

NASA

National Aeronautics and Space Administration

Office of Inspector General

Office of Audits

AUDIT OF NASA'S COOPERATIVE AGREEMENT AWARDED TO THE CITY OF NEW ORLEANS

June 29, 2015

Report No. IG-15-018





Office of Inspector General

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RESULTS IN BRIEF

Cooperative Agreement with the City of New Orleans

NASA Office of Inspector General
Office of Audits

June 29, 2015

IG-15-018 (A-14-022-00)

WHY WE PERFORMED THIS AUDIT

Federal statute gives Government agencies the authority to enter into agreements to help protect agency property and employees from fire. Under this statute, NASA can enter into a reciprocal agreement with any fire organization in the vicinity of Agency property and may use a variety of instruments to obtain services. Prior to fiscal year 2012, the Michoud Assembly Facility (Michoud), a NASA-owned manufacturing facility located in East New Orleans, Louisiana, received limited fire protection-related services through a protective services contract with a private company, as well as the New Orleans Fire Department, which includes Michoud in its response area. In September 2011, Agency procurement officials awarded a 1-year cooperative agreement to the City of New Orleans, valued at \$1,428,286, to provide fire protection services to the Facility. NASA subsequently modified the agreement, increasing its value to \$2,156,409 and extending the period of performance through March 31, 2013. In April 2013, NASA and the City entered into an interagency agreement valued at \$8.5 million for fire protection services through March 31, 2018.

We performed this audit to determine whether the City used NASA's cooperative agreement funds for their intended purpose and whether costs associated with the agreement were allowable, reasonable, and in accordance with applicable laws, regulations, guidelines, and the award's terms and conditions. Specifically, we reviewed the City's program performance and accomplishments, accounting and internal controls, budget management and control, and reporting. We also reviewed NASA's administration of the agreement.

WHAT WE FOUND

NASA did not have an adequate system of controls in place to ensure proper administration of the cooperative agreement for fire protection services at Michoud. The City received approval from NASA to bill for services using the costs set forth in its proposed award budget, which were calculated using the highest rate of pay for positions at the Michoud Fire Station with an additional 15 percent indirect cost rate. An analysis comparing the actual payroll costs for the personnel who staffed the Fire Station with the quarterly invoiced amount determined that the Agency had overpaid the City by \$185,621 for the period January 17, 2012, through April 16, 2012. Subsequent analysis found that NASA had overpaid the City by as much as \$1.07 million over the six quarters invoiced under the cooperative agreement.

NASA also did not verify that the City performed required tests and inspections or consistently staffed the Michoud Fire Station with the number of personnel specified in the cooperative agreement. For example, the City was required to conduct annual safety inspections of Michoud buildings and report the results; however, the City did not provide the required information to Michoud officials. A review of the NASA award file for the agreement found no evidence that the Agency verified that the City performed these and other required services. Without establishing and implementing oversight procedures and adequately documenting the City's performance, NASA had little assurance that the objectives of the cooperative agreement were accomplished.

WHAT WE RECOMMENDED

In order to improve the administration of the agreement between NASA and the City, we recommended the Director of Marshall Space Flight Center, which has responsibility for Michoud, remedy \$1.07 million in unsupported payroll costs; review the amounts paid under the interagency agreement to ensure NASA has not overpaid for the services rendered, and establish internal controls to ensure the City is not overpaid in the future; ensure the City staffs the Michoud Fire Station with the personnel specified in the interagency agreement or have remedy for periods in which this does not occur; and establish adequate controls to ensure the City performs required tests, inspections, and other agreed-upon services.

In response to a draft of this report, NASA management concurred with our recommendations and described responsive corrective actions, including establishing an Independent Assessment Team to perform a review of all costs associated with the City's cooperative agreement and amounts paid to the City under the interagency agreement. Because we consider management's proposed actions responsive to our recommendations, the recommendations are resolved. We will close the recommendations upon verification that the planned actions have been sufficiently completed.

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Acronyms

EMT	Emergency Medical Technician
GAO	Government Accountability Office
OIG	Office of Inspector General
OMB	Office of Management and Budget
SEFA	Schedule of Expenditures of Federal Awards
SF	Standard Form

INTRODUCTION

NASA awards approximately \$846 million in grants and cooperative agreements annually and faces the ongoing challenge of ensuring these awards are administered appropriately and accomplish their stated goals and objectives.¹ In September 2011, the NASA Office of Inspector General (OIG) reported the Agency did not have an adequate system of controls to ensure proper administration and management of its grant program and, as a result, some grant funds had not been used as intended.² Following publication of that report, we initiated a series of audits examining specific NASA grants and cooperative agreements. In this report, we present the results of our review of a \$2.1 million cooperative agreement between NASA and the City of New Orleans for fire protection services at the Agency's Michoud Assembly Facility (Michoud).

Our overall audit objective was to determine whether the City used NASA's cooperative agreement funds for their intended purpose and whether costs associated with the agreement were allowable, reasonable, and in accordance with applicable laws, regulations, guidelines, and the award's terms and conditions. Specifically, we reviewed the City's program performance and accomplishments, accounting and internal controls, budget management and control, and reporting. We also reviewed NASA's administration of the agreement.

Background

Michoud is an 832-acre NASA-owned manufacturing facility located in East New Orleans, Louisiana. Between 1976 and 2010, NASA built 136 external tanks for the Space Shuttle at Michoud. More recently, Michoud is manufacturing and assembling or preparing to manufacture and assemble key portions of NASA's next generation space vehicles, including the Orion Multi-Purpose Crew Vehicle and the core stage of the Space Launch System rocket. NASA's Marshall Space Flight Center (Marshall) manages Michoud (see Figure 1 for an aerial view of Michoud's primary manufacturing facility).

¹ Grants provide financial assistance to grantees to accomplish something that benefits the public and are used when the grantee independently performs the activities with minimal NASA involvement. Alternatively, cooperative agreements generally provide funding to recipients for accomplishing something that primarily benefits the public and are awarded when NASA can play a substantial role in the completion of the funded activity.

² NASA OIG, "NASA's Grant Administration and Management" (IG-11-026, September 12, 2011).

Figure 1: Aerial View of the Primary Manufacturing Facility at Michoud



Source: NASA.

