NASA

National Aeronautics and Space Administration

Office of Inspector General

Office of Audits

COSTS INCURRED ON NASA'S COST-TYPE CONTRACTS

December 17, 2014

Report No. IG-15-010

Office of Inspector General

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NASA Office of Inspector General
Office of Audits

RESULTS IN BRIEF

Costs Incurred on NASA's Cost-Type Contracts

December 17, 2014 IG-15-010 (A-14-001-00)

WHY WE PERFORMED THIS AUDIT

NASA spends over 75 percent of its appropriated funding acquiring goods and services, or $15.6 billion in fiscal year (FY) 2013. More than half of these FY 2013 funds were associated with cost-type contracts pursuant to which NASA reimburses contractors for allowable costs they incur producing or delivering the contracted good or service. Cost-type contracts pose a financial risk to NASA because they do not promise delivery of a good or service at a set price.

To mitigate the risk involved with the use of cost-type contracts, Federal regulation requires contractors to submit annual cost data – commonly referred to as an incurred cost proposal – for review and potential audit. Audits of incurred cost proposals assess whether costs contractors charge the Government are properly applied to the contracts, sufficiently supported, and allowable. NASA generally has 6 years to recover any unallowable costs from the date an adequate incurred cost proposal is submitted. The Defense Contract Audit Agency (DCAA) performs incurred cost audits for NASA under a reimbursable agreement and estimates it has a 6-year backlog of more than 19,000 proposals awaiting review, including 1,153 proposals related to NASA contracts, about 39 percent of which predate 2009. In an effort to reduce this backlog, in 2012 DCAA changed its methodology for determining which proposals to select for incurred cost audits.

We conducted this audit to examine whether NASA has established adequate procedures to ensure the costs contractors pass on to the Agency in cost-type contracts are supportable, allowable, reasonable, and allocable. Specifically, we reviewed NASA's internal controls designed to prevent payment of excessive costs in these contracts.

WHAT WE FOUND

We found NASA is at increased risk of paying unallowable, unreasonable, and unallocable incurred costs and of losing the opportunity to recoup improper costs because Agency contracting officers rely too heavily on DCAA's incurred cost audit process. Under its new, risk-based methodology, DCAA has significantly decreased the number of contractor proposals it audits in an effort to reduce its 6-year backlog of incurred cost proposals awaiting review. However, NASA contracting officers generally wait for a DCAA audit and do not perform additional oversight to ensure the appropriateness of contractor costs. Meanwhile, the Agency has not strengthened its internal controls to account for the significant reduction in DCAA oversight of Agency cost-type contracts. In addition, NASA's reliance on DCAA is inhibiting the Agency's efforts to timely close out awards, which further delays the identification of questionable costs and limits availability of excess funds for other uses.

WHAT WE RECOMMENDED

To strengthen internal controls, we recommended the Assistant Administrator for Procurement: (1) revise the NASA Federal Acquisition Regulation (FAR) Supplement to allow independent public accounting firms to provide supplemental audit coverage for NASA contracts where DCAA cannot be responsive to NASA's need for an audit; (2) enhance NASA's existing review of NASA forms 533M, 533Q, and/or vouchers to require periodic sampling and obtain detailed supporting documentation to validate the accuracy and completeness of information reported; (3) strengthen controls to ensure NASA contracting officers are performing and documenting periodic compensation reviews for cost-reimbursement service contracts with a potential value in excess of $500,000 at least every 3 years; (4) require contracting officers to communicate with DCAA and obtain and document in the contract file the status of any incurred cost audits and, if an incurred cost audit has not been performed, require the contracting officer to document the reasons and obtain information on if or when it will be completed; and, (5) in concert with the other recommendations, develop a methodology (statistical sample or risk-based approach) for increasing audit oversight of incurred cost proposals that do not meet DCAA's parameters for review.

In response to a draft of our report, the Agency's Assistant Administrator for Procurement concurred with recommendations 1, 3, and 4 and described planned corrective actions to include revising the NASA FAR Supplement to clarify when contracting officers are permitted to use outside firms to supplement DCAA audit services and reminding them of the importance of obtaining and documenting the status of DCAA audits. Because we consider the Assistant Administrator's proposed actions responsive to these recommendations, the recommendations are resolved and we will close the recommendations upon verification of the completed actions.

The Assistant Administrator partially concurred with recommendations 2 and 5, agreeing that contracting officers should review vouchers and request additional supporting documentation from the contractor when appropriate, but expressing concern about the Office of Procurement committing to the development of a statistical sample or risk-based methodology without input from the Office of the Chief Financial Officer. Accordingly, the Assistant Administrator said the Office of Procurement would work with the Office of the Chief Financial Officer to perform an assessment of the feasibility and utility of developing such a methodology. We consider the proposal to conduct this assessment responsive and therefore the recommendations are resolved. We will close the recommendations after reviewing the actions NASA takes as a result of the assessment.

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Acronyms

ADV	Auditable Dollar Value
DCAA	Defense Contract Audit Agency
DCMA	Defense Contract Management Agency
DOD	Department of Defense
FAR	Federal Acquisition Regulation
FY	Fiscal Year
GAO	Government Accountability Office
NPR	NASA Procedural Requirements
OIG	Office of Inspector General

INTRODUCTION

NASA spends over 75 percent of its appropriated funding – $15.6 billion in fiscal year (FY) 2013 – acquiring goods and services. More than half of the FY 2013 funds were associated with cost-type contracts pursuant to which NASA reimburses contractors for all allowable costs they incur producing or delivering a contracted good or service. NASA awards cost-type contracts for a variety of purposes, including developing scientific instruments, operating the International Space Station, and obtaining such services as flight safety analysis, ground and launch pad safety support, and fire protection and emergency preparedness at NASA facilities.

Cost-type contracts pose a financial risk to NASA because they do not promise delivery of a good or service at a set price.[1] Consequently, they are suitable procurement vehicles only when uncertainties in contract performance do not allow NASA and industry to estimate costs with sufficient accuracy to use a fixed-price contract. For example, NASA utilizes cost-type contracts for safety support services because the Agency cannot reasonably estimate the amount of work that will be needed for fire protection or ground safety at its launch pads.

We conducted this audit to determine whether NASA has established adequate procedures to ensure the costs contractors pass on to the Agency in cost-type contracts are supportable, allowable, reasonable, and allocable. Specifically, we reviewed NASA's internal controls designed to prevent payment of excessive costs in these contracts. See Appendix A for details on the audit's scope and methodology, our review of internal controls, and a list of prior coverage, and Appendix B lists the contracts we reviewed.

Background

Cost-type contracts provide for payment of allowable costs up to an established ceiling that the contractor may exceed only with the approval of the contracting officer. NASA contracting officers may use cost-type contracts as a procurement vehicle only if (1) the contractor has an accounting system capable of determining costs applicable to the contract and (2) Government oversight during contract performance will provide reasonable assurance the contractor is using efficient methods and effective cost controls.

The total cost associated with a cost-type contract is the sum of allowable direct and indirect costs allocable to the contract.[2] Direct costs are those costs specifically identified with completing the contracted work, such as the costs of associated labor, materials, and supplies. In contrast, indirect costs are costs the contractor bears that are not directly attributable to a specific project or function, such as the cost of administrative staff, employee health benefits, and payroll taxes. Incurred cost audits ensure that contractors apply direct costs to the proper contract and that indirect costs claimed are supportable and do not include unallowable charges.

[1] Federal Acquisition Regulation (FAR) Subpart 16.3, "Cost-Reimbursement Contracts."

[2] Federal Acquisition Regulation (FAR) Subpart 31.201-1, "Composition of Total Cost."

