identified in previous years. Examples of recurring security weaknesses include patch management, management of network services, backup of systems, and certification of IT systems. In addition, several NASA Centers have experienced recent IT security incidents, which we are currently investigating. Although our audit and investigation work reflects challenges to and recurrent weaknesses in NASA's IT security program, the Agency has taken steps to improve its overall IT security posture.

Actions Needed To Ensure Protection of Sensitive Agency Information

As part of a PCIE/Executive Council on Integrity and Efficiency (ECIE) project with OMB, we conducted a review to determine whether NASA is implementing safeguards to protect sensitive Agency information in accordance with OMB Memorandum M-06-16, "Protection of Sensitive Agency Information," June 23, 2006. OMB M-06-16 provides specific actions Federal agencies should take to protect personally identifiable information that is either accessed remotely or physically transported outside of the agencies' secured, physical perimeters. We found that, overall, NASA had not complied with OMB's requirements, but it is taking steps to address Agency deficiencies. The NASA Office of the Chief Information Officer (CIO) is currently drafting corrective actions and milestones for protecting sensitive information to ensure compliance with OMB M-06-16.

Implementation of NASA's Information Technology Capital Planning and Investment Control Process Was Not Consistent at All Centers

Available on the Web at <http://www.hq.nasa.gov/office/oig/hq/audits/reports/FY06/ig-06-017.pdf>.

We conducted an audit to assess the adequacy of NASA's selection, control, and evaluation processes for developing and managing the Agency's IT investment portfolio using the GAO IT Investment Management framework. Overall, NASA had developed and implemented key selection and control processes needed to manage its Office Automation, Information Technology Infrastructure, and Telecommunications (OAIT) investment portfolio. However, we found inconsistent implementation of the processes. We also found that improvements were needed to ensure that all of the Agency's OAIT investments are selected in accordance with the NASA IT Capital Planning and Investment Control (CPIC) policy. In addition, Center Offices of the CIO used the common portfolio categories inconsistently.

We recommended that the NASA CIO establish clear requirements mandating compliance with NASA's IT CPIC policy and that the NASA CIO review Centers' IT CPIC submissions to ensure that they are in compliance. We also recommended that the NASA CIO ensure that all investments in the OAIT portfolio undergo the portfolio selection process as specified in the NASA IT CPIC policy during the next IT capital planning

cycle (budget year 2008). Management concurred with all three recommendations and provided information on planned corrective actions, which were responsive to our recommendations.

Security Controls over a NASA Center's Computer Network Needed Improvement

Summary available on the Web at <http://www.hq.nasa.gov/office/oig/hq/audits/reports/FY06/ig-06-008-summary.pdf>.

Our audit of a NASA Center's network security controls found that the Center's controls did not provide reasonable assurance of network security. We found that system administrators did not (1) periodically review critical firewall audit logs and modems used to protect the computer network, (2) monitor for the use of files and commands with security risks, (3) consistently perform system backups, or (4) meet NASA requirements for storing backup media. System administrators also accessed a key server containing security information without adequate encryption and did not remove unnecessary services from the network. Further, software patches to fix security weaknesses in the network servers were not installed in a timely manner, and vulnerabilities found during security scans of the systems were not corrected promptly. Finally, NASA did not have a formal policy for laptops or other electronic devices used by foreign nationals visiting the NASA Center or working on site. These weaknesses, if uncorrected, could lead to the compromise of the Center's network, data, and systems.

We made 13 recommendations to Center management to improve security controls over the network, to include developing, implementing, and enforcing procedures and controls over auditing and monitoring, the use of software and unnecessary services, the installation of patches, and the performance of system backups. Management took corrective actions that were responsive to our recommendations.

Training Program Needed To Ensure Employee Awareness of Requirements for Identifying and Handling Sensitive But Unclassified (SBU) Information

Available on the Web at <http://www.hq.nasa.gov/office/oig/hq/audits/reports/FY06/ig-06-010-r.pdf>.

We determined that, overall, NASA's policies and procedures for handling SBU information are consistent with Federal laws and regulations. However, we found that NASA lacked a comprehensive SBU training program for civil servants and contractors on the requirements for protecting SBU information. We recommended that NASA establish an Agency-wide comprehensive training program that specifies the policies and procedures for identifying and handling SBU information. Management concurred with the recommendation, and its planned corrective actions were responsive to our recommendation.