Chapter 15A of 42 U.S. Code, Reciprocal Fire Protection Agreements, gives Federal agencies the authority to enter into agreements to help protect agency property and employees from fire. Under the statute, NASA can enter into a reciprocal agreement with any fire organization in the vicinity of Agency property. NASA may also use the following approaches to obtain services: contracts, which are primarily used to acquire specific property or services needed to accomplish a NASA mission or project for the direct benefit or use of NASA; and interagency agreements, which are nonreimbursable or reimbursable agreements in which the partner is another Federal agency or department. Partners are each required to determine the scope of their own authority to enter into an agreement.

Prior to fiscal year 2012, Michoud obtained limited fire protection-related services through a protective services contract with a private company but relied on the New Orleans Fire Department to respond to and extinguish fire emergencies.³ Michoud contracted with a separate company for Emergency Medical Technician (EMT) and ambulance services.

³ The Fire Department responded to calls at Michoud at no cost as part of the general service it provided to New Orleans residents and businesses.

In July 2011, Marshall procurement personnel determined Michoud could save approximately \$800,000 annually by consolidating fire and EMT services into one agreement with the New Orleans Fire Department.⁴ Accordingly, in September 2011 NASA entered into a cooperative agreement valued at \$1,428,286 with the City of New Orleans for the period October 1, 2011, through September 30, 2012. NASA issued seven modifications to the agreement over the ensuing 18 months, increasing its value to \$2,156,409 and extending its performance period through March 31, 2013.

The cooperative agreement benefitted the City of New Orleans, an area heavily damaged by Hurricane Katrina, by establishing a full-time fire fighting and EMT presence at Michoud, thereby reducing response time in that area of the City and improving the City's insurance rating. Figure 2 depicts the area of coverage under the cooperative agreement.

Figure 2: Boundaries of Michoud and the Fire Station Response Area



Source: Office of Protective Services Management at the Michoud Assembly Facility.

Note: The area within the red line is the response area for the Michoud Fire Station. The yellow area is the boundary of the Michoud Assembly Facility.

As part of the cooperative agreement, the City of New Orleans was required to staff the Michoud Fire Station with the equivalent of four full-time, trained Fire Department personnel: a captain or acting captain, two firefighters, and one engine operator or driver. At least two of the four fire personnel were to be certified in basic life support pursuant to State of Louisiana requirements. The City was also required to:

- Provide fire suppression, medical assessment and stabilization, confined space and high angle rescue, defensive hazardous materials operations, and communication and response to Michoud Emergency Dispatch.

⁴ We received and reviewed available documentation relating to the \$800,000 estimate. Although we were not able to verify the exact amount of savings, it appears the Agency has gained efficiencies through implementing the cooperative agreement.

- Provide stand-by operations involving potentially hazardous materials or hazardous operations conducted at Michoud.⁵
- Conduct fire prevention activities such as Fire Prevention Week, an annual safety and health fair, and training exercises; issue hot work permits for Michoud employees and New Orleans fire department personnel stationed at Michoud; and provide instruction to Michoud personnel on the use of portable fire extinguishers.⁶
- Conduct testing and inspections on risers, fire hydrants, Self-Contained Breathing Apparatus, fire suppression and detection systems, and fire vehicles and associated equipment.
- Ensure fire personnel meet National Fire Protection Association and Occupational Safety and Health Administration requirements to perform hazardous materials operations, heavy tactical rescue, confined space rescue, trench rescue, and vehicle extrication.
- Furnish initial turnout gear and Personal Protective Equipment.

In addition to the use of the Fire Station located on the Facility, Michoud provided the City with use of two fully-equipped fire vehicles (Figure 3 shows the vehicles parked at the Michoud Fire Station). The Fire Department was responsible for providing any additional vehicles or equipment needed in case of a larger fire event.

Figure 3: Fire Vehicles at the Michoud Fire Station



Source: New Orleans fire personnel.

⁵ Stand-by operations refers to an emergency rescue capability.

⁶ The Occupational Safety and Health Administration defines hot work as riveting, welding, flame cutting, or other fire or spark-producing operations. The hot work permit allows performance of these tasks in a confined space after a designated person has tested the atmosphere and determined that it is not hazardous.

NASA's responsibilities under the agreement included:

- operating Michoud emergency dispatch functions;
- furnishing and maintaining communication equipment such as telephones, network access, computers, and radio equipment in the Fire Station and the vehicles;
- providing all Fire Station utilities and support functions, including lawn maintenance and custodial services, other than day-to-day housekeeping;
- cleaning-up hazardous material released on Michoud property;
- providing all emergency response medical supplies, Automatic Electronic Defibrillators, and associated equipment;
- providing specialized training required by the Federal Government beyond the standard requirements for fully-trained firefighting personnel; and
- providing fuel from Michoud's Building 320 fueling facilities for all fire equipment used at the Facility.

In May 2012, NASA's Assistant Administrator for Procurement directed Marshall not to use a cooperative agreement to acquire future fire protection services at Michoud and instead advised use of either a funded Space Act Agreement or cost-reimbursement contract.⁷ The Assistant Administrator told us he issued this directive after determining that the cooperative agreement did not appear to be best suited for acquiring these services. In April 2013, Marshall (on behalf of Michoud) and the City of New Orleans entered into an interagency agreement valued at \$8.5 million pursuant to which the City agreed to provide fire protection services through March 31, 2018. Despite the change in instruments, the terms of both agreements were basically the same.

Single Audit

To gauge an understanding of the controls in place prior to and throughout the cooperative agreement period, we reviewed the City of New Orleans' single audits for 2011 through 2013. Single audits refer to an external audit required by the Office of Management and Budget (OMB) for any award recipient that expends more than \$500,000 in Federal funds in a given year.⁸ These audits review recipients' financial statements, internal controls, and compliance with laws and regulations and may identify questioned costs and make recommendations for corrective action. OMB requires recipients to submit single audit reports to the Federal Audit Clearinghouse within 30 days of completion or 9 months after the end of the audit period, whichever is earlier.⁹ We found that NASA's cooperative agreement award and related activity was not present in either the 2012 or 2013 Schedule of Expenditures of Federal Awards (SEFA), which provides the auditors with an accounting of the Federal award and from which the auditors select awards for specific testing. The inaccuracy of these SEFAs indicates potential weaknesses in the City's

⁷ Space Act Agreements are used to establish agreements that require a commitment of NASA resources (including personnel, funding, equipment, and facilities) in return for the services of another party to accomplish agreed upon terms. According to NASA policy, Space Act Agreements should only be used when Agency objectives cannot be achieved through any other acquisition instrument.