Incurred Cost Audit Process

Incurred cost audits assess whether the direct and indirect costs contractors charge are allowable, allocable, and reasonable. According to the Federal Acquisition Regulation (FAR), a cost is allowable when it is reasonable, allocable, and consistent with the terms of the contract. A cost is reasonable if it does not exceed that which a prudent person would incur in the conduct of competitive business. Under the FAR, if a contracting officer challenges the reasonableness of a specific cost, the contractor is required to provide proof of reasonableness. A cost is allocable if it was incurred specifically for the contract in question, benefits the contract or other related work, and is necessary to the overall operation of the business.[3]

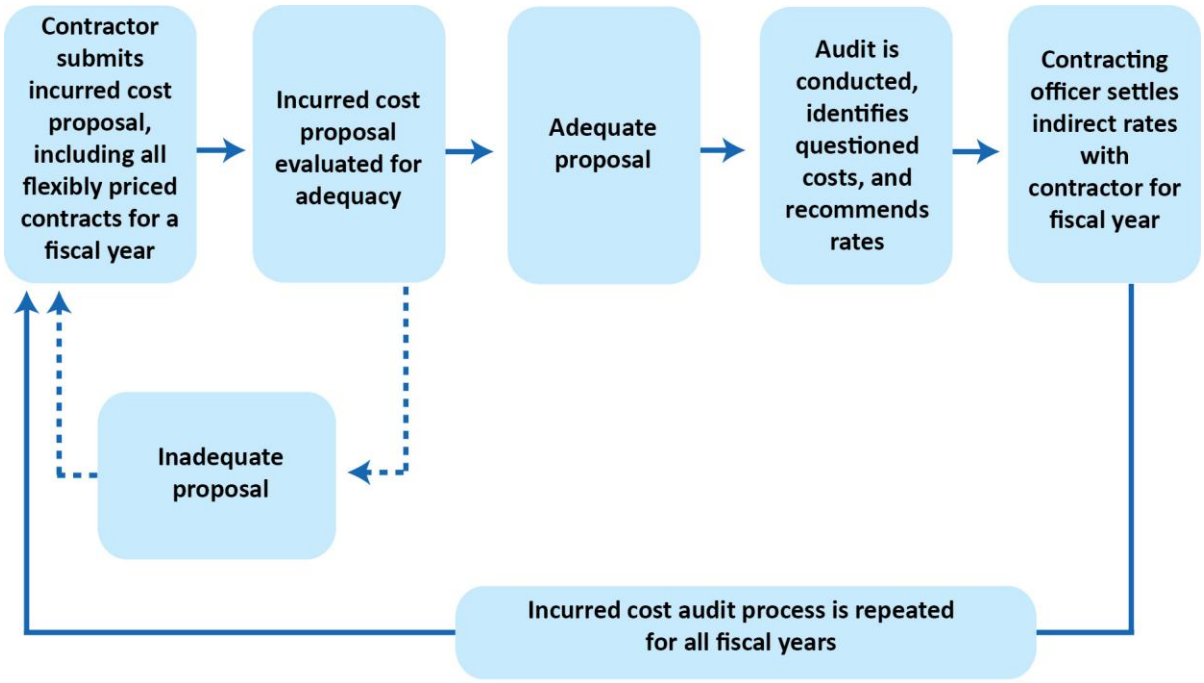
In accordance with the FAR, contractors who incur costs on cost-type or other flexibly priced contracts are required annually to submit an incurred cost proposal outlining their direct and indirect costs.[4] A contractor may incur costs on multiple federal contracts in a fiscal year, and the sum of these costs makes up the total value of the incurred cost proposal or the "auditable dollar value" (ADV). Moreover, because the period of performance on an individual contract may span several fiscal years, multiple cost proposals may pertain to a particular contract. See Figure 1 for a description of the traditional incurred cost audit process. Under the FAR, NASA generally has 6 years to recover unallowable costs from the date the contractor's adequate incurred cost proposal is submitted.[5]

[3] FAR Subpart 31.201-2, "Determining Allowability" and FAR Subpart 31.201-3, "Determining Reasonableness."

[4] FAR Subpart 16.307, "Cost-Reimbursement Contracts, Contract Clauses;" contractors with other types of "flexibly priced" contracts, such as fixed-price-incentive and fixed-price-redeterminable contracts (those allowing for redetermination of the initial fixed price at various stages of the contract), are also required to submit annual proposals.

[5] FAR Subpart 52.216-7, "Allowable Cost and Payment," requires contractors to submit an adequate final proposal within 6 months of the end of its fiscal year. The proposal must include several elements, including (1) summary of all claimed indirect expense rates, including pool, base, and calculated indirect rate; (2) schedule of direct costs by contract and subcontract and indirect expense applied at claimed rates; and (3) certificate of final indirect costs.

Figure 1: Traditional Incurred Cost Audit Process



Source: Government Accountability Office's depiction of Federal and Department of Defense regulations and guidance (GAO-13-131).

Department of Defense Contract Services

In June 1969, NASA and the Department of Defense (DOD) entered into an agreement requiring DOD to perform audit and administration services for NASA contracts. Since then the Defense Contract Audit Agency (DCAA) has performed incurred cost audits and the Defense Contract Management Agency (DCMA) has provided contract administrative services for NASA. In October 1992, NASA and DOD revised their agreement to provide that requirements for reimbursable contract administration and audit services shall be set forth in a NASA Letter of Delegation and be billed by DOD based on actual hours worked at the prevailing interagency billing rate. Each fiscal year, NASA, DCAA, and DCMA determine the amount of work that will be completed under the agreement and establish a ceiling for the number of reimbursable hours.

From FYs 2009 through 2013, NASA paid DCMA approximately $204.8 million for contract administration and support services and DCAA approximately $77.5 million for audit services. For FY 2014, NASA anticipates paying DCAA $17.7 million for 150,000 hours of work. Based on DCAA's 2013 work, we estimate approximately 71 percent of this figure, or $12.6 million, will pay for incurred cost audits.

DCAA Backlog and Revised Methodology

In 2012, the Government Accountability Office (GAO) issued a report reviewing DCAA's criteria and processes for incurred cost audits. The report noted DCAA had a backlog of approximately 25,000 incurred cost audits at the end of FY 2011.[6] As of April 2014, DCAA estimated it had approximately 19,000 contractor audit proposals awaiting review, some dating to 2008. Approximately 1,153 of these proposals relate to NASA contracts, about 39 percent of which relate to proposals that predate 2009.[7] According to DCAA, insufficient staffing caused the backlog.

