



OFFICE OF INSPECTOR GENERAL

SEMIANNUAL REPORT

OCTOBER 1, 2004–MARCH 31, 2005





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FROM THE INSPECTOR GENERAL

Robert W. Cobb
Inspector General

Welcome to the New Administrator

Taking high office in Government is an honor and a significant commitment. I appreciate Dr. Michael Griffin's willingness to take on the commitment and the leadership challenges before him at NASA. The challenges are both programmatic and institutional.

NASA is in the midst of a transformation of significant magnitude, complexity, and uncertainty – uncertainty that can only be resolved by making difficult choices. The transformation is driven by the new space exploration vision and the recognition that business functions need to be integrated and consolidated. The major programmatic challenges relate to defining the requirements and costs to support the exploration vision, reorienting programs towards fulfilling the Agency's primary objectives, and maintaining robust Shuttle and station programs while gracefully bringing them to an end. On the institutional front, the Agency needs to establish effective and efficient business processes, most notably financial management, and utilize resources in a manner that efficiently supports the vision.

Office of Inspector General Developments

The most significant developments in the Office of Inspector General (OIG) over the last six months concern major senior leadership changes. Those changes include the hiring of a new Assistant Inspector General for Auditing, a Deputy Assistant Inspector General for Auditing, a Deputy Assistant Inspector General for Investigations, and a Special Agent-In-Charge for the Computer Crimes Division. The new staff is already demonstrating its ability to manage and deliver quality audit and investigative products.

In this semiannual period, the OIG had several successful resolutions of investigations. I highlight one investigation in particular because it reflects the benefit of integrated audit and investigative activity and reflects a positive and collaborative relationship with NASA. The current prime Shuttle processing contractor agreed to pay \$1.4 million to the Agency in connection with costs NASA paid to the predecessor contractor. The settlement was a direct result of an OIG audit report that identified up to \$2 million in unsupported

costs paid to a Shuttle processing subcontractor. Although NASA fully embraced the audit report's findings and recommendations, the contractor would not agree to reimburse the Agency for the unsupported costs. A subsequent investigation prompted by the audit resulted in two of the contractor's senior procurement officials admitting to soliciting and receiving kickbacks from the subcontractor in exchange for providing bid information and assistance in the approval of change orders. The subcontractor and one of its employees were convicted of related crimes as a result of the OIG investigation. The contractor agreed to a settlement of \$1.4 million in light of the evidence that its predecessor's employees had received kickbacks.

Our Office of Audits has been focused on return-to-flight (RTF) activities. None of the audit products we have issued or that are in the pipeline suggest that a decision to return to flight would be inappropriate. While the dedicated work of all those who have advanced the RTF effort has improved many of the known infirmities of the orbiters, the vehicle is still remarkably complicated. The orbiters are aging. With design changes and substantial work on the vehicles, new risks have been introduced. A number of risks are inherent to flying the orbiters, such as orbital debris. While I would agree that the orbiters are likely improved, I encourage the Agency to be transparent about the substantial risks associated with the Shuttles and to avoid the articulation that the vehicles are "safe."

NASA's Financial Management

NASA's financial management continues to need improvement. For the second consecutive year, the independent auditor conducting NASA's audit pursuant to the Chief Financial Officers Act (P.L.101-567) determined that it could not render an opinion on NASA's financial statements. The implementation of the Integrated Financial Management Program (IFMP) system has been "challenged." Data integrity issues identified during Fiscal Year (FY) 2003 continued to impair FY 2004 balances. NASA continued to identify functionality and configuration issues with the system that contributed to its inability to produce accurate and complete financial statements.

Further, the Office of the Chief Financial Officer (OCFO) has been unable to finalize a financial management improvement plan. The draft plan that we have reviewed does not articulate a clear strategy for each priority and supporting initiative that discusses the scope of the problems as well as the actions, staff, and resources required to resolve the underlying problems. Without such a discussion and an assessment of available staff and resources, we are unable to determine whether the milestone and completion dates contained in the plan are realistic or achievable.