⁸ OMB Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations," June 26, 2007.

⁹ The Federal Audit Clearinghouse disseminates audit information, supports OMB oversight and assessment of Federal audit requirements, assists Federal oversight agencies in obtaining A-133 data, and helps minimize the reporting burden of complying with A-133 audit requirements.

internal controls relating to reporting. Although the NASA cooperative agreement was not tested as part of these audits, we noted several findings in the reports that raise concerns regarding the City's control environment.

In 2011, the external auditors noted weaknesses in the City's internal control as it relates to the accuracy and completeness of expenditure amounts, including approximately \$500,000 incorrectly omitted from expenditures of a grant awarded by the U.S. Department of Homeland Security and used by the City for staffing the fire and emergency response program, and approximately \$4,015,000 incorrectly reported in a disaster-related block grant program. The City subsequently recorded adjustments to address these omissions and properly stated other expenditure amounts; however, the auditors also identified a difference of approximately \$3,124,000 between expenditures reported in the SEFA and the Federal Financial Report Standard Form (SF) 425 used to report financial activity to the awarding Federal agency. As a result, the auditors recommended that grant expenditures reflected on the SF 425s be reconciled to the underlying accounting records on a timely basis.¹⁰

Despite hiring seven additional staff to address reconciliation of the SEFA to subsidiary records, in 2012 the City of New Orleans was again found to have insufficient internal controls over the accuracy, completeness, and timeliness of recorded expenditure amounts reported on the SEFA. In addition, a review of various accounting ledgers identified a difference of \$89,641 between the financial reports prepared by grant personnel and subsidiary ledger records maintained by the City's accounting departments. Lastly, the report identified that staffing levels for the Homeland Security fire and emergency response grant fell nine firefighting positions below the staffing level requirements contained in the grant agreement. The City was thereby deemed noncompliant with the staffing level term of the grant agreement and the auditors recommended the City strengthen controls to ensure compliance.

In 2013, the City of New Orleans noted that it was in the process of developing a grant management handbook to ensure grant responsibilities were met; however, the external auditors continued to report reconciliation issues between the accounting records and the SF 425s, as well as completeness, accuracy, and timeliness issues with SEFA reporting.

¹⁰ SF 425 Financial Reports were not required under the cooperative agreement, but the internal control concern mirrors internal control concerns identified in this report.

WEAKNESSES IN NASA'S OVERSIGHT OF THE COOPERATIVE AGREEMENT WITH THE CITY OF NEW ORLEANS

NASA did not have an adequate system of controls in place to ensure proper administration of its cooperative agreement with the City of New Orleans for fire protection services at Michoud. Specifically, NASA did not verify that the City's invoices reflected the City's actual costs to staff the Fire Station and therefore overpaid the City \$1.07 million for services provided between October 2011 and March 2013. In addition, NASA did not verify the City performed all required tasks.

NASA Overpaid for Services Provided

The City of New Orleans maintained a payroll system that captured the actual payroll costs for the fire personnel who staffed the Michoud Fire Station; however, the City did not use this information to create the quarterly invoices it submitted to NASA for payment. Rather, the City received approval from NASA to bill for its services using the costs set forth in its proposed award budget, which were calculated using the highest rate of pay for the four positions identified in the cooperative agreement and adding an indirect cost rate of 15 percent. Using these rates, the City estimated its services would cost NASA \$1,456,286 annually (or \$364,071.50 per quarter). Accordingly, between January 2012 and April 2013, NASA paid the City \$2,156,409.26 for fire protection services based on the estimated rate.

We compared the actual payroll costs for the fire personnel who staffed the Michoud Fire Station (\$178,451) to the quarterly invoiced amount (\$364,071.50) for the period January 17, 2012, through April 16, 2012, and determined Michoud overpaid the City by \$185,621 for that period. The overpayment resulted both from the City failing to fully staff the Fire Station on some days and differences in the actual versus the estimated rates of pay of the fire personnel assigned.

After finding this discrepancy, we expanded our testing to review supporting payroll documentation for the five other quarters invoiced under the cooperative agreement. We discovered similar issues regarding those payments and calculated that NASA overpaid the City by as much as \$1.07 million. See Table 1 for a summary of the payments we question.

Table 1: Invoice Payments to the City of New Orleans

Invoice Date	Invoice Amount	Amount Paid and Posted to the City of New Orleans Finance System	Actual Costs (payroll plus indirect costs) ^a	Overpayment
1/26/2012 ^b	\$336,051.86	\$336,051.86	\$215,157.03	\$120,894.83
4/23/2012	364,071.50	364,071.50	178,450.58	185,620.92
7/18/2012	364,071.50	364,071.50	182,010.76	182,060.74
10/3/2012	364,071.40	364,071.40	166,899.74	197,171.66
12/28/2012	364,071.50	364,071.50	180,618.56	183,452.94
4/2/2013 ^c	364,071.50	364,071.50	162,232.23	201,839.27
Total	\$2,156,409.26	\$2,156,409.26	\$1,085,368.90	\$1,071,040.36

Source: Documents related to the cooperative agreement with the City of New Orleans and City financial documents.

^a Total payroll includes actual payroll costs plus estimates for detailed firefighters. Indirect costs are calculated as 15 percent of the total payroll.

^b The first quarterly invoice was adjusted to account for an invoice for \$28,019.74 that covered the transition from the prior fire services contractor to the cooperative agreement. We determined NASA never paid the earlier invoice.

^c The receipt was originally posted to the wrong account and was later corrected.