Former NASA Contractor Employee Pleads Guilty to Possession of Child Pornography

A former NASA contractor employee was charged and pled guilty to one count of possessing child pornography. Our investigation revealed that the former employee used his NASA workstation to download and view child pornography.

Former NASA Employee Pleads Guilty to Child Pornography Charge

A former GS-15 NASA employee was charged and pled guilty to distributing pornographic materials. The investigation revealed that the employee used his NASA computer to possess and distribute child pornography.

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.

Space Shuttle Program's Problem Reporting and Corrective Action (PRACA) Process at Kennedy Space Center (KSC) Could Be Improved

Available on the Web at <http://www.hq.nasa.gov/office/oig/hq/audits/reports/FY06/ig-06-014.pdf>.

The intent of PRACA is to track problems and their root causes, document corrective actions, and provide a source of data that the Agency can use both to learn from and to prevent problem occurrences. Although NASA and the United Space Alliance (USA) adequately defined and documented PRACA roles and responsibilities, the KSC data set of the Space Shuttle Program's PRACA data system did not support the system's goals and contained inaccurate and incomplete data. Such deficiencies reduced the usefulness of the KSC data set as a management tool for improving Space Shuttle safety and reliability and as a historical record for NASA's Space Operations and Exploration Systems Mission Directorates.

Our work resulted in recommendations that should improve the accuracy and completeness of the KSC PRACA information and increase its value as a management tool. Specifically, we recommended that NASA clarify PRACA guidance, improve oversight of USA PRACA activities, and include a performance metric in USA's award fee based on the accuracy of problem reports. We also recommended that NASA's Exploration Systems Mission Directorate consider our report findings when developing PRACA requirements and goals for NASA's new human and robotic exploration programs. In response to the report, NASA agreed to review and revise PRACA guidance and consider the report findings when developing the baseline requirements for the new PRACA process. We have requested that NASA provide additional comments regarding our recommendations to improve oversight of USA activities and to ensure that the award fee includes a performance metric based on the accuracy of the problem reports.

Allegations About Damaged Space Shuttle Cold Plates Partially Substantiated

Available on the Web at <http://www.hq.nasa.gov/office/oig/hq/audits/reports/FY06/ig-06-012.pdf>.

We conducted a review of Space Shuttle cold plates in response to a complaint that a potentially damaged cold plate was located in the avionics box of Orbiter Vehicle (OV) 104 and that damage to Shuttle cold plates was excessive and not accurately reported in the Problem Reporting and Corrective Action system. Cold plates are part of the Shuttle cooling system and dissipate heat from electronic components to ensure that the components do not overheat and stop working. If a single cold plate fails, the loss to the Shuttle cooling system would likely result in excessive heat buildup that could result in mission termination, as required by Shuttle flight rules.

We substantiated that OV-104 was approved for one flight with a potentially damaged cold plate in the avionics cooling system. However, that approval was made at an appropriately high level. At the time the Space Shuttle Program made the decision to approve the cold plate for the OV-104 mission, the actual damage to the cold plate was unknown. The Program Requirements Control Board (PRCB) for the Space Shuttle Program considered input from multiple sources concerning the cold plate and determined that the overall risk of flying with the potentially damaged cold plate was low and acceptable in light of the need for the OV-104 to be available for a rescue mission. Although the PRCB was willing to accept the risk for one mission, it was not willing to accept the cumulative effects of this same risk over multiple missions. As a result, the cold plate was removed and replaced in January 2006.

We partially substantiated that damage to cold plates was excessive. We only partially substantiated the issue because we could not establish a comparative baseline to identify an “excessive” level of cold plate damage. However, we did determine that the average number of cold plate damage reports had increased since 2001. To reduce the overall amount of cold plate damage, we recommended changes to damage testing methods, quality control, and training of the technicians who remove and install the cold plates. Management concurred with our recommendations and has taken or is taking appropriate corrective action.

Aerospace Subcontractor Company Employees Plead Guilty

The president and vice president of an aerospace subcontractor company pled guilty to conspiring to defraud the Government, and a former clerk pled guilty to making false statements. The OIG investigation showed that the aerospace company falsified certifications related to metal sold to NASA and DOD contractors. (Indictments previously reported September 30, 2005, page 20.)

Employee of Battery Manufacturer Pleads Guilty

A laboratory supervisor of a company that manufactures batteries and battery cells for NASA pled guilty to falsifying test data. The supervisor was responsible for overseeing the testing of cells for batteries that power Extravehicular Mobility Units (spacesuits) 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.

