

SEP 25 2006



TO: Assistant Administrator for Procurement
Chief Financial Officer
Director, Goddard Space Flight Center
Director, Johnson Space Center
Director, Marshall Space Flight Center

FROM: Assistant Inspector General for Auditing

SUBJECT: Final Memorandum on Audit of NASA's Use of Defense Contract
Audit Agency (DCAA) Services in Managing NASA Contracts
(Report No. ML-06-011; Assignment No. A-06-011-00)

The purpose of this memorandum is to notify NASA management of an issue we identified during our audit of *NASA's Use of Defense Contract Audit Agency (DCAA) Services in Managing NASA Contracts* (Assignment No. A-06-011-00). Our audit objective was to determine whether there were any gaps between the audit services that NASA needed to effectively manage its contracts and the audit services actually provided by DCAA and, if so, whether NASA took appropriate action to mitigate those gaps (see Enclosure 1 for details on the audit scope and methodology).

We found that NASA generally obtained and used the audit services needed to effectively manage the 63 procurement actions (24 basic contracts and 39 contract modifications) under cost-reimbursement contracts that we reviewed at the Johnson Space Center, Marshall Space Flight Center, and Goddard Space Flight Center. Specifically, we found no significant gaps wherein DCAA audit services (for example, proposal field pricing support, contract termination reviews, defective pricing reviews, cost accounting standard reviews, and final incurred cost audits) were needed and NASA did not obtain those services from DCAA or take appropriate action to mitigate the need for those services.

However, we found that NASA contracting officers (COs) 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 Federal Acquisition Regulation (FAR) and NASA FAR Supplement (NFS).

FAR 15.406-3 requires that the CO document in the contract file the current status of any contractor systems to the extent they affected and were considered in the negotiation. Likewise, NFS 15.406 requires the CO to document the current status of the contractor systems. However, for 31 of the 63 contract actions we reviewed (see Enclosure 2), the CO did not document the current status of one or more key contractor business systems.

Without documentation of the adequacy of the contractor business systems, the Government has reduced assurance that

- the contractor's purchases charged to the contract will be reasonably priced and from sources that meet quality requirements;
- the contractor's proposal and subsequent negotiations are based on verifiable and supportable cost estimates;
- the contractor's accounting system can be relied on to record, process, summarize, and report in a manner consistent with Government contract laws and regulations; and
- compensation and other costs charged to the contract are allowable, allocable, and reasonable.

That NASA COs were not always documenting contractor business systems is a repeat finding addressed in a previous review by the U.S. Government Accountability Office (GAO) (Report NSIAD-94-229, "NASA Contract Management Improving the Use of DCAA's Auditing Services," dated September 1994).¹ Specifically, GAO found that over 70 percent (23 of 31) of the contracts reviewed did not address the status or nonapplicability of the contractor business systems, although both the FAR and NFS require that COs document the status of the contractor business systems.

Our August 31, 2006, draft of this memorandum recommended that the NASA Office of Procurement issue guidance (for example, a Procurement Information Circular) to the NASA procurement community to emphasize the need for COs to document the current status of contractor business systems, as required by the FAR and NFS.

Management's Response. In their response comments, dated September 14, 2006 (see Enclosure 3), management concurred with the recommendation, stating that the NASA Office of Procurement will issue a Procurement Information Circular by December 29, 2006, emphasizing the need for contracting officers to document the status of contractor business systems in accordance with the FAR and NFS.

Evaluation of Management's Response. Management's planned action is responsive to the recommendation. The recommendation is resolved and will be closed upon issuance of the Procurement Information Circular and verification of management's corrective action.

¹ At the time the report was issued, GAO was known as the "U.S. General Accounting Office."

We appreciate the courtesies and cooperation provided to the staff during this review. If you have questions, or would like to discuss this matter further, please contact Mr. Joseph Kroener, Procurement Director, at 202-358-2558 (e-mail: joe.kroener@nasa.gov) or Mr. Kenneth Sidney, Project Manager, at 281-483-0728 (e-mail: kenneth.sidney-1@nasa.gov).

A handwritten signature in black ink, reading "Evelyn R. Klemstine". The signature is written in a cursive style with a large, looping initial "E".

Evelyn R. Klemstine

3 Enclosures

cc:

Director, Management Systems Division

Scope and Methodology

We performed this audit from April 2006 through August 2006 in accordance with generally accepted government auditing standards and limited the use of computer-processed data to the establishment of our audit universe. We conducted field work at the Johnson Space Center, Marshall Space Flight Center, and Goddard Space Flight Center because these three Centers accounted for approximately 60 percent of the total amount billed by DCAA during fiscal years 2004 and 2005.