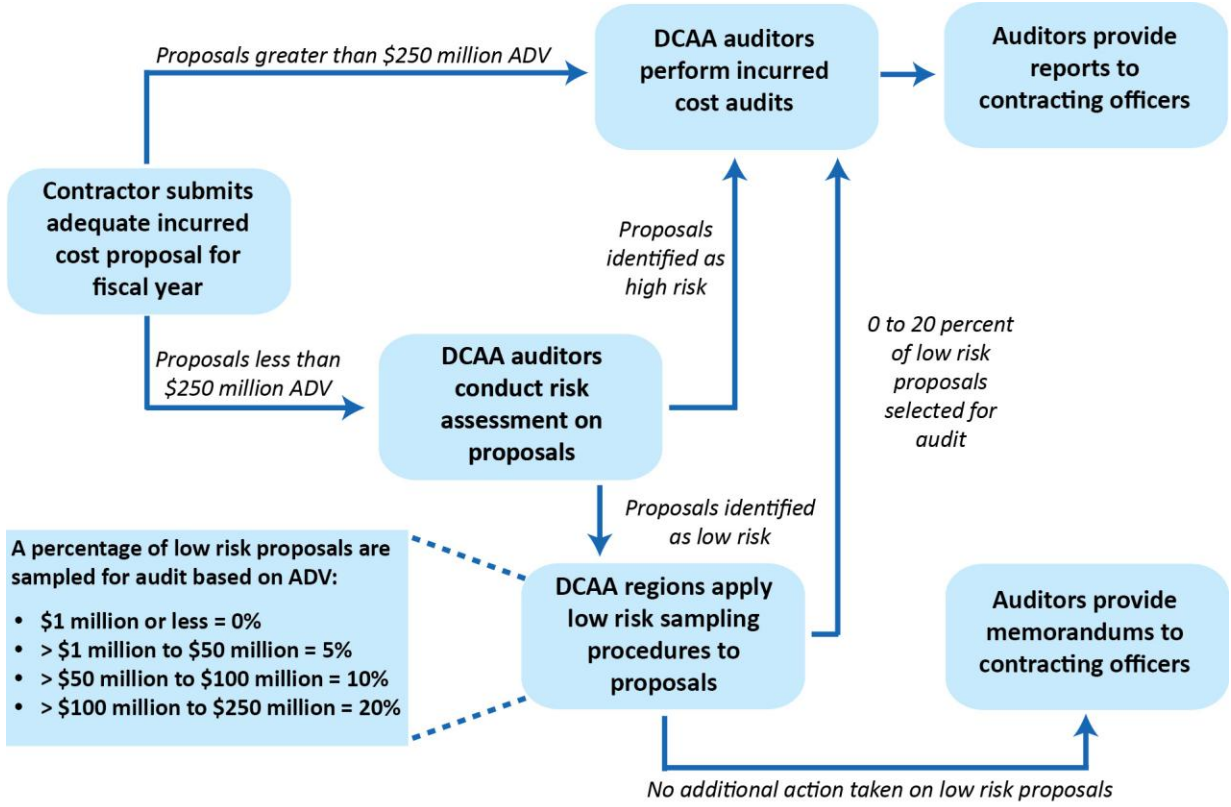
In an effort to reduce its backlog, in 2012, DCAA revised its methodology for selecting proposals for incurred cost audits. Under its new procedures, DCAA audits all proposals with an ADV of $250 million or more.[8] For proposals with an ADV less than $250 million, DCAA selects proposals for audit based on risk, including an examination of such factors as the contractor's incurred cost audit history and the amount of questioned costs found in previous audits. DCAA audits all such proposals from contractors deemed "high risk" under its methodology. Proposals from contractors deemed "low risk" become part of a pool from which DCAA selects between zero to 20 percent for audit depending on their ADV. However, DCAA guarantees an audit of proposals valued between $100 million and $250 million at least once every 3 years, and uses its risk analysis to determine which proposals in this category will be audited in any given year. Finally, agency contracting officers may request DCAA audit a particular contractor's proposal. The process and more specifics about DCAA's sampling methodology appear in Figure 2.

[6] GAO, "Defense Contracting: DOD Initiative to Address Audit Backlog Shows Promise, but Additional Management Attention Needed to Close Aging Contracts" (GAO-13-131, December 18, 2012).

[7] According to DCAA officials, they have not yet coded all of the proposals by agency. Accordingly, the backlog of proposals pertaining to NASA contracts may be larger.

[8] The previous threshold for automatic audit was $15 million.

Figure 2: DCAA's Revised Incurred Cost Audit Procedures



Source: GAO, "DOD Initiative to Address Audit Backlog Shows Promise, but Additional Management Attention Needed to Close Aging Contracts," (GAO-13-131, December 18, 2012).

In its 2012 report, GAO quoted DCAA as estimating that its revised methodology would reduce and, by 2016, stabilize its incurred cost audit backlog so that there would be no more than 2 fiscal years of proposals awaiting review. However, GAO concluded that DCAA had not fully developed measures to evaluate whether the new methodology would actually achieve the predicted results. In addition, GAO determined that based on 2011 data the number of proposals automatically qualifying for audit under DCAA's new methodology decreased by 87 percent when the audit threshold was increased from $15 million to $250 million.

Between FYs 2009 and 2013, DCAA performed 337 incurred cost audits of proposals submitted by NASA contractors and identified $313.5 million in questioned costs. Under Government regulations, a questioned cost is a cost questioned by the auditor because it (1) resulted from a violation of law, regulation, or agreement; (2) was not supported by adequate documentation; or (3) appeared unreasonable. When DCAA questions a cost, the cognizant Federal agency – normally the agency with the largest dollar amount of contracts (including options) with the contractor – must agree the cost was improper or otherwise should not have been charged to the Government before the Government may seek recovery from the contractor. With respect to NASA contracts, DCMA or NASA is the cognizant agency. Since 2009, the rate of sustainment for questioned costs in NASA contracts has fluctuated between 6 and 71 percent.[9]

[9] Sustained costs are incurred costs questioned by an audit organization that management has agreed should not be charged to the Government.

Requirements for Cost Review and Reimbursement

In addition to the incurred cost audit process, Federal contracting rules outline several additional requirements contractors and Federal agencies must follow to ensure proper reimbursement of contractor costs. For example, the FAR requires contractors to submit invoices or vouchers to obtain reimbursement from the Government and that agency contracting officers determine the level of detail required on the voucher and approve payment of allowable amounts.[10] The NASA FAR Supplement gives DCAA the responsibility for reviewing and approving vouchers submitted electronically by NASA contractors.[11] However, DCAA does not review every voucher, but rather a sample based on volume, total dollar amount, and contractor risk.

NASA also requires that contractors with cost-type contracts provide periodic reports summarizing incurred and projected costs.[12] Using NASA forms 533M (monthly) and 533Q (quarterly), contractors typically report direct and indirect costs, labor hours, general and administrative costs, and labor overhead.[13] Contracting officers are required to monitor these reports on a regular basis to ensure accuracy of the reported data.[14] NASA contracting and finance officials review the 533s to ensure costs have not exceeded maximum contract values and incurred costs align with previously provided estimates.

Finally, for cost-type service contracts exceeding $500,000, the NASA FAR Supplement requires contracting officers evaluate the reasonableness of the compensation contractors and subcontractors provide to their employees prior to awarding the contract and at least every 3 years thereafter during the life of the contract. Contracting officers are to document the results of those reviews in the contract file.[15]

[10] FAR Subpart 52.216-7, "Allowable Cost and Payment."

[11] NASA FAR Supplement 1842.101, "Contract Audit Responsibilities," and 1842.803, "Disallowing Costs After Incurrence." Contractors submit vouchers electronically.

[12] NASA Procedural Requirements (NPR) 9501.2E, "NASA Contractor Financial Management Reporting."

[13] FAR Subpart 2.1, "Definitions," defines general and administrative expenses as any management, financial, and other expense incurred by or allocated to a business unit for the general management and administration of the business unit as a whole.

[14] NASA FAR Supplement 1842.72, "Contractor Financial Management Reporting."

[15] NASA FAR Supplement Subpart 1831.2, "Contracts with Commercial Organizations."

NASA Needs to Improve its Internal Controls to Account for Reduced DCAA Audit Coverage

We found NASA is at increased risk of paying unallowable, unreasonable, and unallocable incurred costs and of losing the opportunity to recoup improper costs because NASA contracting officers rely too heavily on DCAA's incurred cost audit process for insight into contractor costs. Since 2012, DCAA has significantly decreased the number of contractor proposals it audits and has a multiyear backlog of incurred cost proposals awaiting review. However, NASA contracting officers generally do not perform additional oversight to ensure the appropriateness of contractor costs and the Agency has not strengthened its internal controls to account for the reduction in DCAA audit work.

Reliance on DCAA for Incurred Cost Audits

We found NASA contracting officers relied almost exclusively on DCAA's incurred cost audit process to identify unallowable, unreasonable, and unallocable costs. Contracting officers we spoke with pointed to these audits as their only means of identifying questioned costs. For example, when we asked a contracting official how she would know if direct travel costs billed to NASA supported a legitimate contract need or paid for a personal trip, the official said the only way she would have insight into this issue was through a DCAA review of travel costs as part of an incurred cost audit. In another instance, we asked a NASA contracting officer why a contractor was billing at indirect rates different from the agreed-upon contract rates. The contracting officer said she was unaware the contractor was billing at different rates and that any errors would be corrected at the end of the year when DCAA performed an incurred cost audit.