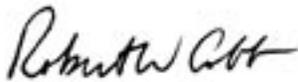
On a positive note, the Agency has set up a financial audit committee whose charter is to advise the Administrator and the Chief Financial Officer (CFO) on matters related to Agency-wide financial management improvement. The committee brings a number of recognized financial experts to bear on the issues facing NASA. I have attended the committee meetings and communicated to the committee my views on the state of NASA's financial management which have been welcomed. My expectation is that the audit committee will be able to make positive recommendations to the Agency on how it should proceed to address recurrent financial management problems. The committee will not have responsibility for official oversight of the financial audit: that responsibility belongs to the Inspector General (IG) pursuant to the CFO Act. However, it is appropriate for the audit committee to remain informed of the audit and provide advice to the Agency in connection with its efforts to support the audit.

Aerospace Safety Advisory Panel

I have also been welcomed at the fact-gathering meetings of the Aerospace Safety Advisory Panel (ASAP) and have found these meetings to be useful to my understanding of the significant issues facing the Agency. Attending the meetings has also allowed me to informally monitor how the ASAP will meet its challenge of following up on long-term Columbia Accident Investigation Board recommendations after the Return to Flight Task Group has completed its activities.

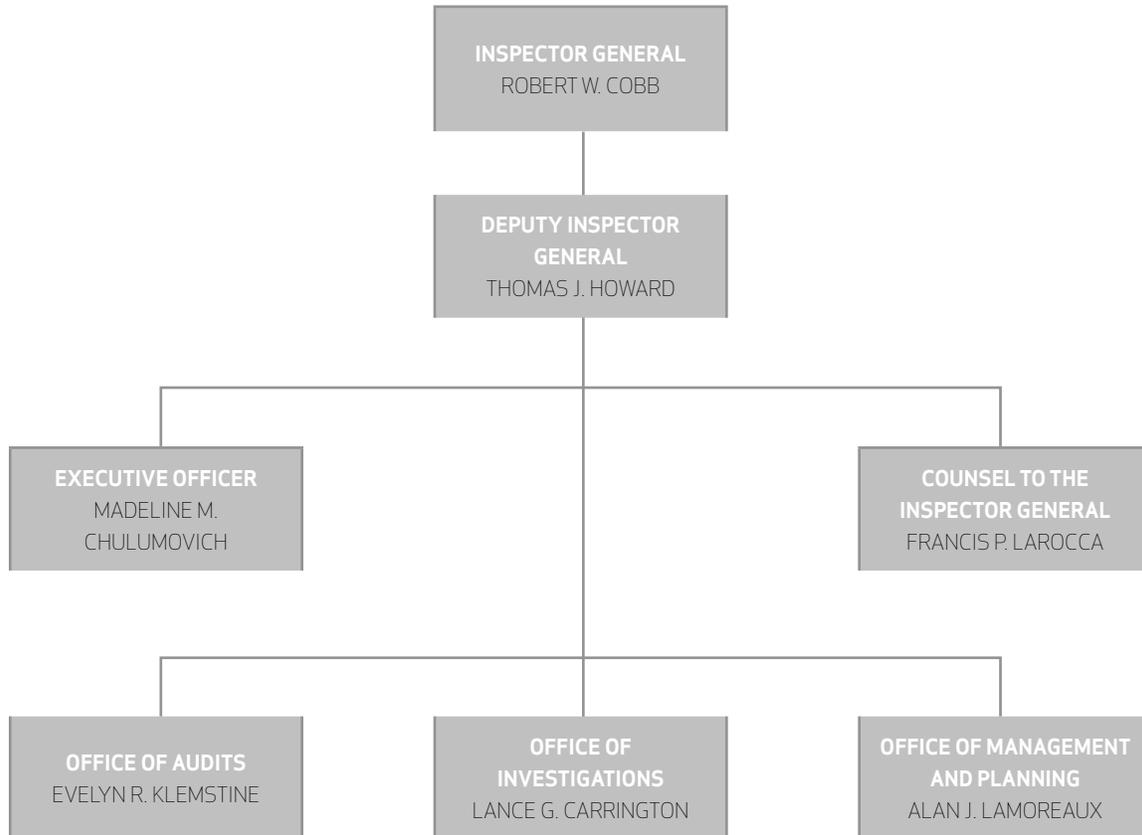
I am encouraged by the skill and integrity of the ASAP and its members. However, I also recognize the limits on the scope of advice such a group can provide the Administrator given it only meets quarterly. I am hopeful that my presence at these ASAP meetings has helped the advisory panel balance its perspectives. It may be that as the NASA OIG increases its ability to provide insightful engineering and safety reporting on NASA activities, it can work with the ASAP to help ensure NASA fulfills its obligation to maximize and improve its organization and safety culture.