To be allowable, costs must be necessary and reasonable for proper and efficient performance and administration of a Federal award; allocable to the award; and authorized. A cost is reasonable if, in its nature and amount, it does not exceed that which would be incurred by a prudent person under the circumstances prevailing at the time the decision was made to incur the cost. A cost is allocable if the goods or services involved are chargeable or assignable in accordance with relative benefits received.¹¹ Further, Federal guidelines state that in assessing the adequacy of an applicant's financial management system, the awarding agency shall rely on readily available sources of information, such as audit reports, to the maximum extent possible.¹² In our view, it was not reasonable for NASA to pay the City of New Orleans more than the actual costs associated with staffing the Michoud Fire Station. Moreover, had NASA reviewed the results of the City's 2011 Single Audit report prior to award, the Agency may have decided against allowing the City to estimate quarterly invoices and instead established additional controls surrounding payment for services rendered.

NASA Did Not Verify the City Satisfied Its Obligations Concerning Staffing, Required Testing, and Inspections

NASA did not verify that the City of New Orleans performed required tests and inspections or consistently staffed the Michoud Fire Station with the number of personnel specified in the cooperative agreement. In addition, the City did not provide and Michoud personnel did not request required reports that could have informed the Agency whether the City was satisfying its obligations.

¹¹ OMB Circular A-87, "Cost Principles for State, Local, and Indian Tribal Governments, revised May 10, 2004," Section C: Basic Guidelines.

¹² OMB Circular A-102, "Grants and Cooperative Agreements with State and Local Governments," August 29, 1997.

We requested the City of New Orleans provide performance and progress reports, including any internal and external program evaluation documents, assessing the extent to which the cooperative agreement met its stated objectives. In response, the City provided rosters that identified the personnel present at the Michoud Fire Station each day for the period October 16, 2011, through December 31, 2012, and “day books” for the same period that described the tasks they planned and/or accomplished on those days.¹³ In reviewing this material, we identified several examples in which the City did not comply with the terms of the cooperative agreement. For example,

- The City was required to staff the Michoud Fire Station with four fully qualified personnel per shift; however, when we reviewed the rosters for the period January 17, 2012, through April 16, 2012, we found the Station was not fully staffed 14 days out of this 91-day period. The cooperative agreement did not require the City to report to NASA on daily staffing levels, and both Michoud and City personnel told us they were not aware the Station had not been fully staffed on these days.
- The City of New Orleans was responsible for conducting annual fire and life safety code inspections of each building at Michoud and providing a monthly report to Michoud Protective Services documenting the inspections performed that month. According to the day books, the City planned inspection, testing, and scheduling procedures for building systems and discussed those plans with a Michoud representative. However, the City did not provide Michoud with the required monthly reports or any other document to indicate the inspections were actually performed. Accordingly, we were unable to verify the City performed the required inspections.
- The cooperative agreement required the City of New Orleans to conduct a minimum of one fire drill per year for each staffed Michoud building and to report the results, including dates, evacuation times, and the names of any personnel who did not evacuate. The City did not provide the required information, we found no reference to drills in the day books, and we could not document the drills occurred.

In addition, we reviewed NASA’s award file for the cooperative agreement and could not find any evidence Michoud verified that the City of New Orleans performed these and other required services. Further, the City did not submit the final performance report required by the cooperative agreement and NASA did not follow up with the City regarding the report.¹⁴ Without establishing and implementing oversight procedures and adequately documenting the City’s performance, NASA had little assurance that the objectives of the cooperative agreement were accomplished.

As noted previously, Federal statute allows NASA a choice of award instruments when obtaining fire protection services; however, when the Agency chooses an instrument like a cooperative agreement or interagency agreement that has fewer standard controls than a typical Federal contract, it must exercise adequate oversight to ensure agreement requirements are met and associated costs are reasonable. We note that NASA’s current interagency agreement with the City suffers from the same deficiencies we identified in the cooperative agreement in that it continues to allow the City to bill NASA in equal quarterly installments and does not establish sufficient controls to ensure requests for payment are reviewed for accuracy.

¹³ The City also provided lists of incident responses and fire hydrant locations and inspection dates.

¹⁴ The NASA Grant and Cooperative Agreement Handbook and the terms of the cooperative agreement reviewed required New Orleans to submit the performance report to NASA no later than 60 days after the completion of the award.

RECOMMENDATIONS, MANAGEMENT'S RESPONSE, AND OUR EVALUATION

To improve administration of the agreement with the City of New Orleans for fire protection services and ensure Michoud is receiving all promised services, we recommended Marshall's Center Director:

1. Remedy the \$1.07 million in unsupported payroll costs.
2. Review the amounts paid under the interagency agreement to ensure NASA has not overpaid for the services rendered, and establish internal controls to ensure the City of New Orleans is not overpaid in the future.
3. Ensure the City staffs the Michoud Fire Station with the personnel specified in the interagency agreement or has a remedy for periods in which this does not occur.
4. Establish adequate controls to ensure the City of New Orleans performs required tests, inspections, and other agreed-upon services.

We provided a draft of this report to NASA management, who concurred with our recommendations and described planned corrective actions, including establishing an Independent Assessment Team to perform a review of all costs associated with the New Orleans cooperative agreement and amounts paid to the City of New Orleans under the interagency agreement. Because we consider management's proposed actions responsive to our recommendations, the recommendations are resolved and will be closed upon verification of the planned corrective actions.

Management's full response to our report is reproduced in Appendix B; the City of New Orleans' response is reproduced in Appendix C. Technical comments provided by the Agency and recipient have also been incorporated, as appropriate.

Major contributors to this report include: Laura Nicolosi, Mission Support Director; Vincent Small, Project Manager; Bessie Cox, Auditor; Michael Beims, Computer Engineer; and Cedric Campbell, Attorney-Advisor.

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 September 2014 through May 2015 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.

Our overall audit objective was to determine whether NASA's cooperative agreement funds were used for their intended purposes and whether the recipient was compliant with established laws, regulations, and NASA-specific requirements in its administration and management of the cooperative agreement. To accomplish our objectives, we interviewed key personnel at NASA Headquarters, Marshall, Michoud, and the City of New Orleans who were involved in cooperative agreement administration, management, and award processes. We identified and reviewed relevant Federal laws and regulations, NASA policies and requirements, and other criteria. The methodology we followed for the review is described below.

Cooperative Agreement Selection. We judgmentally selected the cooperative agreement awarded to the City of New Orleans by Marshall for substantive testing based on the award dollar value, the number of supplements awarded, and the fact that it was a cooperative agreement awarded to a municipality. The cooperative agreement was awarded by Marshall on behalf of Michoud.