To address its multiyear backlog of proposals awaiting incurred cost audits, DCAA implemented a new risk-based methodology in 2012. While the new methodology helps DCAA better manage its reduced resources, it also substantially decreases the number of proposals it audits. For example, at the time of our field work, DCAA had not performed incurred cost audits on 16 of the 20 contracts in our sample.[16] In at least one instance – for a contract of approximately $25 million – this was because the contractor did not qualify for audit under DCAA's new methodology.[17] We identified several actions NASA could take to reduce its reliance on DCAA and provide more oversight of incurred costs in its contracts. First, NASA could require contractors provide additional information about their costs on vouchers and periodic reports that would provide contracting officers greater insight into costs. Second, contracting officers could conduct the required periodic reviews of contractor compensation costs.

[16] Subsequent to our audit fieldwork, DCAA completed incurred cost audits of FYs 2007 and 2008 proposals for two of the contracts in our sample.

[17] We could not determine the reason DCAA had not performed audits for the other contracts.

Summary Level Cost Data

We found that for each of the 20 contracts we reviewed, the associated vouchers and contractors' periodic cost reports included only summary-level data. Specifically, the vouchers and periodic cost reports did not identify individual cost elements for each cost category, making a detailed review of the associated costs impossible. For 17 of the 20 contracts in our sample, NASA delegated to DCAA responsibility for reviewing and approving vouchers. For the remaining three contracts, NASA contracting officials retained responsibility for this review and approval.

We found that regardless of who reviews the vouchers, the information contractors provide is not sufficient to identify detailed cost data. Contracting said they simply reconcile the summary level costs on the voucher to the costs contractors report on NASA forms 533M and 533Q. DCAA officials indicated they reconcile the summary level costs on the voucher to the summary totals reflected in the contractor's financial system. The summary level costs reported on vouchers include elements such as total direct labor and total travel costs but do not breakout specific cost details such as the number of hours charged by direct labor category or the specific location, airfare, or hotel costs for travel.

Once DCAA or NASA approves a voucher, the contractor is paid for the associated good or service. Although the vouchers may be reviewed later as part of an incurred cost audit, due to DCAA's backlog and the decrease in the number of incurred cost audits it performs, this is less certain to occur than before DCAA adopted its new methodology. In addition, because DCAA only reviews a sample of vouchers, contractors are sometimes paid without any review by DCAA or a NASA contracting officer.

Contractors also report incurred costs to the Agency through NASA forms 533M and 533Q reports. The reports include the following fields: reporting category, cost incurred/hours worked, estimated cost/hours to complete, and estimated final/cost hours. However, other than for the category of direct and indirect labor hours, NASA's guidance does not specify the level of detail contractors should include on the report. Consequently, on the reports associated with one contract in our sample, the contractor included only summary costs for overall maintenance and operations and associated hours. According to NASA contracting officials, they review the forms for cost overruns, underruns, and variances but continue to rely on DCAA's incurred cost audits to identify unallowable costs.

During our review of another contract, we found the contracting officer did not know the current indirect rates on the contract because they were not included on Form 533M. The contracting officer is ultimately responsible for the fair and reasonable price of the contract and without knowledge of current indirect rates the contracting officer cannot oversee the contract adequately.

Contracting officers have the authority to determine the level of cost detail included on the voucher and the monthly cost reports and to review these costs in detail. This review presents an opportunity for contracting officers to gain additional insight into contractor costs and be in a better position to request incurred cost audits in appropriate circumstances.

Compensation Reviews Not Performed

We determined that for 17 of the 20 contracts in our sample, the contracting officer did not review compensation post-award as required by the NASA FAR Supplement.[18] All 20 contracts met the FAR definition of a service contract and had periods of performance of 3 or more years. Accordingly, all were subject to the NASA FAR Supplement requirement that at least once every 3 years contracting officials ensure the compensation that contractors and subcontractors provide to their employees is reasonable.[19] Because 17 of the 20 contracts had been active for at least 3 years, contracting officers should have performed compensation reviews – in some cases as many as three reviews. Several contracting officials told us they did not complete compensation reviews because they relied on DCAA to perform this work, were unaware of the requirement, or believed other reviews satisfied the requirement.[20] See Appendix C for a listing of the 17 contracts past due for compensation reviews.

Risks Associated with Lack of Audits

NASA is at risk of paying unallowable, unallocable, or unreasonable costs due to the reduction in number of incurred cost audits DCAA will perform and its continuing backlog of un-reviewed incurred cost proposals. As discussed previously, DCAA is approximately 6 years behind in conducting incurred cost audits. Further, DCAA's revised audit methodology emphasizes the review of high-dollar incurred cost proposals and proposals from contractors considered high risk, and under its new process DCAA intends to audit all incurred cost proposals over $250 million regardless of risk level. However, if the proposal is between $100 million and $250 million, DCAA will undertake an audit at least once every 3 years, with a risk analysis performed to determine which proposals will be audited in any given year. If the proposal is under $100 million, DCAA will conduct an initial incurred cost audit but there is no guarantee it will audit contractor costs again.

As of May 2014, DCAA estimates that approximately 451 incurred cost proposals with a total of $73.7 billion in Auditable Dollar Value (ADV) related to NASA contracts from 2009 and earlier are in its backlogged queue.[21] As shown in Figure 3, only 62 proposals (14 percent) of these proposals are above the $250 million threshold and therefore will automatically qualify for an audit. An additional 58 proposals (13 percent) fall between $100 million and $250 million and, unless deemed high risk, will be audited at least once every 3 years. The remaining proposals are less than $100 million (73 percent) and will be audited only if DCAA deems the submitting contractor's proposal high-risk, if selected through DCAA's sampling process, or based on a request from a contracting officer.

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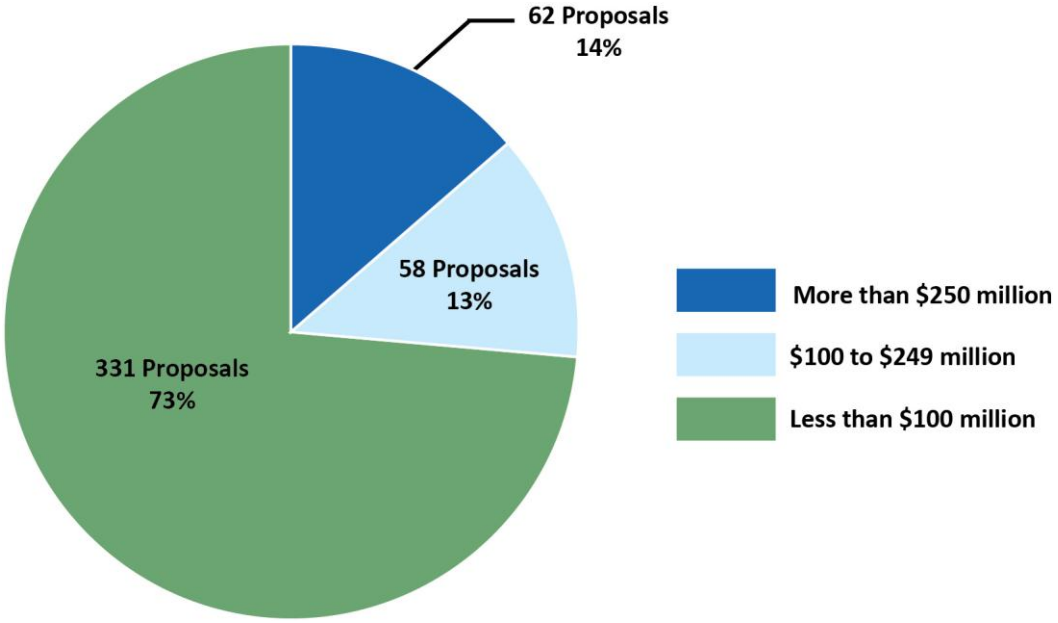
[18] NASA FAR Supplement Subpart 1831.205-6, "Contracts with Commercial Organizations, Compensation for Personal Services."

[19] FAR Part 37, "Service Contracting," defines a service contract as "a contract that directly engages the time and effort of a contractor whose primary purpose is to perform an identifiable task rather than to furnish an end item of supply. A service contract may be either a nonpersonal or personal contract. It can also cover services performed by either professional or nonprofessional personnel whether on an individual or organizational basis."