This report fairly summarizes the activities of the NASA Office of Inspector General during the reporting period.



Robert W. Cobb
Inspector General

ORGANIZATION



THE NASA OIG conducts audits, reviews, and investigations to prevent and detect waste, fraud, abuse, and mismanagement and to assist NASA management in promoting economy, efficiency, and effectiveness. The OIG's FY 2005 budget of \$31.6 million supports the work of audit, investigative, and administrative activities.

INSPECTOR GENERAL Robert W. Cobb provides policy direction and leadership for the NASA OIG and serves as an independent voice to the Administrator and Congress by identifying opportunities and promoting solutions for improving the Agency's performance. The Deputy Inspector General provides overall direction to the Assistant Inspectors General and Counsel to the Inspector General in the development and implementation of diverse audit, investigative, legal, and support operations of the OIG. The Executive Officer serves as the OIG liaison to Congress and other Government entities, conducts OIG outreach both within and outside of NASA, and manages special projects.

THE OFFICE OF COUNSEL TO THE INSPECTOR GENERAL legal staff provides advice and assistance on a variety of legal issues and matters relating to OIG review of NASA's programs and operations. The legal staff reviews legislation, regulations, Freedom of Information Act (FOIA) requests, and congressional matters that require OIG attention. Additionally, the legal staff provides advice and assistance on legal matters to OIG senior management, auditors, and investigators and serves as counsel in administrative litigation in which the OIG is a party or has a substantial interest. The staff also assists the Department of Justice in litigation in which the OIG participates as part of the prosecution or civil team, or in which the OIG is a witness or defendant.

THE OFFICE OF AUDITS (OA) is responsible for conducting independent and objective audits, reviews, and other examinations to improve the economy, efficiency, and effectiveness of NASA programs, projects, operations, and contractor activities. In addition, the OA oversees the work of the independent public accountant in its audit of NASA's financial statements.

THE OFFICE OF INVESTIGATIONS (OI) investigates allegations of crime, cyber-crime, fraud, waste, abuse, and misconduct having impact on NASA programs, operations, and resources. OI refers its findings to either the Department of Justice for prosecution or to NASA management for action. Through its investigations, OI identifies crime indicators and recommends effective measures for NASA management that are designed to reduce NASA's vulnerability to criminal activity.

THE OFFICE OF MANAGEMENT AND PLANNING (OMP) provides financial, procurement, human resources, administrative, and information technology (IT) services support to the OIG staff. OMP develops, executes, and controls the OIG budget, acquires supplies and services through NASA contracting officers, and provides personnel services that include recruitment, performance management, qualifications and classification, and employee relations functions. OMP provides state-of-the-art IT systems capabilities for the OIG and coordinates preparation of the strategic plan and Semiannual Report to Congress.

NASA'S MOST SERIOUS MANAGEMENT AND PERFORMANCE CHALLENGES

Pursuant to the Reports Consolidation Act of 2000, the IG issues an annual letter detailing OIG's view of the most serious management and performance challenges. This letter is available on the Web at: <http://www.hq.nasa.gov/office/oig/hq/SeriousChallenges1004.pdf>

We believe meeting these challenges is critical in building a sound foundation for implementing the President's Space Exploration Vision in the years to come.

Correcting Serious Cultural, Organizational, and Technical Deficiencies That Will Enable the Space Shuttle to Return to Flight Safely

NASA has significant actions underway to address the Columbia Accident Investigation Board (CAIB) recommendations, including establishment of an RTF Planning Team, Space Flight Leadership Council, and RTF Task Group. Safely returning the Shuttle fleet to flight will require that the Agency address numerous organizational and technical challenges. Unintended consequences of changes will have to be contemplated. Also, NASA will need to exercise due diligence to ensure that engineering and safety decisions are not unreasonably affected by the cost and schedule pressures associated with events outside the Shuttle Program's control, such as budget decisions or supply shortages on the International Space Station (ISS). In addition, the Shuttle fleet is aging and will eventually be replaced by a new transportation system. Sustainability of reasonably safe flight in the context of program closeout will be an additional challenge that the Agency must address. Our review of NASA's progress in implementing the recommendations of the CAIB covered the broad subject categories of technical, organizational, and financial issues. We will continue to monitor NASA's implementation of independent technical authority, as well as NASA's steps to address the organizational and cultural issues that were as much a cause of the Columbia accident as the external tank foam.