Cooperative Agreement Award File Documentation. We reviewed cooperative agreement award documentation, including the cooperative agreement notice, statement of work, award documentation, delegation letters, proposal, and milestone reports. We interviewed the NASA contracting officer and the NASA technical officer responsible for the City of New Orleans cooperative agreement. We also interviewed key personnel involved in cooperative agreement administration, management, and award processes at NASA Headquarters, Marshall, Michoud, the New Orleans Fire Department, and other personnel within the City of New Orleans.

Recipient Site Visit. We visited Michoud and offices of the New Orleans Fire Department and the City of New Orleans Finance Department. We interviewed City of New Orleans and Michoud officials and performed the substantive transaction testing necessary to validate whether NASA cooperative agreement funds were used for their intended purpose while assessing the sufficiency of recipient performance.

Testing Conducted. We tested compliance with what we considered the most important conditions of the cooperative agreement. Unless otherwise stated in this report, the criteria we audited against included Federal and NASA requirements, the NASA Grant and Cooperative Agreement Handbook, and the terms and conditions of the cooperative agreement. In conducting our audit, we focused on City of New Orleans procedures for capturing payroll costs for the firefighters assigned to the Michoud Fire Station. We also identified and reviewed the procedures for invoicing, tracking, and posting of NASA's payments for fire protection services. We tested the recipient's

- financial management of NASA funds including development of invoices, costs incurred and handling of funds received from NASA;

- program performance and accomplishments to determine whether the City met the performance objectives and whether the recipient collected data and developed performance measures to assess accomplishment of the intended objectives; and
- performance reporting to determine whether the required reports were submitted on time and accurately reflected cooperative agreement activity.

We performed limited work and confirmed that the City of New Orleans did not generate or receive program income and did not have any sub-recipients to monitor. We therefore performed no testing in these areas.

Laws, Regulations, Policies, and Requirements

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

Federal Laws, Regulations, Policies, and Requirements

- Public Law 95-224, "Federal Grant and Cooperative Agreement Act of 1977," February 3, 1978
- 42 U.S. Code Chapter 15A, "Reciprocal Fire Protection Agreements," May 27, 1955
- 14 Code of Federal Regulations Part 1273, "Cooperative Agreements with State and Local Governments," January 1, 2010
- 14 Code of Regulations Part 1260, "Grants and Cooperative Agreements," January 1, 2010
- OMB Circular A-87, "Cost Principles for State, Local, and Indian Tribal Governments," revised May 10, 2004
- OMB Circular A-102, "Grants and Cooperative Agreements with State and Local Governments," August 29, 1997
- OMB Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations," June 27, 2003

NASA Regulations, Policies, and Procedures

- NASA Federal Acquisition Regulation Supplement Part 1830, "Cost Accounting Standards Administration," November 1, 2004
- NASA Policy Directive 5101.32E, "Procurement, Grants, and Cooperative Agreements," July 28, 2013

Use of Computer-Processed Data

We used NASA computer-processed data to obtain a universe of NASA grants and cooperative agreements from which the cooperative agreement with the City of New Orleans was selected and to obtain information regarding the cooperative agreement being audited. We also used computer-processed data extracted from the City of New Orleans' cost accounting system to determine the expenditure transactions charged to the award. Although we did not independently verify the reliability of this information, we compared it with other available supporting documents to determine data consistency and reasonableness. From these efforts, we believe the information we obtained is sufficiently reliable for this report.

Review of Internal Controls

We reviewed accounting and internal controls to determine whether the City of New Orleans had sufficient accounting and internal controls to identify and report expenditures and reimbursements, including testing cooperative agreement invoices to determine whether invoice requests for payment were adequately supported and whether the recipient was managing cooperative agreement funds in accordance with Federal requirements, and expenditures to determine the accuracy and allowability of costs charged to the award.

Prior Coverage

During the last 5 years, the NASA OIG and the Government Accountability Office (GAO) have issued seven reports of significant relevance to the subject of this report. Unrestricted reports can be accessed at <https://oig.nasa.gov/audits/reports/FY15> and <http://www.gao.gov>, respectively. Additionally, the accounting firm of Postlethwaite & Netterville has issued three reports of significant relevance to the subject of this report.

NASA Office of Inspector General

Audit of NASA's Cooperative Agreement Awarded to Rockwell Collins (IG-14-025, July 14, 2014)

Audit of NASA Grant Awarded to Hudson Alpha Institute for Biotechnology (IG-12-019, August 3, 2012)

Audit of NASA Grants Awarded to the Philadelphia College Opportunity Resources for Education (IG-12-018, July 26, 2012)

Audit of NASA Grants Awarded to the Alabama Space Science Exhibit Commission's U.S. Space and Rocket Center (IG-12-016, June 22, 2012)

NASA's Grant Administration and Management (IG-11-026, September 12, 2011)

Government Accountability Office

Grants Management: Improved Planning, Coordination, and Communication Needed to Strengthen Reform Efforts (GAO-13-383, May 23, 2013)

Federal Grants: Improvements Needed in Oversight and Accountability Processes (GAO-11-773T, June 23, 2011)

City of New Orleans Independent Auditor (Postlethwaite & Netterville)

City Of New Orleans, Louisiana, Comprehensive Annual Financial Report, December 31, 2013, (With Independent Auditors' Report Thereon) (June 27, 2014)

City Of New Orleans, Louisiana, Basic Financial Statements, December 31, 2012, (With Independent Auditors' Report Thereon) (August 7, 2013)

City Of New Orleans, Louisiana, Basic Financial Statements, December 31, 2011, (With Independent Auditors' Report Thereon) (October 24, 2012)

APPENDIX B: MANAGEMENT'S COMMENTS

National Aeronautics and Space Administration
 George C. Marshall Space Flight Center
 Marshall Space Flight Center, AL 35812



June 23, 2015

Reply to Attn of: DA01

TO: NASA Office of Inspector General
 Attn: Assistant Inspector General for Audits

FROM: DA01/Director

SUBJECT: Response to Office of Inspector General (OIG) Draft Audit Report, "NASA's Cooperative Agreement Awarded to the City of New Orleans" (A-14-022-00)

NASA appreciates the opportunity to review the OIG draft report entitled, "Audit of Cooperative Agreement with the City of New Orleans" (A-14-022-00), dated May 26, 2015.