[20] For two contracts, the contracting officer believed that reviewing labor rates on the NASA Form 533M was sufficient to satisfy the requirement; however, we determined this review to be insufficient to meet requirements. For another contract, the contracting officer claimed to have performed the reviews in accordance with the requirement but was unable to provide supporting documentation.

[21] These proposals contain both NASA and other Federal agency contracts, generally DOD, and the ADV cited reflects the entire proposal. DCAA does not estimate the NASA portion of the proposal until either an audit is completed or the proposal is closed with a low risk memorandum that signifies no audit.

Figure 3: Incurred Cost Proposals by DCAA Risk Category



Source: NASA Office of Inspector General (OIG) analysis of DCAA data.

As of March 2014, DCAA estimated that 105 NASA contractors have been included in the low risk sampling process. This amounted to 289 incurred cost proposals deemed low risk (multiple proposals for some contractors). DCAA only selected for audit 15 of these 289 proposals (5 percent).

One contract in our sample, valued at $25 million, was awarded in 2012 and has a period of performance through 2017. The incurred costs proposals the contractor submitted for 2007 through 2012 were deemed low risk by DCAA and therefore not audited. Under DCAA's revised methodology, it is possible that the contractor's incurred cost audit proposals for 2012 through 2017 will also not be audited based on the low risk rating the contractor's proposal received in previous years. As a result, incurred costs associated with this $25 million contract may never be reviewed for allowability, allocability, or reasonableness.

NASA's Assistant Administrator for Procurement told us he explored using external audit firms to conduct incurred cost audits, but ultimately decided this option was not feasible because NASA regulations require DCAA to perform these audit services.[22] Also, Agency contracting officials said they accepted DCAA's new methodology because they consider DCAA to be audit experts and because DOD adopted the methodology. In addition, officials explained that for incurred cost audits the percentage of questioned costs DCAA finds is small when compared to the total amount reviewed.

[22] NASA FAR Supplement 1815.404-2(a)(1)(F)(1), "Data to Support Proposal Analysis-Use of Contractor to Perform Contract Audit Services," states that at contractor locations where DCAA currently conducts any contract audit services, the use of a Contractor to perform contract audit services is not allowed. The Assistant Administrator also inquired whether the NASA OIG could perform incurred cost audits for the Agency in light of the DCAA backlog. However, the OIG was unable to assist due to limited resources.

We recognize that DCAA's revised audit methodology attempts to maximize identification of questioned costs by focusing on large-dollar contractors; however, the new protocol likely means that many mid-size contracts between $1 million and $100 million will not be audited. Further, while the $313 million in questioned costs DCAA identified over the past 5 years may represent a small portion of NASA's overall budget, it is nevertheless a significant amount of money and should be recovered as appropriate.

Limited Time to Recover Costs

Under the FAR, NASA generally has 6 years to recover unallowable costs from the date the contractor's adequate incurred cost proposal is submitted.[23] Because DCAA can deem an incurred cost proposal adequate when submitted but not conduct an audit until years later, the allowable timeframe may expire before the incurred cost audit is completed, restricting NASA's ability to recover any unallowable costs. According to NASA contracting officials, the Agency is attempting to determine whether proposals 6 years or older should be subject to incurred cost audits because unallowable costs identified on those audits may exceed the timeframe for recovery. Looking to the future, NASA would benefit from determining where cost oversight has been minimal and incorporating a risk-based approach to requesting incurred cost audits on related proposals that are nearing the 6-year mark in advance of the regulated expiration period.

Closeout

NASA's reliance on DCAA also impacts its efforts to timely close out awards. Similar to findings in our February 2014 report examining NASA's award closeout process, we found the period of performance had ended in 14 of 20 contracts we examined.[24] Three of the 14 contracts are also past the timeframe for closeout (3 years) as specified in the FAR.[25] Four additional contracts will reach their closeout dates at the end of FY 2014, and the remaining seven contracts will reach their closeout deadline in 2015 or later. Contracting officers we spoke with explained that they were waiting on final DCAA audits or final approved indirect cost rates before they close these contracts. Consequently, DCAA's backlog of cost proposals delays NASA's efforts to close out contracts, thereby restricting the availability of otherwise excess funds from alternate use.

[23] FAR 33.206, "Initiation of a Claim."

[24] NASA OIG, "NASA's Award Closeout Process," (IG-14-014, February 12, 2014).

[25] FAR 4.804-1, "Government Contract Files, Closeout of contract files, Closeout by the office administering the contract."

Conclusion

NASA contracting officers place an unhealthy reliance on DCAA audits to identify unreasonable, allocable, and unallowable costs charged on NASA's cost-type contracts, performing little to no additional oversight of costs on the 20 contracts in our sample. In addition, this reliance on DCAA – which has an approximately 6-year backlog in conducting incurred cost audits – has delayed NASA's ability to timely close contracts and deobligate funds. Moreover, the delays and 6-year time limit to recover funds may affect NASA's ability to recoup funds improperly charged by contractors. DCAA's revised incurred cost audit methodology reduced the number of incurred cost audits performed on NASA contracts and under the new procedures only a sample of vouchers submitted for payment on NASA's cost-type contracts receive a high-level review. Accordingly, NASA cannot afford to rely solely on DCAA to determine whether incurred costs are allowable, allocable, and reasonable and should revise its current processes or develop additional procedures and oversight mechanisms to better safeguard the billions of dollars it spends annually in contract funding.

RECOMMENDATIONS, MANAGEMENT'S RESPONSE AND OUR EVALUATION

To strengthen NASA internal controls, we recommended the Assistant Administrator for Procurement:

1. Revise the NASA FAR Supplement 1815.404-2(a)(1)(F)(1) to allow independent public accounting firms to provide supplemental audit coverage for NASA contracts where DCAA currently conducts any contract audit services but cannot be responsive to NASA's need for an audit.
2. Enhance NASA's existing review of NASA forms 533M, 533Q, and/or vouchers to require the periodic sampling of reports or vouchers and obtain detailed supporting documentation to validate the accuracy and completeness of information reported.
3. Strengthen controls to ensure NASA contracting officers are performing and documenting periodic compensation reviews for cost-reimbursement service contracts with a potential value in excess of $500,000 at least every 3 years.
4. Require contracting officers to communicate with DCAA and obtain and document in the contract file the status of any incurred cost audits. If an incurred cost audit has not been performed, require the contracting officer to document the reasons and obtain information on if or when it will be completed.
5. In concert with the other recommendations we made, develop a methodology (statistical sample or risk-based approach) for increasing audit oversight of incurred cost proposals that do not meet DCAA's parameters for review.

In response to a draft of our report, the Assistant Administrator concurred with recommendations 1, 3, and 4 and described planned corrective actions to include revising the NASA FAR Supplement to clarify when contracting officers are permitted to use outside firms to supplement DCAA audit services and reminding them of the importance of obtaining and documenting the status of DCAA audits. Because we consider the Assistant Administrator's proposed actions responsive to these recommendations, the recommendations are resolved and we will close them upon verification of the completed actions.

The Assistant Administrator partially concurred with recommendations 2 and 5, agreeing that contracting officers should review vouchers and request additional supporting documentation from the contractor when appropriate, but expressing concern about the Office of Procurement committing to the development of a statistical sample or risk-based methodology without input from the Office of the Chief Financial Officer. Accordingly, the Assistant Administrator said the Office of Procurement would work with the Office of the Chief Financial Officer to perform an assessment of the feasibility and utility of developing such a methodology. We consider the proposal to conduct this assessment responsive and therefore the recommendations are resolved. We will close the recommendations after reviewing the actions NASA takes as a result of the assessment.

Management's full response to our report is reproduced in Appendix D. Technical comments provided by management have also been incorporated, as appropriate.