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 Antideficiency Act Violations Require Reporting to the President and Congress

Available on the Web at <http://www.hq.nasa.gov/office/oig/hq/audits/reports/FY06/ig-06-009.pdf>.

NASA violated the Antideficiency Act by authorizing and obligating funds without apportionment from OMB. Specifically, during FY 2005, NASA authorized and obligated about \$1.6 billion in unobligated balances carried over from FY 2004 before requesting apportionment from OMB. During FY 2004, NASA authorized and obligated about \$30.4 million more than the amount of funds that OMB had apportioned for one account.

After NASA violated the Antideficiency Act by authorizing and obligating the unapportioned funds, it requested, and OMB approved, FY 2005 apportionments of about \$2 billion in unobligated balances carried over from FY 2004. In addition, in September 2005, NASA requested that OMB reappportion about \$30.4 million in FY 2004 funds from one account to cover an overobligation, but OMB denied the request. NASA corrected the overobligation by modifying two contracts to change the funding source from 2004 to 2005.

We recommended that the Administrator report the Antideficiency Act violations to the President and Congress, as required by OMB, for the funds carried over from FY 2004 to FY 2005 for each affected account and for the \$30.4 million. In addition, we recommended that the Administrator request a comprehensive demonstration by the Office of the Chief Financial Officer (CFO) that appropriations available to be spent in FY 2006 can be traced from appropriation to apportionments to allotments to commitments and to obligations to help ensure that NASA is not violating the act for FY 2006. The Agency has completed or has planned corrective actions that are responsive.

Compliance with the Federal Financial Management Improvement Act of 1996

The Federal Financial Management Improvement Act of 1996 (FFMIA) requires that agencies establish a remediation plan when their financial systems do not comply with the provisions of the act. Those provisions

require each agency to implement and maintain financial management systems that comply substantially with Federal financial management system requirements, applicable Federal accounting standards, and the U.S. Standard General Ledger (USSGL) 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 Inspectors General to report when their respective agencies have not met the intermediate target dates established in their remediation plans.

In the FY 2005 “Performance and Accountability Report,” NASA management and the Agency’s independent auditor, Ernst & Young (E&Y), state that NASA’s financial management system does not comply substantially with FFMIA. The Integrated Enterprise Management Program and the Office of the CFO are responsible for correcting the noncompliances. NASA’s Office of the CFO submitted a remediation plan dated May 22, 2006. The remediation plan defines corrective actions addressing the FFMIA material weaknesses disclosed in E&Y’s “Report on Compliance with Laws and Regulations.” NASA is in process of taking the following remedial actions:

- Resolve the data integrity issues from the initial data conversion, those from postconversion processing, and those due to configuration issues in the Core Financial Module. In addition, NASA is taking actions to enable the production of detailed subsidiary listings for accounts receivable, accounts payable, and undelivered orders.
- Fully reconcile the Agency’s fund balance with the Department of the Treasury; monitor it on a regular basis to ensure compliance with NASA and Treasury policies, procedures, and practices; and process future corrections in a timely manner.
- Establish procedures to control system changes, perform transaction testing, process error corrections and prior period adjustments properly, and perform an ongoing monthly review of financial statements in order to validate that the reported financial data are consistently reliable.
- Establish system safeguards and necessary compensating controls; incorporate reengineered processes into the Integrated Enterprise Management Systems, Applications, and Products Version Update to ensure that the resulting accounting treatment of costs is in substantial compliance with USSGL requirements.

As of September 2006, NASA had not met the intermediate milestones established in the remediation plan. However, NASA anticipates achieving compliance with the act during FY 2007. Furthermore, NASA is considering revising the remediation plan to address corrective actions that will integrate the property subsidiary system with the Core Financial Module.

Other Audit and Investigative Matters

NASA's Emergency Preparedness Plans Did Not Fully Comply with the NASA National Incident Management System (NIMS) Implementation Plan

Available on the Web at <http://www.hq.nasa.gov/office/oig/hq/audits/reports/FY06/ig-06-016.pdf>.

Our audit determined that NASA's emergency preparedness plans did not fully comply with the NASA NIMS Implementation Plan. The following five NIMS components apply to NASA: Command and Management, Preparedness, Resource Management, Communications and Information Management, and Supporting Technologies. We reviewed the plans at 12 locations and found that none addressed Preparedness, Resource Management, Communications and Information Management, and Supporting Technologies. The fifth component—Command and Management—was only partially addressed by three locations' plans.