In the draft report, the OIG makes four recommendations addressed to the Director, Marshall Space Flight Center (MSFC) intended to improve the administration of the agreement with the City of New Orleans for fire protection services, as well as to ensure that the Michoud Assembly Facility (MAF) is receiving all agreed-upon services.

Management's response to the OIG's recommendations, including planned corrective actions, follows:

Recommendation 1: Remedy the \$1.07 million in unsupported payroll costs.

Management's Response: Concur. While actual payroll costs may have been significantly lower than the original estimates, there are indications that indirect costs may have been significantly understated in the estimates. Therefore, MSFC will establish an Independent Assessment Team to perform a review of all costs associated with the Cooperative Agreement (CA) with the City of New Orleans. The Team will have representatives from multiple organizations involved with this CA and provide their results and recommendations to the MSFC Center Director for disposition.

Estimated Completion Date: November 30, 2015.

Recommendation 2: Review the amounts paid under the Interagency Agreement to ensure NASA has not overpaid for the services rendered, and establish internal controls to ensure the City of New Orleans is not overpaid in the future.

Management's Response: Concur. The MSFC Independent Assessment Team will review the amounts paid under the Interagency Agreement and provide their results, including any recommendations for enhanced controls, to the MSFC Center Director for disposition.

Estimated Completion Date: November 30, 2015.

Recommendation 3: Ensure the City of New Orleans staff the Michoud Fire Station with the personnel specified in the Interagency Agreement or has a remedy for periods in which this does not occur.

Management's Response: Concur. MSFC officials will develop a process for ensuring the New Orleans Fire Department (NOFD) staffs the Michoud Fire Station in accordance with the terms of the Interagency Agreement.

Estimated Completion Date: September 30, 2015.

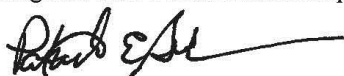
Recommendation 4: Establish adequate controls to ensure the City of New Orleans performs required tests, inspections, and other agreed-upon services.

Management's Response: Concur. MSFC officials will meet with the NOFD to clarify the tests, inspections, and services required in the Interagency Agreement and develop procedures for ensuring full compliance with its terms and conditions.

Estimated Completion Date: September 30, 2015.

We have reviewed the draft report for information that we believe should not be publicly released. We have not communicated any concerns regarding the public release of information contained in your report.

Thank you for the opportunity to review and comment on the subject draft report. If you have any questions or require additional information regarding this response, please contact Sherry Knighten, MSFC Audit Liaison Representative, at 256-544-3525.



Patrick E. Scheuermann

cc:
AS01/Roy Malone
SF01/Michael Kynard
HQ/LA000/Paul Roberts

APPENDIX C: AWARDEE'S COMMENTS



CITY OF NEW ORLEANS
Mitchell J. Landrieu
Mayor

DEPARTMENT OF FIRE CITY OF NEW ORLEANS

OFFICE OF THE SUPERINTENDENT



Timothy A. McConnell
Superintendent

June 9, 2015

VIA EMAIL WITH ATTACHMENTS TO:

Mr. Jim Morrison
Assistant Inspector General for Audits
NASA Office of Inspector General
Office of Audits
Suite 8U71, 300 E ST SW
Washington, D.C. 20546-0001
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Sherry Knighten
Audit Liaison Representative for NASA's Marshal Space Flight Center
sherry.l.knighten@nasa.gov

Paul Roberts
Audit Liaison Team Lead, Mission Support Directorate
paul.roberts@nasa.gov

SUBJECT: Response by the City of New Orleans via the New Orleans Fire Department to Draft Report, *Audit of Cooperative Agreement with the City of New Orleans* (A-14-022-00)

The City of New Orleans (City) through and by the New Orleans Fire Department (NOFD) appreciates the opportunity to review your draft report entitled, "*Audit of Cooperative Agreement with the City of New Orleans*" (Assignment No. A-14-22-00), dated May 26, 2015.

Since 2011, the NASA Michoud Assembly Facility (Michoud) and the NOFD have closely worked together to enhance the protection of NASA's property and personnel. Additionally, the presence of NOFD at the Michoud facility has enabled the NOFD to reduce response times in New Orleans East.

The NOFD welcomes recommendations that can help foster the ongoing relationship with Michoud and serve to enhance fire protection services.

In the report, the Office of Inspector General (OIG) makes four recommendations. The NOFD's response to the OIG's recommendations follows:

To improve administration of the agreement with the NOFD for fire protection services and ensure Michoud is receiving all promised services, the OIG recommends Marshall's Center Director to:

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Recommendation 1: Remedy the \$1.07 million in unsupported payroll costs.

NOFD's Response: Non-concurrence. The OIG alleges that NASA overpaid \$1.07 million in unsupported payroll costs. The NOFD contests the findings of the OIG resulting in this recommendation.

First, the NOFD contests the strict reading by the OIG of the agreement subject of the audit. In 2011, Michoud contacted the NOFD to enter into an agreement to obtain fire protection services at its facilities. Such an agreement made sense because it was beneficial to both Michoud and the NOFD. Michoud used a cooperative agreement as the contractual instrument to memorialize this future relationship. However, the choice of the said instrument was not accurately representative of the intent of Michoud and the NOFD. The intent was for Michoud to provide its resources to the NOFD and in return the NOFD would provide fire protection and emergency medical response services. Additionally, Michoud and the NOFD agreed to a reimbursable amount. Michoud and the NOFD did not agree to pay actual costs. The intent of the parties was shared with the OIG during the interviews with the NOFD. Additionally, by means of documents in their possession, the OIG received verification of the agreement by both parties to bill for services in this manner. The NOFD specifically refers a series of emails exchanged between NASA and the NOFD dated between December 30, 2011 and February 3, 2012 (**See attached Exhibit A**).

Despite this information, the OIG read the agreement strictly and directed its audit toward actual costs. The NOFD neither agreed to actual costs nor chose the contractual instrument. Additionally, the NOFD emphasizes that the OIG stated in its draft report that in May 2012 NASA directed Michoud to use a different instrument rather than a cooperative agreement. Indeed, the report states that the cooperative agreement was not "best suited for acquiring these services."