Major contributors to this report include, Laura B. Nicolosi, Mission Support Director; Joseph A. Shook, Project Manager; Tekla Colon, Project Manager; Susan Bachle, Lead Auditor; Sarah Beckwith, Management Analyst; Myra Thompson, Auditor; Jason D. Hensley, Auditor; Arnold Pettis, Statistical and Data Mining Analyst; and Sarah McGrath and Ben Patterson, Editors.

If you have questions about this report or wish to comment on the quality or usefulness of this report, contact Laurence Hawkins, Audit Operations and Quality Assurance Director, at 202-358-1543 or laurence.b.hawkins@nasa.gov.

Paul K. Martin
Inspector General

APPENDIX A: SCOPE AND METHODOLOGY

We performed this audit from November 2013 through November 2014 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

We performed work at NASA Headquarters (Headquarters), Glenn Research Center (Glenn), Kennedy Space Center (Kennedy), Langley Research Center (Langley), Armstrong Flight Research Center (Armstrong), Goddard Space Flight Center (Goddard), NASA Shared Services Center, DCMA, and DCAA. We conducted interviews with the Office of the Chief Financial Officer and Office of Procurement Representatives at Headquarters and each Center in order to gain an understanding of the pre and post award processes and procedures to manage costs incurred on NASA's cost-type contracts. We interviewed representatives at the NASA Shared Services Center to gain an understanding of their role in the contractor invoicing and payment process. Finally, we interviewed DCMA and DCAA personnel to gain an understanding of their role in reviewing contractor vouchers and executive compensation on the selected NASA contracts, as well as their processes and procedures for performing incurred cost audits of the contractor.

In order to determine whether NASA had established adequate procedures to ensure costs are properly supported, allowable, allocable, and reasonable, we obtained the universe of new and active cost-type contracts from FY 2009 through FY 2012 from the Federal Procurement Data System - Next Generation. From an overall population size of 2,611 with an 80 percent confidence level, the sample size was determined to be 58 contracts. However, we determined that the Jet Propulsion Laboratory and Applied Physics Laboratory contracts would be removed from the sample because they made up over 30 percent of the universe and we wanted to ensure audit coverage of contracts at multiple Centers. Therefore, we recalculated the sample size based on these exclusions and determined that the revised population size was 1,622 with a revised sample size of 57 contracts (80 percent confidence level). The first 20 contracts in the sample were reviewed with the intention of expanding to the full sample, as appropriate. During the course of our audit work, we determined that the sample was sufficient for the findings identified.

For the cost-type contracts in the sample, we reviewed contract file documentation including award documentation, budgets, monthly NASA Financial Management Reports, and the five most recent vouchers for each contract. The audit team reviewed the Financial Management Reports and vouchers to determine if procurement representatives could identify questionable costs submitted by the contractor. We also reviewed financial data obtained from SAP to determine if the amount obligated on the contract exceeded the amount committed. In addition, we provided questionnaires or held meetings with procurement representatives at each Center to determine which parties were involved in the pre-award negotiation of the contract, whether compensation, including executive, had been reviewed since the contract was awarded, and whether DCAA had performed an incurred cost audit of the contractor.

Federal Laws, Regulations, Policies, and Guidance

We identified and reviewed all applicable Federal, Agency, and Center level regulations and guidance, including the following:

- United States Code (USC), Title 10, Section 2324, "Allowable Costs Under Defense Contracts"
- USC, Title 41, Section 435, "Levels of Compensation of Certain Contractor Personnel Not Allowable as Costs under Certain Contracts"
- USC, Title 41, Section 1127, "Determining Benchmark Compensation Amount"
- USC, Title 41, Section 4304, "Specific Costs Not Allowable"
- FAR, Subpart 1.6, "Career Development, Contracting Authority, and Responsibilities," July 22, 2013
- FAR Subpart 52.216-7, "Allowable Cost and Payment," June 26, 2013
- FAR Subpart 15.305, "Proposal Evaluation," June 2013
- FAR Subpart 15.4, "Contract Pricing," January 3, 2012
- FAR Subpart 22.1103, "Policy, Procedures, and Solicitation Provision," January 18, 2013
- FAR Subpart 31.2, "Contracts with Commercial Organizations," August 17, 2007
- FAR Subpart 42.7, "Indirect Cost Rates," June 30, 2011
- FAR Subpart 42.8, "Disallowance of Costs," July 1, 2014
- FAR Subpart 4.803, "Government Contract Files," July 22, 2013
- FAR Subpart 42.3, "Contract Administration Officer Functions," March 16, 2011
- FAR Part 10, "Market Research," April 15, 2011
- FAR Part 37, "Service Contracting," August 17, 2007
- FAR Subpart 16.3, "Cost-Reimbursement Contracts," February 2, 2012
- FAR Subpart 33.2, "Disputes and Appeals," May 29, 2014
- FAR Subpart 30.001, "Definitions," May 29, 2014
- FAR Subpart 2.1, "Definitions," January 29, 2013
- DCAA, Contract Audit Manual, Chapter 6, "Incurred Cost Audit Procedures," February 24, 2014
- DCAA, Contract Audit Manual, Chapter 15, "Other DCAA Functions," August 29, 2013
- DCAA, Contract Audit Manual, Chapter 1, "Introduction to Contract Audit," November 21, 2013

- Office of Federal Procurement Policy Cost Accounting Standards Board Executive Compensation-Benchmark Maximum Allowable Amount
- Code of Federal Regulations Title 48, Chapter 18, Subchapter H, Part 1852, Subpart 1852.2, Section 1852.231-71, "Determination of Compensation Reasonableness"
- OMB Circular A-133, "Audits of State, Local Government, and Non-Profit Organizations," Last Updated June 26, 2007
- DCAA Manual 7641.90, "Information for Contractors," June 26, 2012

NASA Policies and Procedures

- NASA FAR Supplement Subpart 1815.404-2(a)(1)(F)(1), "Data to Support Proposal Analysis-Use of Contractor to Perform Contract Audit Services," April 30, 2013
- NASA FAR Supplement Subpart 1831.205-670, "Evaluation of Contractor and Subcontractor Compensation for Service Contracts," November 1, 2004
- NASA FAR Supplement Subpart 1842.803, "Disallowing Costs after Incurrence," November 1, 2004
- NASA FAR Supplement Subpart 1852.231-71, "Solicitation Provisions and Contract Clauses, Determination of Compensation Reasonableness," November 1, 2004
- NASA Procurement Information Circular 10-09, "Limitation on Executive Compensation," August 3, 2010
- NASA Procurement Information Circular 14-02, "Class Deviation to NFS [NASA FAR Supplement] 1842.803(b)(1)(D) DCAA Policy and Procedure for Submission and Audit of Contractor Interim Vouchers," March 31, 2014
- NPR-9501.2E, "NASA Contractor Financial Management Reporting," May 27, 2011
- GLWI-CH-5115.1, Revision X, Glenn Research Center Work Instruction, "Document Review and Distribution," January 13, 2014
- GLPD-5103.2L, Glenn Research Center Policy Directive," Source Selection Authority for Competitively Negotiated Contracts w/Change 1," January 21, 2014
- GLPR-5100.1G, Glenn Research Center Procedural Requirement, "Procurement w/Change 4" December 2, 2011
- LMS-OP-4516, Revision K, NASA Langley Research Center, Office of Procurement Procedure, "Perform Proposal Evaluation," September 20, 2012
- LMS-OP-4537, Revision R, NASA Langley Research Center, Office of Procurement Procedure, "Review and Execution of Procurement Documents," November 12, 2013
- LMS-OP-4520, Revision U-1, NASA Langley Research Center, Office of Procurement Procedure, "Pre and Post Award Documents," May 2, 2013

- GPR 5100.1H, Goddard Space Flight Center Procedural Requirement, "Procurement," November 26, 2013
- G-5104.1-001, Baseline 1, Dryden Flight Research Center Procedure, "Review and Execution of Procurement Documents," May 1, 2011
- DCP-A-001, Revision D, Dryden Flight Research Center, Dryden Center Wide Procedure, "Using the Procurement System," September 28, 1998

Use of Computer-Processed Data

We relied on computer-processed data from three sources: the Federal Procurement Data System-Next Generation, SAP Business Warehouse, and NASA's Enhanced Procurement Data Warehouse. The Federal Procurement Data System was utilized to obtain the universe of new and active NASA cost-type contracts awarded from FYs 2009 through 2012, from which our sample of 20 contracts was selected. SAP Business Warehouse was utilized to identify the current amount obligated, uncosted, and undisbursed for each of the contracts in the sample selection. The Enhanced Procurement Data Warehouse was utilized to identify the period of performance beginning and ending dates and the current contract value for each of the contracts, including the base contracts, for the sample selection. We verified the completeness and accuracy of the data by comparing the Federal Procurement Data System, SAP Business Warehouse, and Enhanced Procurement Data Warehouse data to the contract file documentation for the 20 contracts selected, and interviewed Center officials. We did identify instances where data in the Federal Procurement Data System was not accurate; however, the instances were immaterial in relation to our sample. Therefore, we deemed the data reliable for purposes of this audit.