Achieving U.S. Core Complete on the ISS with the Uncertain Timing of Space Shuttle Operations

Uncertainties about the timing for returning the Shuttle fleet to flight and resuming servicing missions for the ISS will pose formidable challenges for achieving U.S. Core Complete and managing the ISS Program schedule and cost. NASA's ISS corrective action plan, which was prepared prior to the Columbia accident, does not consider the schedule and cost impact of the Shuttle fleet's grounding on the ISS Program. Because the core complete milestone slips further for each day the Shuttle fleet is grounded, the Program schedule is currently almost three years off track, and the cost impact is significant. The ISS was designed to be resupplied by the Shuttle. Consequently, the ISS Program has been forced to deal with increasing operational and safety risks as a result of inadequacies in the current resupply capabilities. For example, the first of the four gyroscopes broke two years ago as a result of a bearing failure, and a second stopped working in April 2004 as a result of a power failure. Flight controllers have had to rely on the remaining two gyroscopes (the mini-

mum required) to keep the ISS correctly in orbit. ISS crewmembers repaired the second gyroscope during an extravehicular activity (EVA) that required both crewmembers to leave the interior of the ISS unattended for several hours and to traverse an unusually hazardous EVA route. NASA's plan to replace all of the gyroscopes with newer models must await resumption of Shuttle flights because the gyroscopes are too large for the Progress Russian resupply vehicle.

Ensuring That the Integrated Financial Management System Improves NASA's Ability to Allocate Costs to Programs, Efficiently Provides Reliable Information to Management, and Supports Compliance with the CFO Act

During FY 2003, NASA completed its implementation of the IFMP Core Financial Module to replace the 10 separate legacy accounting systems. The Core Financial Module is the backbone of the IFMP, providing a NASA-wide, fully integrated accounting system that the Agency previously lacked. The new system was intended, among other things, to produce auditable financial statements and eliminate reporting weaknesses identified in prior year financial statement audits. However, NASA has been unable to generate useful financial statements from data in the Core Financial Module. In August 2004, the independent auditor notified the OIG and NASA management that a disclaimer of opinion would be issued on the FY 2004 financial statements. In addition to the lack of auditable financial statements and unreliable data within the Core Financial Module, the independent auditor identified deficiencies with policies and procedures and audit documentation in critical areas. NASA must also address a significant human capital shortage in the OCFO. Without sufficient and adequately trained staff, the office will not be able to provide effective leadership to implement policies and procedures, perform oversight of financial management at NASA Centers, and monitor the quality of data generated by the financial system.

Continuing Efforts to Enhance IT Security by Addressing Weaknesses in Controls

NASA's leadership has implemented several IT security improvements, and these positive changes should help improve NASA's overall IT security posture. However, many IT security challenges remain. Specifically, our audits and assessments found recurring and significant internal control weaknesses related to IT security, including unclear system administrator roles and responsibilities; untested contingency plans; a lack of alternate processing facilities; and inadequate implementation of host and network security, system risk assessments, system certifications, and vulnerability testing. Because of the sensitivity of IT security vulnerabilities, our reports in this area are not publicly available. However, we have provided the Agency with detailed information on vulnerabilities and recommendations for corrective action in reports and other controlled correspondence.

SIGNIFICANT AUDITS AND INVESTIGATIONS

Safety

The NASA OIG has continued to review NASA's efforts to prepare the Space Shuttle for its return to flight. To date, we have identified no significant issues or problems that would indicate an unacceptable risk for returning the Space Shuttle to flight. However, we identified several key areas where NASA could further improve its plans to address the CAIB recommendations. Specific areas addressed that needed improvement included quality assurance functions for space flight hardware, orbiter wiring, Space Shuttle Mission Management Team training, and organizational issues, such as the Technical Authority and Safety and Mission Assurance. Some of those reviews are ongoing, including the vital repair aspect of the Space Shuttle orbiter's thermal protection system, and will be reported in the next semiannual report.