To answer our audit objective, we

- determined the audit universe and selected a sample of cost-reimbursement contracts;
- reviewed contract file documentation and interviewed contracting officers to determine whether NASA was sufficiently planning what audits were needed and what audits DCAA performed;
- assessed NASA procurement and technical program officials' roles in determining NASA's needs for audit services and communicating those needs to DCAA;
- evaluated DCAA's understanding of its role, obligations, and responsibilities in providing necessary audit services to NASA;
- determined the extent that NASA used DCAA audit services to effectively manage its contracts; and
- examined potential gaps between audit services that NASA needed to administer its contracts and the audit services actually provided by DCAA.

Review of Internal Controls

We reviewed available internal controls associated with the use of DCAA audit services as well as related audit reports. Although most internal controls appeared to be decentralized and center-specific, we reviewed procurement actions to determine compliance with the FAR, NFS, and Procurement Information Circular 02-21, "Documentation and Negotiation Requirements Relative to Audits Performed by the Defense Contract Audit Agency (DCAA)."

Prior Coverage

During the last 12 years, the Government Accountability Office and the NASA Office of Inspector General have collectively issued 5 reports of particular relevance to the subject of this report. Unrestricted reports can be accessed via Internet at <http://www.gao.gov> (GAO) and <http://www.hq.nasa.gov/office/oig/hq/audits/reports/FY06/index.html> (NASA). Details relative to these reports follow:

Government Accountability Office

“NASA Contract Management: Improving the Use of DCAA’s Auditing Services”
(GAO/NSIAD-94-229, September 30, 1994)

National Aeronautics and Space Administration

“NASA Settlement of DCAA’s Incurred Cost Audits at Goddard Space Flight Center”
(IG-00-046, September 18, 2000)

“NASA Contract Audit Follow-up System at Johnson Space Center” (IG-00-032,
May 19, 2000)

“NASA Contract Audit Follow-up System at Marshall Space Flight Center” (IG-00-010,
March 6, 2000)

“Review of NASA’s Use of Audit Services Provided by the Defense Contract Audit
Agency” (P&A-98-001, September 30, 1998)

Enclosure 2

CENTER	CONTRACT/ MODIFICATION (MOD)	CONTRACTOR BUSINESS SYSTEM			
		Accounting System	Estimating System	Purchasing System	Compensation System
JSC	NNJ04AA01C-BASIC	D	D	N/D	D
JSC	NNJ04AA01C-MOD 3	N/D	D	D	N/D
JSC	NNJ04AA01C-MOD 13	N/D	D	D	N/D
JSC	NNJ04AA01C-MOD 29	N/D	D	D	N/D
JSC	NAS 9 00076	D	D	D	D
JSC	NAS 9 02028	D	D	N/D	N/D
JSC	NAS 9 02060-BASIC	N/D	N/D	N/D	N/D
JSC	NAS 9 02078-BASIC	D	D	D	D
JSC	NAS 9 02078-MOD 9	D	D	D	D
JSC	NAS 9 02078-MOD 35	D	D	D	D
JSC	NAS 9 02078-MOD 59	D	D	D	D
JSC	NAS 9 20000-BASIC	D	D	D	D
JSC	NAS 9 20000-MOD1082	D	D	D	D
JSC	NAS 9 20000-MOD1170	D	D	D	D
JSC	NAS 9 20000-MOD1602	D	D	D	D
JSC	NAS 9 98013	D	N/D	N/D	N/D
GSFC	NAS 5 01072-BASIC	D	N/D	N/D	N/D
GSFC	NAS 5 03098-BASIC	D	D	D	N/D
GSFC	NAS 5 02099-BASIC	N/D	N/D	D	N/D
GSFC	NAS 5 01008-BASIC	D	N/D	N/D	N/D
GSFC	NAS 5 00136-BASIC	D	D	D	D
GSFC	NAS 5 00136-MOD 5	D	D	D	D
GSFC	NAS 5 00136-MOD 19	D	D	D	D
GSFC	NAS 5 00136-MOD 24	D	D	D	D
GSFC	NAS 5 02086-BASIC	D	N/D	D	N/D
GSFC	NAS 5 03127-BASIC	D	N/D	N/D	N/D
GSFC	NAS 5 03127-MOD 14	D	D	D	D
GSFC	NAS 5 03127-MOD 15	D	D	D	D
GSFC	NAS 5 03127-MOD 24	D	D	D	D
GSFC	NAS 5 60000-BASIC	D	D	D	N/D
GSFC	NAS 5 60000-MOD 127	D	D	D	N/D
GSFC	NAS 5 60000-MOD 148	D	D	D	N/D
GSFC	NAS 5 60000-MOD 150	D	D	D	N/D
GSFC	NAS 5 96090-BASIC	D	D	D	D
GSFC	NAS 5 96090-MOD 108	D	D	D	D
GSFC	NAS 5 96090-MOD 133	D	D	D	D
GSFC	NAS 5 96090-MOD 207	D	D	D	D