The plans we reviewed did not address interoperability across NASA Centers and component facilities, delineate processes for sharing resources that may be required during a national emergency, or incorporate NIMS as outlined by the NASA NIMS Implementation Plan. As a result, NASA might not be able to fulfill its National Response Plan mission effectively during an incident of national significance. We made several recommendations, and NASA is taking appropriate corrective actions.

NASA Can Improve Its Risk Mitigation for Science Projects with Japan

Available on the Web at <http://www.hq.nasa.gov/office/oig/hq/audits/reports/FY06/ig-06-020.pdf>.

We performed the audit to determine whether NASA managers of these projects complied with NASA procedural requirements by taking appropriate action to identify and mitigate risks and whether international agreements with Japan adequately addressed risk management requirements and standards between the parties. For the projects we reviewed, we found that for NASA's responsibilities, the science project managers had taken appropriate action to identify and mitigate risks. However, for the Japanese partners' responsibilities, science project managers identified information-sharing risks stemming from export control laws and regulations (export control risks) and mission assurance risks but did not take actions to mitigate those risks.

Appropriate actions were not taken because NASA's policy does not require NASA science project managers and export administrators to work collaboratively during the planning phase of the project's life cycle to identify and assess export-controlled data or require project managers to prepare a technology transfer control plan. NASA policy also does not describe risk management and mission assurance requirements and standards that should be addressed in international agreements. We recommended that management make several improvements to NASA's policies and procedures, and NASA's planned corrective actions were responsive.

Former Director of a Space Flight Museum Sentenced

A former museum director was sentenced to 3 years in prison and 3 years of probation and was ordered to pay restitution of \$132,374 for the theft of NASA property, mail fraud, wire fraud, money laundering, and interstate transportation of stolen property. (Indictment previously reported September 30, 2005, page 21; conviction previously reported March 31, 2006, page 22.)

Former NASA Contractor Employee Sentenced for Presenting False Claims

On September 8, a retired NASA contractor employee was sentenced to 6 months of home confinement and 3 years of probation and ordered to pay a \$250,000 fine and \$423,366 in restitution to NASA for presenting false claims to his employer and NASA for reimbursement. A NASA OIG investigation disclosed that while working as a contract employee, the individual received \$647,000 in fraudulent commissions from the lease of buildings used to support the Space Shuttle Program.

NASA Employee Indicted on Drug-Related Charges

Following a joint investigation conducted by the NASA OIG, the Drug Enforcement Administration, and other state and local law-enforcement authorities, a NASA employee at KSC was arrested and indicted for conspiracy to manufacture, distribute, or dispense illegal drugs. After the arrest, the employee resigned from NASA.

Individual Pleads Guilty to Committing a Felony—Arson of Property

An individual pled guilty to an arson felony charge and was sentenced to 3 years in prison. In March 2006, the individual set fire to a newly installed \$800,000, 12-meter satellite dish at the Jet Propulsion Laboratory (JPL). JPL personnel estimate that the cost of repairing the dish will be between \$100,000 and \$250,000.

Alleged Violation of the Standards of Ethical Conduct by a Senior Executive Was Unfounded

We investigated an alleged violation of the Standards of Ethical Conduct for Employees of the Executive Branch. Specifically, a source alleged that a senior NASA official's participation in matters involving that official's prior employer violated 5 CFR 2635.502, which provides guidance on how matters involving certain personal and business relationships should be handled. Our investigation (which included consultation with the Office of Government Ethics) uncovered no evidence of improper or inappropriate conduct on the part of the senior official. However, we believe there were inconsistencies with the ethics advice the NASA Office of the General Counsel gave to the senior official. We are currently drafting recommendations for the NASA Office of the General Counsel's consideration.

LEGAL MATTERS

We assisted the DOJ in the enforcement and defense of two court proceedings involving Inspector General (IG) subpoenas arising out of an investigation. We achieved a successful ruling in one proceeding whereby the subject attempted to quash the IG subpoena served on a third party. The judge ruled that the IG lawfully exercised his subpoena authority and denied the motion to quash. In the second matter, the subpoenaed party withdrew its opposition and agreed to comply with the subpoena.

REGULATORY REVIEW

During this reporting period, we reviewed and commented on 27 NASA-wide and Headquarters directives. Of those reviewed, the following were of particular significance to the OIG: NASA Policy Directive (NPD) 1350, “Strategic Alliances”; NPD 8610.23C, “Launch Vehicle Technology Oversight Policy”; NPD 2010.1D, “Court Actions, Proceedings, or Communications with Non-NASA Attorneys Involving NASA or NASA Employees”; NPD 8010.2E, “Use of the SI (Metric) System of Measurement in NASA Programs”; and NASA Procedural Requirements 2800.1A, “Managing Information Technology.”