Second, the NOFD contests the methodology employed by the OIG to calculate the payroll costs. The NOFD is certain that the OIG did not utilize all of the actual costs incurred by the City for the assigned personnel and their administration.

The OIG states that "*NASA Overpaid for Services Provided*" because the City and NASA agreed to utilize "*the costs set forth in its proposed award budget, which were calculated using the highest rate of pay for the four positions identified in the cooperative agreement.*" However, documentation supports that the City's expenditures for the personnel assigned to NASA, plus the agreed upon fifteen percent administrative costs (15% Administrative Cost), are higher than the amount the NOFD received from NASA. With the exception of the pension costs and millage pay, these actual costs were contained in documents submitted to the OIG.

During the March 3, 2015 "status" phone call and again in its Draft Report dated May 26, 2015, the OIG stated that they looked at the process to award the agreement and reviewed the award file. The OIG acknowledged that the file includes a spread-sheet which the NOFD utilized to estimate expenses when attempting to determine what the actual costs would be for the citizens of New Orleans to provide enhanced fire protection and emergency medical response services to NASA at the Michoud facility. Said spread-sheet is titled "*NOFD – Highest Level (Fire Suppression) Rank Salary(s)*" (**See attached Exhibit B**). This document clearly details all of the various components that comprise NOFD personnel costs and the methodology used. Although the document was utilized to estimate costs, the factors used to determine each employee's total salary and benefit are explicitly stated across the top row of the document. Those factors are:

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Annual Base salary, Longevity, Scheduled Overtime, Holiday Pay, Uniform Pay, EMT 5% Incentive Pay, Millage Pay, State Supplemental Pay, Hospitalization Insurance, Workers Compensation Insurance, Medicare, Life Insurance, Unemployment Compensation and Pension. At the bottom of Exhibit B it is obvious that the 15% Administrative Cost was to be calculated on top of the estimated salary and benefits costs.

During the audit, the NOFD explained and documented in writing to the OIG that the purpose of the administrative cost was to reimburse the NOFD for additional expenses incurred by the City as a result of the agreement. These costs are not part of the firefighter salary and benefit costs but are the expenditures necessary to provide the professional fire protection and prevention services received by NASA. These costs include training of personnel to ensure they remain certified firefighters and emergency medical technicians and that their knowledge, skills and abilities are maintained at a high level. Additionally, it includes a portion of the NOFD's costs for administration, maintaining personal protective equipment and supplies, purchasing and maintaining a fire records management system in accordance with National Fire Administration requirements, maintaining a payroll system, processing of payroll, human resource management requirements, executing and maintaining contracts and agreements, purchasing, budgeting and management of the department.

During the audit, the City and NOFD provided the OIG with payroll information. It was explained to the OIG during interviews, status meetings, and confirmed in a letter from NOFD Superintendent McConnell dated March 17, 2015, that the NOFD's actual costs include numerous expenditures which the OIG did not include (**See 3/17/2015 Letter attached as Exhibit C**). Despite being provided with this knowledge and the NOFD supporting its explanation with documentation, the OIG did not incorporate these costs into its evaluation when attempting to determine the NOFD's actual costs.

Prior to the commencement of the agreement, the NOFD established "*Organizational Code (2545)*" within the City's computerized finance tracking system in order to identify and track costs for the employees assigned to NASA (2545 Org Code). The said system breaks out the various costs by "*Object Codes*" to identify specific costs such as hospitalization, workers compensation, etc. However, as stated previously in this response, it was explained to the OIG that the 2545 Org Code did not contain all of the personnel costs because the expenses derived from pension, some millage, and the firefighters who were detailed to replace absent employees were carried in organizational codes other than the 2545 Org Code. The OIG requested and received documentation from the City Finance Department's system which they used to ascertain the payroll costs for NOFD personnel assigned to NASA for the time period included by the agreement (i.e. from October 1, 2011 through March 31, 2013). The OIG was aware that the 2545 Org Code did not contain all of the costs. The OIG requested information for those firefighters detailed to work at Michoud. However, the NOFD is not aware if the OIG requested additional data to validate the pension and millage costs carried outside of the 2545 Org Code. The OIG was clearly informed of those extra expenses during the Entrance Conference, interviews with NOFD employees, status conference calls, the Exit Conference and through NOFD Superintendent Chief McConnell's letter.

The analysis of the data contained in reports from the City's finance system provide documentation that the actual costs for employees assigned to NASA are greater than the amount received by the City for those services. The summary reports for the 2545 Org Code from the

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City's Finance System are attached (**See Attached Exhibit D**). Also enclosed is a spread-sheet which breaks down the calculations for ease of analysis (**See attached Exhibit E**). Below is a summary of the analysis.

- 1) Costs contained in the 2545 Org Code for the eighteen (18) months covered by the agreement (10/1/11 thru 3/31/13) total **\$913,101.23**.
- 2) The amount does not include the cost for firefighters detailed to NASA, lump-sum millage pay, pension or administrative costs.
- 3) The pro-rated cost for the 2012 millage pay (which is carried in another organizational code and was paid during the audit period) is **\$33,599.28 (See attached Exhibit F)**.
- 4) The pension costs are derived from the City's finance system using the organizational codes (2590, 2591 and 2592) for the *Firefighters' Pension System (See attached Exhibit G)*. Plus, due to pension litigation a judge has ordered the City to pay an additional \$19.8M for pension costs. A large portion of this judgement is for the time period covered by the agreement (**See attached Exhibit H**). Both sets of pension costs have been added together to determine the actual costs. The amount prorated for the appropriate number of employees assigned to NASA for the audited time period is **\$1,018,152.09**.
- 5) The total of these actual costs is **\$1,964,852.60**.
- 6) The 15% Administrative Cost for \$2,054,217.45 is **\$294,727.89**.
- 7) The actual cost as documented in the City's finance system, plus the 15% Administrative Cost is **\$2,259,580.49**.
- 8) NASA paid the NOFD \$2,156,409.36 for services provided during the agreement.
- 9) After subtracting the \$2,156,409.36 paid by NASA for NOFD services from the actual cost of \$2,259,580.49 (that the City incurred for providing those services), the NOFD concludes that NASA would owe the City **\$103,171.13** for services rendered by the NOFD.
- 10) These expenses do not include any firefighters detailed to cover absences during the entire duration of the agreement. If the OIG's comments during our meetings are accurate (that any underpayments to the NOFD will be reimbursed), it is obvious that calculating the cost for these additional employees would increase the amounts owed by NASA.