Review of Internal Controls

We reviewed and evaluated the internal controls associated with the management of incurred costs on NASA's cost-type contracts. This included reviewing five Centers' processes for reviewing and approving incurred costs for the contracts, task orders, and delivery orders in the sample selection. In addition, we reviewed the controls those Centers had in place to monitor incurred costs. The weaknesses we identified are discussed in this report. Our recommendations, if implemented, should correct the identified weaknesses.

Prior Coverage

During the last 5 years, the NASA OIG and the GAO have issued 11 reports and 2 testimonies of significant relevance to the subject of this report. Unrestricted reports can be accessed at **http://oig.nasa.gov/audits/reports/FY15** and **http://www.gao.gov**, respectively.

NASA Office of Inspector General

NASA's Award Closeout Process (IG-14-014, February 12, 2014)

NASA's Use of Award-Fee Contracts (IG-14-003, November 19, 2013)

Review of NASA Internal Controls for Awards with Small Businesses (IG-13-010, February 28, 2013)

Final Memorandum on the Review of Wheeling Jesuit University Cost Proposals (IG-09-020R, August 3, 2009)

Final Memorandum on the Audit of NASA's Implementation of DCAA's Audit Recommendations during the Administration of Cost Reimbursable Actions (IG-09-014, April 24, 2009)

Government Accountability Office

Biomedical Research: NIH Should Assess the Impact of Growth in Indirect Costs on its Mission (GAO-13-760, September 2013)

National Nuclear Security Administration: Laboratories Indirect Cost Management has Improved, but Additional Opportunities Exist (GAO-13-534, June 2013)

Defense Contractors: Information on the Impact of Reducing the Cap on Employee Compensation Costs (GAO-13-566, June 2013)

Defense Contracting: DoD Initiative to Address Audit Backlog Shows Promise but Additional Management Attention Needed to Close Aging Contracts (GAO-13-131, December 2012)

Contingency Contracting: Improved Planning and Management Oversight Needed to Address Challenges in Closing Contracts (GAO-11-891, September 2011)

Contract Audits: Role in Helping Ensure Effective Oversight and Reducing Improper Payments (GAO-11-331T, February 1, 2011)

Defense Management: Widespread DCAA Audit Problems Leave Billions of Taxpayer Dollars Venerable to Fraud, Waste, Abuse, and Mismanagement (GAO-10-163T, October 15, 2009)

DCAA Audits: Widespread Problems with Audit Quality Require Significant Reform (GAO-09-468, September 2009)

APPENDIX B: CONTRACT SAMPLE SELECTION

Table 1 lists the 20 contracts we reviewed for this audit.

Table 1: Contract Sample Selection

Contract Number	Center	Contractor Name	Document Reviewed	Amount[a]
NNC09E356T	Glenn	ASRC Aerospace Corporation	Task order	$9,685.00
NNC09BA23B	Glenn	Mainthia Technologies, Inc	Base contract	$326,098.00
NNL11AM04T	Langley	Swales and Associates, Inc d.b.a. ATK Space Systems, Inc	Task order	$75,000.00
NNL12AB32T	Langley	Honeywell International, Inc	Task order	$109,799.00
NNG12WA38C	Goddard	Millenium Engineering and Integration Co	Base contract	$25,000,000.00
NNC12IO77T	Glenn	Mainthia Technologies, Inc	Task order	$7,236.80
NNL11AD29T	Langley	National Institute of Aerospace Associates	Task order	$30,801.00
NNG10CR16C	Goddard	ASRC Management Services, Inc	Base contract	$5,000,000.00
NNK12OH12T	Kennedy	ABACUS Technology Corporation	Task order	$44,496.40
NNC12JX06T	Glenn	Vantage Partners, Inc	Task order	$128,779.00
NNC09E378T	Glenn	ASRC Aerospace Corporation	Task order	$50,000.00
NND12RR02T	Armstrong	Tybrin Corporation	Task order	$237,952.00
NNK10OH27T	Kennedy	ABACUS Technology Corporation	Task order	$15,000.00
NNL09AM14T	Langley	Swales and Associates, Inc d.b.a. ATK Space Systems, Inc.	Task order	$21,248.00
NNC12JX02T	Glenn	Vantage Partners, LLC	Task order	$91,239.29
NNC10JG22D	Glenn	Zin Technologies, Inc	Delivery order	$6,000.00
NNC11TA45T	Glenn	Honeywell Technology Solutions, Inc	Task order	$129,816.00
NNC11JE08D	Glenn	SGT, Inc	Delivery order	$35,514.00
NNH09CF96T	Headquarters	Indyne, Inc	Task order	$270,586.00
NNC12E533T	Glenn	ASRC Aerospace Corporation	Task order	$39,679.00

Source: NASA OIG

[a] Data collected from the Federal Procurement Data System.

APPENDIX C: FREQUENCY OF COMPENSATION REVIEWS

We determined that for 17 of the 20 contracts we reviewed, the contracting officer did not review compensation post award as required by the NASA FAR Supplement. The NASA FAR Supplement requires compensation reviews for service contracts as long as the contract's period of performance extends 3 years or longer. As shown in the Table 2, each of the 17 service contracts had a period of performance that extended three years, but none of the required compensation reviews had been performed. In some cases, as many as three compensation reviews were past due.

Table 2: Frequency of Compensation Reviews

Base Contract	Contractor	Sampled Contracts and Task/ Delivery Orders	Current Value (Dollars in Millions)	POP Begin	POP End	When Periodic Compensation Review Required?
NNK08OH01C	ABACUS Technology Corporation	NNK12OH12T NNK10OH27T	$584.10	Oct. 1, 2008	Sept. 30, 2015	Oct. 1, 2011– Oct. 1, 2014
NNC06BA07B	ASRC Aerospace Corporation	NNC09E356T NNC12E533T NNC09E378T	$295.90	Sept. 1, 2006	May 31, 2012	Sept 1, 2009
NNG10CR16C	ASRC Management Services, Inc	NNG10CR16C	$227.20	Aug. 23, 2010	Aug. 22, 2015	Aug 21, 2013
NNL06AA05B	Honeywell International, Inc	NNL12AB32T	$35.00	Jan. 13, 2006	July 12, 2013	Jan. 13, 2009– Jan. 13, 2012
NNC11BA15B	Honeywell Technology Solutions, Inc	NNC11TA45T	$96.00	June 27, 2011	June 26, 2016	June 27, 2014
NNH06CC93B	Indyne, Inc	NNH09CF96T	$276.00	June 1, 2006	May 31, 2012	June 1, 2009
NNC09BA23B	Mainthia Technologies, Inc	NNC09BA23B NNC12IO77T	$35.40	Sept. 25, 2009	Mar 31, 2015	Sept. 25, 2012
NNG12WA38C	Millenium Engineering and Integration Co	NNG12WA38C	$25.00	Oct. 1, 2012	Sept. 30, 2017	N/A
NNL08AA00B	National Institute of Aerospace Associates	NNL11AD29T	$64.00	Apr. 1, 2008	Mar. 31, 2013	Apr. 1, 2011
NNC05CB17C	SGT, Inc	NNC11JE08D	$231.10	May 1, 2005	Apr. 30, 2015	May 1, 2008, May 1, 2011, and May 1, 2014
NNL07AA00B	Swales and Associates, Inc d.b.a. ATK Space Systems, Inc	NNL11AM04T NNL09AM14T	$240.00	Dec. 5, 2006	Apr. 30, 2012	Dec. 5, 2009
NND08RR01B	Tybrin Corporation	NND12RR02T	$225.00	Feb. 1, 2008	Jan. 31, 2017	Feb. 1, 2011– Feb. 1, 2014
NNC12BA01B	Vantage Partners, Inc	NNC12JX06T NNC12JX02T	$105.96	Mar. 1, 2012	Mar. 31, 2017	N/A
NNC09BA02B	Zin Technologies, Inc	NNC10JG22D	$102.50	Nov. 14, 2008	Mar. 31, 2014	Nov. 14, 2011

Source: NASA OIG analysis of contract files at the respective NASA Centers.