		CONTRACTOR BUSINESS SYSTEM			
CENTER	CONTRACT/ MODIFICATION (MOD)	Accounting System	Estimating System	Purchasing System	Compensation System
MSFC	NNM04AA07C-BASIC	N/D	N/D	N/D	N/D
MSFC	NNM04AA07C-MOD 3	D	D	D	N/D
MSFC	NNM04AA07C-MOD 27	D	D	D	N/D
MSFC	NNM04AA07C-MOD 33	D	D	D	N/D
MSFC	NAS 8 00017	D	D	D	D
MSFC	NAS 8 01109-BASIC	D	D	D	D
MSFC	NAS 8 01109-MOD 12	D	D	D	D
MSFC	NAS 8 01109-MOD 20	D	D	D	D
MSFC	NAS 8 03043-BASIC	D	N/D	D	D
MSFC	NAS 8 03043-MOD 6	D	N/D	D	D
MSFC	NAS 8 00146-BASIC	N/D	N/D	N/D	N/D
MSFC	NAS 8 00146-MOD 10	N/D	N/D	N/D	N/D
MSFC	NAS 8 00146-MOD 16	D	D	D	D
MSFC	NAS 8 00146-MOD 19	D	N/D	D	N/D
MSFC	NAS 8 02047-BASIC	D	D	N/D	N/D
MSFC	NAS 8 02047-MOD 28	D	D	D	D
MSFC	NAS 8 02047-MOD 44	D	D	N/D	N/D
MSFC	NAS 8 02047-MOD 47	D	D	N/D	N/D
MSFC	NAS 8 98053-BASIC	D	D	D	D
MSFC	NAS 8 98053-MOD 67	D	D	D	N/D
MSFC	NAS 8 98053-MOD 76	D	N/D	D	N/D
MSFC	NAS 8 98053-MOD 113	D	D	D	D
MSFC	NAS 8 97238-BASIC	D	D	D	D
MSFC	NAS 8 97238-MOD 64	D	D	D	D
MSFC	NAS 8 97238-MOD 123	D	D	D	D
MSFC	NAS 8 97238-MOD 158	D	D	D	D
	Actions Reviewed:	63	63	63	63
	N/D:	8	14	13	28
	D:	55	49	50	35

Contracts Reviewed: 24
Contract Actions Reviewed: 63

Legend:
N/D = status of business system not documented in contract file
D = status of system documented

Management's Comments

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



September 14, 2006

Reply to Attn of: LH030

TO: W/Assistant Inspector General for Auditing
FROM: Assistant Administrator for Procurement
SUBJECT: Draft Memorandum on Audit of NASA's Use of Defense Contract Audit Agency (DCAA) Services in Managing NASA Contracts (Assignment No. A-06-011-00)

Enclosed is the response to the recommendation for the subject draft memorandum dated August 31, 2006.

If you have any questions or require any further coordination on this matter, please contact Joe Le Cren of my staff at 358-0431.

A handwritten signature in black ink, appearing to read "Tom Luedtke".

Tom Luedtke

Enclosure

SUBJECT: OIG's "Draft Memorandum on Audit of NASA's Use of Defense Contract Audit Agency (DCAA) Services in Managing NASA Contracts (Assignment No. A-06-011-00)"

Recommendation:

We recommend the NASA Office of Procurement issue guidance (for example, a Procurement Information Circular) to the NASA procurement community to emphasize the need for COs to document the current status of contractor business systems, as required by the FAR and NFS.

Response:

Concur. The NASA Office of Procurement will issue a Procurement Information Circular (PIC) emphasizing the need for contracting officers to document the status of contractor business systems in accordance with the FAR and the NFS. The expected completion date for issuance of the PIC is December 29, 2006.