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 with NASA's Aerospace Safety Advisory Panel in August 2006 and also attended the 16th Biennial Forum of Government Auditors.
- On June 13 and July 20, senior managers from the NASA OIG and the Tennessee Valley Authority's OIG met to discuss the organizations' best practices.
- We provided support to the Homeland Security Roundtable of the PCIE/ECIE. The Roundtable was established to coordinate OIG reviews of Federal relief efforts in the aftermath of Hurricane Katrina. We attended Roundtable meetings and provided NASA-related information that was periodically submitted to Congress. Also, we continue to support the Roundtable's efforts to identify how the IG community can be better organized and prepared for catastrophic disasters.
- The NASA OIG continued to participate in meetings with the heads of Federal law-enforcement agencies, the DOJ's Anti-Terrorism Advisory Council, the Terrorism Early Warning Group, the High Risk Money Laundering and Related Financial Crimes Area, and the Joint Terrorism Task Force.
- In September, we provided training in digital forensics analysis as an investigative tool to the National Centre for Policing Excellence in Great Britain.

AWARDS

In September 2006, the U.S. Attorney for the Central District of California recognized the exemplary work of investigators from DOD and NASA OIG employees Wade Krieger, Special Agent, and Joseph Fasula, Procurement Analyst, for their work on the Boeing investigation.



From left to right: Joseph Fasula and Wade Krieger, NASA OIG; Joe Cassidy, Air Force Office of Special Investigations; Christine Adams, Assistant U.S. Attorney; and Craig Wyckoff, Mark Mayeda, and Mike Litterelle, Defense Criminal Investigative Service.

On July 24, 2006, OIG Special Agents Mark Voegelin and Jim Haughton were recognized by the U.S. Attorney's Office, Norfolk, Virginia, with a public service award for contributing to the attainment of the highest standards of cooperative law-enforcement and justice in the United States. The award was based on a joint investigation with the OIG and the Federal Bureau of Investigation (FBI) that resulted in several convictions.



NASA OIG employees Mark Voegelin (left) and Jim Haughton (right) with FBI Special Agent Chris O'Donnell (center).

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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	20
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	28
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	16

APPENDIX B

Statistical Reports

During the period April 1 through September 30, 2006, the Office of Audits issued 19 products.

Table 1: Audit Reports and Impact

REPORT NO./ DATE ISSUED	REPORT TITLE	IMPACT
Audit Area: Procurement		
Memorandum 07/11/06	Final Memorandum on Improvements Needed in NASA's Evaluation and Selection Processes Under NASA Research Announcements	Improved evaluation and selection processes related to NRAs.
Memorandum 08/10/06	Final Memorandum Regarding Duplicate Grant Funding	NASA canceled \$24,000 in duplicate grant funding.
Memorandum 08/23/06	Final Memorandum on NASA's Acquisition Approach Regarding Requirements for Certain Engineering Software Tools To Support NASA Programs	Assurance that the Agency's acquisition approach is sound and complies with Federal procurement regulations.
IG-06-013 08/28/06	Subcontract Management by United Space Alliance Under the Space Flight Operations Contract	Assurance that the process for awarding subcontract actions is intended to result in fair and reasonable prices.
Memorandum 08/29/06	Final Memorandum on the Audit of the Management of Hurricane Katrina Disaster Relief Efforts	Guidance to ensure that personnel comply with the Federal Acquisition Regulation (FAR) in future emergencies.
Memorandum 09/25/06	Final Memorandum on Audit of NASA's Use of Defense Contract Audit Agency (DCAA) Services in Managing NASA Contracts	Guidance to ensure that contracting officers document the adequacy of contractor business systems before negotiating cost-reimbursement contracts.
Audit Area: Information Technology		
IG-06-010 05/09/06	NASA Should Improve Employee Awareness of Requirements for Identifying and Handling Sensitive But Unclassified Information	NASA established an Agency-wide training program for handling Sensitive But Unclassified (SBU) information.
IG-06-008 06/02/06	Security of [a NASA Center's Computer] Network	Improved IT security controls to protect NASA data and systems against possible compromise.
IG-06-017 09/14/06	Final Memorandum on NASA's Information Technology Capital Planning and Investment Control	Improvements in the Agency's management of its IT investment portfolio.
Other 09/22/06	Results of Review of NASA's Efforts To Protect Sensitive Agency Information	NASA will develop policy to implement safeguards to protect sensitive Agency information in accordance with OMB requirements.

