

KE-96-004

**AUDIT
REPORT**

**PAYLOAD GROUND OPERATIONS
SUBCONTRACTING**

KENNEDY SPACE CENTER

MARCH 15, 1996



National Aeronautics and
Space Administration

OFFICE OF INSPECTOR GENERAL

National Aeronautics and
Space Administration

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Reply to Attn of:

W/KSC-OIG/AKE95013

March 15, 1996

TO: CD/Center Director, KSC

FROM: W/OIG Audit Field Office Manager, KSC

SUBJECT: Final Report
Payload Ground Operations Contract
Subcontracting at Kennedy Space Center
Assignment Number A-KE-95-013
Report Number KE-96-004

The NASA Office of Inspector General has completed an audit of the Payload Ground Operations Contract (PGOC) subcontracting activities at Kennedy Space Center, Florida. The overall objective of the audit was to assess the effectiveness of the PGOC's subcontracting activities.

Our review disclosed that PGOC subcontracting activities are generally effective. While the report does not contain any recommendations, it does include an observation on formalizing procedures for follow-on procurements.

If you have any questions or need additional information, please contact me at 867-4664.

A handwritten signature in cursive script that reads "Len Diamond".

Len Diamond

Enclosure

cc:

W/D. Guentzel, HQ (2 copies)

KSC/DA/A. Parrish

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INTRODUCTION

CONTRACTOR SUBCONTRACTS TO MEET MISSION REQUIREMENTS

The Payload Ground Operations Contractor (PGOC) processes shuttle payloads at Kennedy Space Center (KSC). The PGOC subcontracts various functions and tasks to meet its mission requirements. These subcontracts are awarded to both small and large businesses and include various tasks, such as electronic repairs and maintenance, system upgrades, materials and supplies, and other miscellaneous services.

SUBCONTRACTS AWARDED BY MATERIAL MANAGEMENT DEPARTMENT

Subcontracting operations are performed by the Subcontract Management Section which is under the Material Management Department. For the period of July 1, 1994, to June 30, 1995, PGOC awarded 5,442 subcontracts valued at \$19.8 million. Of these subcontracts, 143 were valued at over \$25,000 each. The majority (4,562) were valued at less than \$2,500 each.

CONTRACTOR OVERSIGHT PERFORMED BY KSC AND DEFENSE AGENCIES

Contractor oversight is performed by the KSC Contracting Officer along with the Defense Logistics Agency (DLA) and Defense Contract Audit Agency (DCAA). The DLA recently completed a Contractor Purchasing System Review which resulted in a satisfactory rating. The DCAA performed a corollary audit of the PGOC's subcontract pricing practices with no items being noted. In late 1994, the KSC Contracting Officer conducted a review of the PGOC's purchasing records which did not identify any major deficiencies. The KSC Contracting Officer interfaces with the PGOC on almost a daily basis.

OBJECTIVES, SCOPE, AND METHODOLOGY

OBJECTIVES

The overall audit objective was to determine the effectiveness of the PGOC's subcontracting activities. Specific objectives included determining whether:

- (1) There is adequate KSC oversight of subcontract activities.
- (2) There is adequate contractor oversight of critical subcontract functions.
- (3) The PGOC is complying with applicable regulations and requirements.

SCOPE AND METHODOLOGY

Our audit scope included subcontracts valued over \$25,000 awarded during the period of July 1, 1994, to June 30, 1995.

Our audit work included reviewing pertinent directives and documentation along with interviewing KSC and PGOC personnel.

INTERNAL CONTROLS REVIEWED

We identified and assessed significant internal controls to the extent necessary to accomplish the audit objectives. In identifying significant internal controls, we reviewed guidelines contained in the Federal Acquisition Regulation (FAR) and NASA supplement, NASA and KSC procurement directives, the Payload Ground Operations Contract, and PGOC internal directives.

The following controls were considered significant:

- (1) Controlled Bid Procedures
- (2) Contracting by Negotiation
- (3) Maximizing Competition
- (4) Subcontract Modifications
- (5) Sole Source Justification

AUDIT FIELD WORK

Audit field work was conducted during July and August 1995.

The audit was performed in accordance with generally accepted government auditing standards.

OBSERVATION

OVERALL EVALUATION

Our review showed that PGOC subcontracting activities are generally effective. KSC and Contractor oversight is considered adequate and the PGOC is complying with applicable regulations and directives. During our review, we noted one area where controls could be enhanced. Specifically, formal procedures for follow-on procurements were needed. During our audit, adequate procedures were developed and implemented.

FOLLOW-ON PROCUREMENTS DEFINED

Follow-on procurements are based on previously competed procurements. If a need is identified for an item that was recently procured, then the buyer will contact the supplier and verify that the original price is still current. If so, the buyer will then place the order and categorize the procurement as competed if the buyer can demonstrate through price analysis that the current price is based on adequate price competition as set forth in the FAR. Specifically, the FAR, Section 15.804-3 (b)(3), states that adequate price competition exists if --

A price is "based on" adequate price competition if it results directly from price competition or if price analysis alone clearly demonstrates that the proposed price is reasonable in comparison with current or recent prices for the same or substantially the same items purchased in comparable quantities, terms and conditions under contracts that resulted from adequate price competition.

FOLLOW-ON PROCUREMENTS BASED ON PRICE ANALYSIS

As noted above, price analysis is the basis for awarding follow-on procurements. When price analysis is used, the FAR notes that the proposed price is compared with the current or recent price as to quantities, terms, and conditions to demonstrate price reasonableness. The PGOC requires that current or recent prices must be less than 1 year old to be considered current or recent.

CORRECTIVE ACTIONS TAKEN

During our review, we discussed the absence of formal procedures for follow-on procurements. After our discussion, the PGOC developed and implemented Procurement Desk Instruction (PDI) 068, dated August 23, 1995, titled "Follow-On Procurements," which establishes ground rules for placing follow-on procurements to original competitive orders. Adherence to PDI 068 ensures that price reasonableness is clearly demonstrated as required by the FAR. This PDI has been circulated to the buyers, and they are following the stated guidelines.

***FILES WERE
ADEQUATELY
DOCUMENTED***

While formal procedures were not in place during our review period, our review showed that the buyers were adequately documenting price reasonableness for follow-on procurements. Comparisons of current or recent prices were made with the proposed price in the areas of prices, quantities, terms, and conditions. Also, none of the current or recent prices were over a year old.

CONCLUSION

Because PGO has developed and implemented adequate procedures, a formal recommendation is unnecessary.

AUDIT RESOLUTION

A discussion draft report was issued for informational purposes only and did not have a formal recommendation. The Center was advised that the report would be issued as final unless an exit conference was requested. Since an exit conference was not requested, the report is issued as a final report with no follow-up actions required by the Center.

GENERAL COMMENT

The NASA Office of Inspector General staff members associated with this review express their appreciation to Kennedy Space Center and PGOC personnel contacted for their courtesy, assistance, and cooperation.

MAJOR CONTRIBUTORS TO THIS AUDIT

Kennedy Space Center

Len Diamond, Audit Field Office Manager
Larry Timmons, Auditor-In-Charge