NASA Needs to Improve the Quality Assurance Process for Redesigned Solid Rocket Booster Bolt Catchers

The following report is available on the Web at:

<http://www.hq.nasa.gov/office/oig/hq/ig-04-024.pdf>

As part of the OIG's continuing assessment of NASA's RTF activities, we conducted a review, *Final Memorandum on Government Mandatory Inspections for Solid Rocket Booster Bolt Catchers* (IG-04-024), of NASA's plans for implementing the CAIB's recommendation to test and qualify flight hardware bolt catchers. Each Solid Rocket Booster (SRB) is attached to the External Tank by four separation bolts, one at the top of the SRB (the "forward" bolt) and three at the bottom. Shortly after launch, "the firing of a pyrotechnic charge breaks each forward separation bolt into two pieces, allowing the spent Solid Rocket Boosters to separate from the External Tank." In November 1996, through a Letter of Delegation, NASA delegated the oversight of the quality assurance function for the Summa-manufactured bolt catchers to the Defense Contract Management Agency (DCMA).

We found that the DCMA did not perform mandatory hardware inspections on bolt catchers used in Space Shuttle operations. Specifically, we found that DCMA Quality Assurance Representatives (QARs) either (a) removed the requirement for mandatory inspections without obtaining NASA's authorization or approval, or (b) gave final approval for the manufacturing process although not all inspections required throughout the bolt catcher manufacturing process were performed. Even when inspections were performed, we found that DCMA QARs were not always adequately trained to perform the types of inspections delegated. We also found that NASA relied entirely on DCMA to provide surveillance of bolt catcher manufacturing without the oversight that NASA regulations required.

Because of the flawed inspection process, DCMA should have rejected all of the bolt catchers manufactured from 1995 to 1998, including those used on Columbia during STS-107. We made recommendations to management to improve the redesigned bolt catcher quality assurance process as well as NASA oversight of functions delegated to DCMA. Management concurred with each recommendation and has either taken or planned responsive corrective actions.

However, based on the CAIB's findings related to DCMA's lack of qualified non-destructive inspection technicians and differing interpretation of inspection requirements, our review of the available inspection records, and other external reports on DCMA's performance on other NASA contracts, we have concerns that a systemic problem may exist with the DCMA execution of product inspections throughout NASA. As a result, we intend to initiate in the near future a review of DCMA quality assurance support to NASA.

Aircraft Flight Safety

On March 24, 2005, the IG issued a memorandum to the Director of the Johnson Space Center (JSC) addressing a complaint alleging the reorganization of the Aircraft Operations Division (AOD) resulted in potentially serious aircraft flight safety issues. The complaint alleged that the reorganization dissolved the Quality Assurance Branch into the Maintenance Branch, which the complainant believed to be an action contrary to the CAIB recommendation citing the lack of independence of NASA's safety reliability and quality assurance functions. The complaint also alleged fraud, waste, and abuse alleging that AOD was reorganized to justify higher grade levels for certain personnel and to place a nonqualified individual in one of the supervisory positions.

We found no evidence of fraud, waste, or abuse related to either the reorganization of the AOD or the selection of personnel for the supervisory position vacancies created by the reorganization. Specifically, we found that AOD managers and human resource personnel at JSC had followed the appropriate policies and procedures for review and selection of candidates. Finally, although both of the individuals selected were from the Maintenance Branch, no demonstrable evidence existed that either candidate was not qualified.

We plan to initiate an audit of aircraft operations at all NASA Centers this fiscal year and will address aircraft flight safety issues during that audit.

Settlement Agreement Reached for \$2.9 Million

A settlement agreement in the amount of \$2.9 million was reached with a company responsible for the testing and certification of gas tube pressure vessels for the Government. The company allegedly failed to properly calibrate equipment used to test the vessels and then certified the vessels based on the calibrations of that equipment. The vessels are used by NASA, the Department of Energy (DOE), the Tennessee Valley

Authority (TVA), and the U.S. Air Force. This joint investigation conducted by the OIG, Air Force Office of Special Investigations (AFOSI), Defense Criminal Investigative Service (DCIS), DOE OIG, Department of Transportation (DOT) OIG, TVA OIG, and the Federal Bureau of Investigation (FBI) resulted in a \$300,000 recovery to NASA.