APPENDIX D: MANAGEMENT COMMENTS

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

DEC 15 2014

Reply to Attn of: Office of Procurement

TO: Assistant Inspector General for Audits

FROM: Assistant Administrator for Procurement

SUBJECT: Response to OIG Draft Report, "Audit of Costs Incurred on NASA's Cost Type Contracts" (A-14-001-00)

The Office of Procurement (OP) appreciates the opportunity to review the Office of Inspector General (OIG) draft report entitled "Audit of Costs Incurred on NASA's Cost Type Contracts" (A-14-001-00), dated November 12, 2014.

In the draft report, the OIG outlines several findings along with five recommendations intended to strengthen internal controls over the administration and management of NASA's cost-type contracts. NASA's response to the OIG's recommendation, including planned corrective actions and estimated completion dates, follows:

The OIG recommends the Assistant Administrator for Procurement:

Recommendation 1: Revise the NASA FAR Supplement 1815.404-2(a)(1)(F)(1) to allow independent public accounting firms to provide supplemental audit coverage for NASA contracts when DCAA has audit cognizance but cannot be responsive to NASA's need for an audit.

Management's Response: NASA concurs with this recommendation. OP agrees that NASA contracting officers should have the option to utilize independent public accounting firms in lieu of DCAA in the appropriate circumstances. The NASA FAR Supplement already provides guidance in this area. However, OP will revise the NFS to clarify that contracting officers, when appropriate, can utilize an independent public accounting firm in lieu of DCAA in certain limited situations even when DCAA has audit cognizance (e.g., the audit of NASA contract direct costs but not indirect incurred costs).

Estimated Completion Date: OP anticipates finalization of the above referenced NFS revision within 180 days of issuance of the final OIG report.

Recommendation 2: Enhance NASA's existing review of NASA forms 533M, 533Q, and/or vouchers to require contracting officers to periodically sample the reports or vouchers and obtain detailed supporting documentation to validate the accuracy and completeness of information reported.

Management's Response: NASA partially concurs with this recommendation. OP agrees that contracting officers should review vouchers for any questionable areas and request additional supporting documentation from the contractor when appropriate. OP will issue a communication to the Center Procurement Officers emphasizing the importance of accomplishing these voucher reviews. However, OP is concerned with developing a periodic sampling methodology that requires contracting officers to obtain additional supporting documentation from the contractor on a reoccurring basis. Since such a review process would impact multiple organizations across the Agency, as well as leverage skill sets not inherent to OP (e.g., statistical sampling and auditing) we believe an impact assessment conducted jointly by OP and OCFO should be made to determine whether the benefit of such a review would outweigh the cost. The review would evaluate resource requirements, sampling methodology scope, required additional training, logistics relative to timely access to contractors accounting records, increased contractor costs and/or burden, etc. relative to enhancing this existing review process. The implementation of a periodic sampling methodology in this circumstance will invariably increase NASA transaction costs (e.g., additional resources, training, funding, additional contractor costs, etc.) and thus must be reviewed carefully to ascertain an impact assessment and ensure the benefits outweigh the additional costs.

Estimated Completion Date: OP anticipates issuance of the above referenced communication and assessment within 180 days of issuance of the final OIG report.

Recommendation 3: Strengthen controls to ensure NASA contracting officers are performing and documenting periodic compensation reviews for cost-reimbursement service contracts with a potential value in excess of $500,000 at least every 3 years.

Management's Response: NASA concurs with this recommendation. OP believes that it would be prudent to remind acquisition personnel of the importance of performing and documenting periodic compensation reviews when required by NFS 1831.205-670. Accordingly, OP will provide a communication to the Center Procurement Officers requiring that they emphasize to their Contracting Officers the importance of performing and documenting periodic compensation reviews when required by NFS 1831.205-670.

Estimated Completion Date: OP anticipates issuance of the above referenced communication within 90 days of issuance of the final OIG report.

Recommendation 4: Require contracting officers to communicate with DCAA and obtain and document in the contract file the status of any incurred cost audits. If an incurred cost audit has not been performed, require the contracting officer to document the reasons and obtain information on if or when it will be completed.

Management's Response: NASA concurs with this recommendation. OP believes that it would be prudent to remind acquisition personnel of the importance of obtaining the status on DCAA incurred cost audits and projected completion dates. Accordingly, OP will provide a communication to the Center Procurement Officers requesting that they emphasize to their Contracting Officers the importance of obtaining the status on DCAA incurred cost audits and projected completion dates.

Estimated Completion Date: OP anticipates issuance of the above referenced communication within 90 days of issuance of the final OIG report.

Recommendation 5: In concert with the other recommendations we are making, develop a methodology (statistical sample or risk-based approach) for increasing audit oversight of incurred cost proposals that do not meet DCAA's parameters for review.

Management's Response: NASA partially concurs with this recommendation. As stated in recommendation #1, OP will issue a communication to the NASA contracting workforce relative the possible use of independent public accounting firms in lieu of DCAA in the appropriate circumstances. However as stated in recommendation #2, we are concerned with committing to the development of a statistical sample or risk-based approach methodology without performing a cost-benefit analysis jointly with OCFO and other stakeholders involved in the voucher and 533 process and performance of an impact assessment as to the feasibility and utility of developing such a methodology.

Estimated Completion Date: OP anticipates issuance of the above referenced communication and assessment within 180 days of issuance of the final OIG report.

We have reviewed the draft report for information that we believe should not be publicly released and have not identified any issues regarding public release of the report.

Again, thank you for the opportunity to review and comment on the subject draft report. If you have further questions or require additional information regarding this response, please contact LaVerne Randolph at 202-358-4801.

William P. McNally

APPENDIX E: REPORT DISTRIBUTION

National Aeronautics and Space Administration

Administrator
Chief of Staff
Chief Financial Officer
    Deputy Chief Financial Officer for Finance
Assistant Administrator for Procurement
Director, Glenn Research Center
Director, Goddard Space Flight Center
Director, Langley Research Center
Director, Armstrong Flight Research Center
Executive Director, NASA Shared Services Center

Non-NASA Organizations and Individuals

Office of Management and Budget
    Deputy Associate Director, Energy and Science Division
        Branch Chief, Science and Space Programs Branch

Government Accountability Office
    Director, Office of Acquisition and Sourcing Management

Congressional Committees and Subcommittees, Chairman and Ranking Member

Senate Committee on Appropriations
    Subcommittee on Commerce, Justice, Science, and Related Agencies

Senate Committee on Commerce, Science and Transportation
    Subcommittee on Science and Space

Senate Committee on Homeland Security and Governmental Affairs

House Committee on Appropriations
    Subcommittee on Commerce, Justice, Science, and Related Agencies

House Committee on Oversight and Government Reform
    Subcommittee on Government Operations

House Committee on Science, Space, and Technology
    Subcommittee on Oversight
    Subcommittee on Space

(Assignment No. A-14-001-00)