Table 1: Audit Reports and Impact (continued)

REPORT NO./ DATE ISSUED	REPORT TITLE	IMPACT
IG-06-021 09/28/06	Federal Information Security Management Act: Fiscal Year 2006 Report from the Office of Inspector General	Identified areas for improving NASA's overall IT security posture.
Audit Area: Financial Management		
IG-06-009 04/10/06	Antideficiency Act Violations at the National Aeronautics and Space Administration	Improved processes related to apportionment requests and approvals and training on the budget process should prevent Antideficiency Act violations in the future.
Audit Area: Safety		
IG-06-011 05/09/06	Final Memorandum on the Audit of NASA's Response to the Columbia Accident Investigation Board Recommendation Concerning Mission Management Team Training	NASA implemented an expanded training program in response to issues raised by the Columbia Accident Investigation Board.
IG-06-012 04/28/06	Final Memorandum on the Review of Space Shuttle Cold Plates	Revised handling and testing methods for Space Shuttle cold plates should reduce overall cold plate damage and improve NASA's ability to assess damage that does occur.
IG-06-014 08/30/06	Space Shuttle Program Problem Reporting and Corrective Action Process at Kennedy Space Center Needs Improvement	Improved accuracy and completeness of KSC PRACA information will increase its value as a management tool.
Audit Area: Other		
IG-06-016 08/29/06	NASA's Implementation of the National Incident Management System	Assurance that NASA is prepared to effectively fulfill its National Response Plan mission during an incident of national significance.
IG-06-020 09/12/06	NASA Can Improve Its Mitigation of Risks Associated with International Agreements with Japan for Science Projects	Assurance that appropriate actions are taken to mitigate export control and mission assurance risks with international partners.
Audit Area: Quality Control Reviews		
IG-06-015 09/22/06	Quality Control Review Report on Reviews of Headquarters Exchange Financial Statements for Fiscal Years Ended in September 30, 2003, and September 30, 2004	Corrective action to comply with OMB Circular A-133.
IG-06-019 08/29/06	Quality Control Review of Goodman & Company's Audit of Langley Exchange Financial Statements for Fiscal Year Ended September 30, 2005	Corrective action to comply with OMB Circular A-133.

Table 2: Audits with Funds Put to Better Use

	NUMBER OF AUDIT REPORTS	TOTAL FUNDS PUT TO BETTER USE
No management decision made by beginning of period	0	0
Issued during period	1	\$24,000
Needing management decision during period	0	0
Management decision made during period	1	\$24,000
Amounts agreed to by management	1	\$24,000
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: Procurement					
Memorandum 01/30/06	Final Memorandum on the Review of NASA's "Classroom of the Future" Cooperative Agreement with Wheeling Jesuit University	02/24/06	1	2	10/31/06
IG-06-003 02/06/06	Integrated Enterprise Management Program Contract Oversight Needs Improvement	03/10/06	2	10	11/30/06
Audit Area: Information Technology					
Memorandum 12/19/05	NASA Lacks Procedures To Define, Recognize, and Protect Meta-Data	12/19/05	2	0	11/30/06
Memorandum 01/19/06	Review of the Use of Voice Over Internet Protocol at NASA	01/19/06	1	1	10/30/06
IG-06-007 03/17/06	NASA's Implementation of Patch Management Software Is Incomplete	03/17/06	2	0	09/30/09

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-06-004 03/21/06	Information Assurance Controls on [a Center's Networked] Systems Need Strengthening	03/21/06	2	4	11/30/06
Audit Area: Space Operations and Exploration					
IG-06-006 03/14/06	Final Memorandum on NASA's Policies for Protecting Technology Exported to Foreign Entities	03/14/06	1	2	01/26/07
REPORTED IN PREVIOUS SEMIANNUAL REPORTS					
Audit Area: Information Technology					
IG-05-011 03/28/05	Information Assurance Controls in [a System] at [a NASA Center]	09/26/05	1	24	09/30/06 ¹
IG-05-013 03/30/05	Final Memorandum on Review of Organizational Structure and Management of Information Technology and Information Technology Security Services at NASA	03/30/05	1	1	01/31/07
IG-05-016 05/12/06	NASA's Information Technology Vulnerability Assessment Program	05/12/05	1	3	09/30/09
IG-05-025 09/16/05	NASA's Performance Measure Data Under the Federal Information Security Management Act	09/16/05	2	3	10/01/08
IG-05-027 09/30/05	Information Technology Security Controls on NASA's Administrative Systems and Networks in [NASA Installations]	09/30/05	1	4	10/31/06

¹ The management-estimated completion date has expired. Management has not provided the OIG with a revised date.