It is of critical importance to note that all of the expenditures listed above are carried in the City's finance system and are directly attributable to the personnel assigned to NASA. This methodology does not utilize the "*Highest Level (Fire Suppression) Rank Salary(s)*" that was used when the NOFD estimated costs to establish the agreement, but it utilizes all of the actual costs. The description of these costs is detailed in the document cited in the OIG report (See page 8 of the report citing "*proposed award budget*"). The said document, which the OIG references, clearly establishes what expenses were to be utilized when calculating the costs incurred by the City and establishes the exact methodology of calculating the 15% Administrative Cost based on those expenses and then adding the administrative cost on top of the expenses. The NOFD cannot establish whether the OIG requested these records or if the

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OIG did not realize that these were part of the cost. However, the NOFD repeatedly explained to the OIG that the OIG was overlooking some of the “actual costs” which make up an employee’s compensation and that the methodology used to establish the “actual cost” was to add the 15% Administrative Cost on top of the final personnel cost.

Estimated Completion Date: N/A.

Recommendation 2: Review the amounts paid under the Interagency Agreement to ensure NASA has not overpaid for the services rendered, and establish internal controls to ensure the City of New Orleans is not overpaid in the future.

NOFD’s Response: Non-concurrence and concurrence. This recommendation is tied to the first recommendation which the NOFD contests. Therefore, the NOFD also contests this recommendation because the NOFD was not overpaid. Although it contests this second recommendation, the NOFD also wishes to inform the OIG that, under the current Interagency Agreement, the NOFD and Michoud meet every quarter to review the applicable invoice and its supporting documentation. Those meetings occur at Michoud facility. The NOFD maintains copies of those invoices and supporting documentation. The NOFD has been and remains committed to provide NASA with the services agreed upon as well as to follow the internal controls established by NASA.

Estimated Completion Date: Ongoing.

Recommendation 3: Ensure the City staffs the Michoud Fire Station with the personnel specified in the Interagency Agreement or has a remedy for periods in which this does not occur.

NOFD’s Response: Non-Concurrence and concurrence. The OIG alleges that the Michoud Fire Station was not fully staffed 14 days out of a 91-day period (from January 17, 2012 through April 16, 2015). The NOFD contests the findings of the OIG that led to this recommendation. The NOFD provided the OIG with copies of “daybooks.” Those books stand for daily logs. Said logs contain the list of the personnel present at the Michoud Fire Station every day. During the audit, the OIG informed the NOFD of their finding alleging that the station was not fully staffed. The NOFD reviewed the said books for the time period at issue and could not find evidence of the OIG’s finding. The NOFD highlighted the name of each firefighter in the daybooks and resubmitted those books to assist the OIG in confirming that there were four firefighters present each day. Additionally, the NOFD emphasizes that the OIG recognizes in its report that the NOFD is not required under the agreement to report on daily staffing at the Michoud Fire Station. Despite its contest of the findings and recommendation, the NOFD wishes to affirm that it has been and remains committed to staff the Michoud Fire Station in accordance with the agreement. The NOFD will work with Michoud to enhance the exchange of information relating to the daily staffing at the Michoud Fire Station.

Estimated Completion Date: 180 days.

Recommendation 4: Establish adequate controls to ensure the City of New Orleans performs required tests, inspections, and other agreed-upon services.

NOFD’s Response: Concurrence. The NOFD wishes to affirm that it has been and remains committed to perform the required and agreed-upon services. The NOFD maintained and continues to maintain records of tests, inspections, and other services performed. Said records

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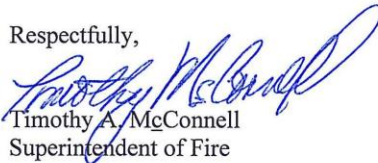
were and are provided to Michoud (as well as the OIG in the course of the audit). The NOFD suggests that the implementation of the electronic Audit Tracking System or other similar system will enhance Michoud's control over NOFD's performance of services. The NOFD will work with Michoud to implement an easier and faster system to exchange information relating to performance of required test, inspections, and other services.

Estimated Completion Date: 210 days.

We have reviewed the information contained in the draft report. It is our assertion that the report contains numerous factual errors, as explained in detail in this response. We have communicated our concerns to the OIG regarding the public release of information contained in your report.

Thank you for the opportunity to review and comment on the subject draft report. If you have any questions or require additional information regarding this response, please contact me at 504-799-5565.

Respectfully,



Timothy A. McConnell
Superintendent of Fire

Enclosures: Exhibits A through H.

Cc (via email):

Andrew D. Kopplin
First Deputy Mayor and Chief Administrative Officer

Norman S. Foster
Director of Finance

Sharonda R. Williams,
City Attorney

Stephen A. Turner, Manager, NASA and Protective Services
Michoud Assembly Facility

Malcolm Wood, Deputy Chief Operating Officer
Michoud Assembly Facility

Patrick Scheuermann, Director
Marshall Space Flight Center

Roy W. Malone, Jr., Director Office of Center Operations
Marshall Space Flight Center

Michael H. Kynard, Chief Operating Officer
Michoud Assembly Facility

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APPENDIX D: REPORT DISTRIBUTION

National Aeronautics and Space Administration

Administrator
 Deputy Administrator
 Associate Administrator
 Chief of Staff
 Associate Administrator, Human Exploration and Operations
 Assistant Administrator, Procurement
 Director, Marshall Space Flight Center
 Director, Michoud Assembly Facility

Non-NASA Organizations and Individuals

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

Government Accountability Office
 Managing Director, Office of Financial Management and Assurance
 Director, Office of Acquisition and Sourcing Management

City of New Orleans
 Superintendent, New Orleans Fire Department
 Deputy City Attorney

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 Space, Science, and Competitiveness

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-14-022-00)