Aerospace Company Sentenced for False Certification of Parts

An OIG joint investigation with DCIS, AFOSI, DOT OIG, Naval Criminal Investigative Service, and Army Criminal Investigation Command revealed that between 1998 and 2001, an aerospace company and its subsidiaries' executives conspired to submit false certifications and parts to the Department of Defense (DOD), NASA, and commercial aerospace contractors. The company falsely certified that the parts it processed, which included flight safety critical components, were treated, tested, and inspected in accordance with customer-required specifications, and that test results were obtained through approved methods. On November 3, 2004, the company was sentenced criminally for improperly processing and falsely certifying the quality of parts used in over 60 major DOD, NASA, and commercial aerospace and space programs. The U.S. District Court Judge, Central District of California, Los Angeles, ordered the company to pay a \$200,000 fine, restitution of \$100,000, and a \$2,800 special assessment. The company was also placed on 2 years' probation.

Former NASA Employee Indicted for Falsifying Inspection Documents

An OIG investigation resulted in the indictment of a former NASA Quality Assurance Specialist for fraud involving space vehicle parts. The employee allegedly falsified inspection stamps related to Critical 1 Space Shuttle hardware. Failure of Critical 1 hardware can result in a catastrophic event such as loss of life or vehicle. All hardware related to the alleged false certifications was re-inspected before use on the Shuttle. (Following the end of this reporting period, the former employee was acquitted after trial.)

Company Vice President Sentenced for Selling Unapproved Aircraft Parts

In the OIG's semiannual report for the period ending September 30, 2004, we reported that an aerospace company's vice president was convicted on one count of fraud involving aircraft parts. The parts were unapproved by the Federal Aviation Administration in accordance with National Transportation Safety Board standards. During this reporting period the company's vice president was sentenced to 3 years' supervised probation, ordered to pay \$25,000 in restitution, and a \$100 special assessment to the court. The joint investigation conducted by the OIG, DCIS, and the DOT disclosed that the company allegedly sold unapproved hoses and connectors to NASA, other U. S. Federal agencies, and the commercial airline industry.

Procurement

NASA expends most of its budget through contracts and other procurement vehicles. Since a large percentage of NASA's budget is expended through procurements, effective and efficient procurement practices are critical to NASA's success in achieving its overall mission. Through its audits and investigations, the NASA OIG seeks to assist the Agency in improving the Agency's procurement practices, as well as detect and prevent procurement fraud.

Management of NASA Procurement Workforce

The following report is available on the Web at:

<http://www.hq.nasa.gov/office/oig/hq/ig-05-002.pdf>

The President's Management Agenda places emphasis on Human Capital issues in the Federal workforce. Because NASA spends 85 to 90 percent of its budget through procurements each year, effective management of the procurement workforce is especially critical for the Agency. During the audit *Final Memorandum on Management of NASA Procurement Workforce* (IG-05-002), we identified management control weaknesses for ensuring that designated Contracting Officer's Technical Representatives (COTRs) received the training required to carry out their delegated duties and responsibilities. Of the records we reviewed, we found that while most COTRs had received the basic training, 35 percent had not received required refresher training. We made five recommendations to Agency management geared toward ensuring that all designated COTRs receive the required training necessary to effectively perform their contract oversight duties and responsibilities. Management concurred with all of our recommendations and has taken appropriate corrective action.

Small and Disadvantaged Business Utilization Office

On January 18, 2005, we issued a management memorandum to NASA's Chief Acquisition Officer expressing concerns about the procurement approach employed by NASA's Small and Disadvantaged Business Utilization Office (SADBUO) in acquiring conference support services. The SADBUO awarded a series of purchase orders (each valued at just under the public advertisement threshold of \$25,000) over a short timeframe exclusively to one vendor. The conference services were in support of various SADBUO activities, including the Mentor-Protégé conference, the Minority Business Resource Advisory Council conference, and a small business conference. Our concerns centered on the appearance issues as well as business inefficiencies related to the SADBUO approach for procuring the required conference support services. We recommended that in the future SADBUO consider obtaining conference support services through alternative procurement methods such as blanket purchase agreements or multiple award contracts. We further recommended that the procurement duties be reassigned to another SADBUO official until the cognizant Program Manager received the required procurement training. Management concurred with our recommendations and implemented responsive corrective action.