Table 4: Status of A-133¹ Findings and Questioned Costs Related to NASA Awards

Total Audits Reviewed	44
Audits with Recommendations	44
Total Disallowed/Questioned Costs	\$1.9 million
Total Disallowed/Questioned Costs Recovered/Sustained	0
Recommendations:	
Beginning Balance	93
New Recommendations	76
Recommendations Dispositioned	0
Ending Balance	169

¹ 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.

Table 5: Legal Activities and Reviews

FOIA Matters	23
Inspector General Subpoenas Issued	18
Regulations Reviewed	27

Table 6: Investigations Activities

Cases Opened	27
Cases Closed	46
Cases Pending	138
Hotline Complaints Received	109
Referred to OA	11
Referred to OI	31
Referred to NASA Management	36
Referred to Other Agencies	1
No Action Required	30

Table 7: Investigations Impact

Indictments/Informations	44
Convictions/Plea Bargains/Pretrial Diversions	18
Cases Referred for Prosecution	37
Cases Declined	34
Cases Referred to NASA Management for Action	32
Against NASA Employees	10
Against Contractor Employees	7
Against Firm(s)	4
Other	11
Case Recommendations Referred to Management for Action	23
Against NASA Employees	7
Against Contractor Employees	9
Against Firm(s)	3
Other	4
Cases Referred to Other Agencies for Action	1
Suspensions/Debarments from Government Contracting	3
Individuals	1
Firms	2
Administrative/Disciplinary Actions ¹	21
Against NASA Employees	11
Against Contractor Firm(s)	0
Reported Actions Taken by Contractor Against Contractor Employees	10

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

Table 7: Investigations Impact (continued)

Total Recoveries (in Dollars)	\$619,025,536
NASA ²	\$106,754,072
NASA Property	\$2,248
Other ³	\$512,269,216

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, the DCAA issued 303 audit reports (excluding preaward contractor proposal evaluations) on contractors who do business with NASA. The DCAA also issued 142 reports on audits of NASA contractor proposals totaling \$18,653,111,000, which identify cost exceptions totaling about \$572,590,000. However, some of the 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 in response to 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 68 reports with \$9,929,000 of questioned costs and 28 reports with \$8,824,000 of funds put to better use. NASA management sustained 64.4 percent of the DCAA's questioned costs and 66.5 percent of funds put to better use.

Table 8: DCAA Audits with Questioned Costs^{1,2}

	NUMBER OF AUDIT REPORTS ³	TOTAL COSTS QUESTIONED
No Management Decision Made by Beginning of Period ⁴	248	\$231,127,000
Issued During Period	75	\$22,144,000
Needing Management Decision During Period	323	\$253,271,000
Management Decision Made During Period	68	\$9,929,000
Dollar Value of Contract Recoveries	n/a	\$6,399,000
Dollar Value of Costs Not Recovered	n/a	\$3,530,000
No Management Decision Made by End of Period	255	\$242,342,000

¹ These data are provided to the NASA OIG by the DCAA and include 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 the DCAA to verify the accuracy of reported data. Accordingly, submitted data are subject to change based on subsequent DCAA authentication.

² None of the data presented include 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 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.”

⁴ Total is the amount beginning April 1, 2006, adjusted for (a) contracts not awarded and (b) revised audit findings and recommendations.

Table 9: 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	50	\$45,871,000
Issued During Period	49	\$573,505,000
Needing Management Decision During Period	99	\$619,376,000
Management Decision Made During Period	28	\$8,824,000
Amounts Agreed to by Management	n/a	\$5,868,000
Amounts Not Agreed to by Management	n/a	\$2,956,000
No Management Decision Made by End of Period	71	\$610,552,000

¹ These data are provided to the NASA OIG by the DCAA and include 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 the DCAA to verify the accuracy of reported data. Accordingly, submitted data are subject to change based on subsequent DCAA authentication.

² None of the data presented include 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 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” found on the previous page.

⁴ Represents amounts beginning April 1, 2006, 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 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 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.

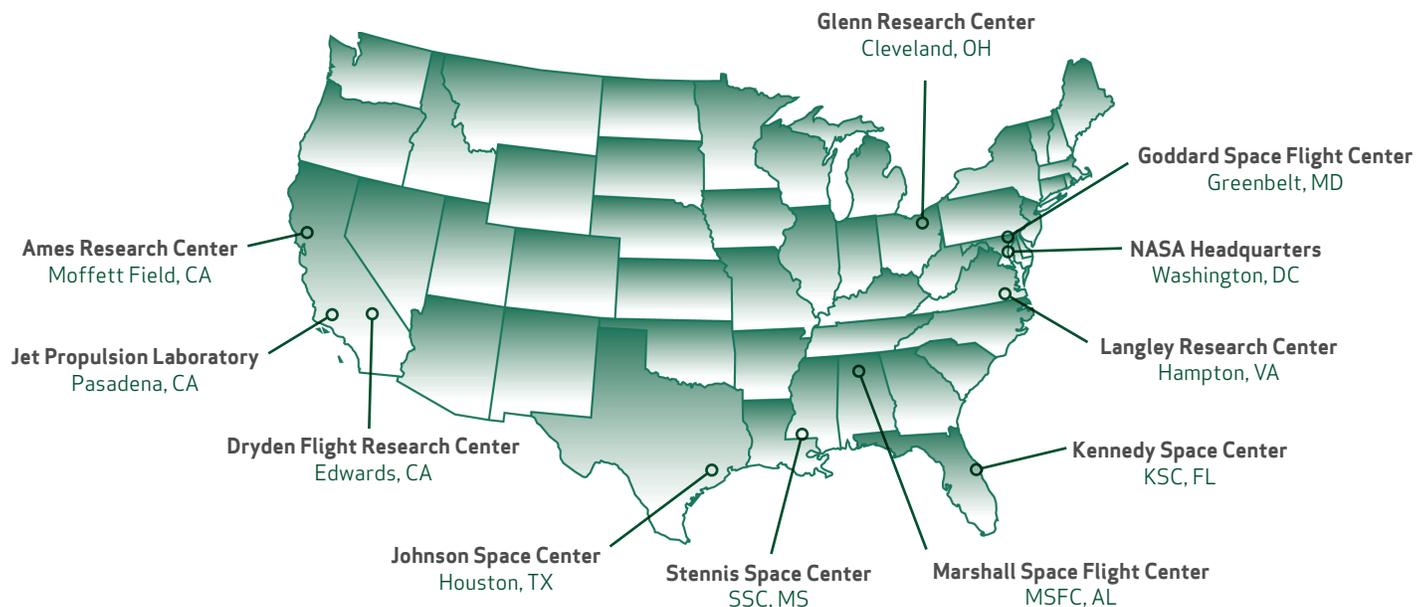
Recommendation Resolved. A recommendation is considered resolved when (1) management agrees to take the recommended corrective action, (2) the corrective action to be taken is resolved through agreement between management and the OIG, or (3) the Audit Follow-up Official determines whether the recommended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

Acronyms

CFO	Chief Financial Officer
CIO	Chief Information Officer
CPIC	Capital Planning and Investment Control
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
FAR	Federal Acquisition Regulation
FBI	Federal Bureau of Investigation
FFMIA	Federal Financial Management Improvement Act
FISMA	Federal Information Security Management Act
FOIA	Freedom of Information Act
FY	Fiscal Year
GAO	Government Accountability Office
GSRP	Graduate Student Researchers Program
IG	Inspector General
IT	Information Technology
JPL	Jet Propulsion Laboratory
KSC	Kennedy Space Center
MCAD	Mechanical Computer Aided Design
NASA	National Aeronautics and Space Administration
NIMS	National Incident Management System
NPD	NASA Policy Directive
NRA	NASA Research Announcement
OA	Office of Audits
OAIT	Office Automation, Information Technology Infrastructure, and Telecommunications
OI	Office of Investigations
OIG	Office of Inspector General
OMB	Office of Management and Budget
OMP	Office of Management and Planning
OV	Orbiter Vehicle
PCIE	President's Council on Integrity and Efficiency
PRACA	Problem Reporting and Corrective Action
PRCB	Program Requirements Control Board
PTC	Parametric Technology Corporation
SBU	Sensitive But Unclassified
USA	United Space Alliance
USSGL	United States Standard General Ledger



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