Task Order Review

During this period, the OIG continued to engage NASA management on the proper action to be taken against a major NASA contractor for a series of questionable accounting cost transfers which took place between 1993 and 1997. The 20 transfers under review are valued at approximately \$3.6 million. While the OIG investigation into these questionable cost transfers has led to significant improvement to the contract regarding cost accounting, the OIG continues to seek appropriate remedies for NASA in this matter.

Contractor Pays NASA \$1.4 Million

Several years ago, an OIG audit of the Kennedy Space Center (KSC) Shuttle processing contractor developed several fraud indicators in one of the contractor's subcontracting activities. The audit revealed the contractor paid a former NASA electrical subcontractor unsupported costs totaling between \$885,000 and \$2 million. An OIG investigation based on the audit resulted in two of the contractor's senior procurement officials admitting to soliciting and receiving kickbacks from the subcontractor in exchange for providing bid information and assistance in the approval of change orders. Consequently, a civil settlement in the amount of \$1.4 million was reached between NASA and the Shuttle processing contractor.

Contractor Pays NASA Additional \$970,075

In the OIG Semiannual Report for the period ending September 30, 2003, we reported on an investigation which led to a JSC contractor renegotiating its general and administrative (G&A) costs with the Agency resulting in a cost recovery to NASA of \$789,645. The investigation was based upon a Defense Contract Audit Agency (DCAA) audit that determined the contractor allegedly established a practice of including significant unallowable costs in its overhead claims in NASA contracts. During this reporting period, an additional cost recovery to NASA of \$970,075 was realized as the contractor renegotiated the G&A costs further.

NASA Employee Indicted

Following a joint investigation conducted by the OIG and the FBI, a NASA employee was indicted and charged with conflict of interest, money laundering, wire fraud, mail fraud, and conspiracy offenses. The employee allegedly steered subcontracts through a NASA prime contractor to subcontractors who did business with an electrical company owned by the employee. Under the arrangement his company secured work at the Langley Research Center on a NASA contract, which in his official capacity at NASA he reviewed and approved. The indictment also charged one of his electrical company employees with perjury.

Small Business Innovative Research (SBIR) Award Dispute

The OIG investigated an allegation that an employee of an SBIR corporation improperly submitted a NASA SBIR award under his own name. According to the allegation, the employee's proposal should have been submitted on the corporation's behalf and the corporation was entitled to all funding on the contract. The investigation disclosed that although the proposal did not comply with an SBIR requirement to explain how a primary employment requirement would be met, the award to the employee was proper.

Financial Management

Improved financial management continues to be a significant management challenge for NASA. During this semiannual period, the OIG continued to monitor NASA's progress in that area and made recommendations to management for improved financial management practices.

The NASA OIG has two directorates with responsibility for auditing and evaluating NASA's financial management activities. The Financial Statement Audit Directorate ensures that the NASA OIG meets its statutory requirement to audit NASA's annual financial statements through oversight of an independent public accountant. The Financial and Institutional Management Directorate provides a broad range of professional audit and advisory services to NASA leadership and external customers aimed at protecting the Agency's human capital and capital assets, ensuring the most efficient use and improvement of capital assets, and improving financial management.

Fiscal Year 2004 Financial Statement Audit Oversight

The IG's letter and the independent public accountant's report can be found in NASA's Performance and Accountability Report, beginning on page 243 at: http://www.nasa.gov/pdf/83170main_PAR_full.pdf

The OIG selected the independent certified public accounting firm Ernst & Young LLP (E&Y) to audit NASA's financial statements. E&Y disclaimed an opinion on NASA's FY 2004 financial statements because NASA was unable to provide E&Y auditable financial statements and sufficient evidence to support the financial statements throughout the fiscal year and at year-end. E&Y found five reportable conditions of which four are considered to be material weaknesses. Material weaknesses were found in NASA's controls for: (1) financial systems, analyses, and oversight used to prepare the financial statements; (2) reconciling differences in the Fund Balance With Treasury (FBWT); (3) assuring that property, plant, and equipment and materials are presented fairly in the financial statements; and (4) securing the computing environment that supports the Integrated Financial Management Program (IFMP). The fifth reportable condition concerns weaknesses in NASA's controls for estimating environmental liability.

Review of Corrections to the NASA FY 2003 FBWT Account

Selected portions of a memorandum sent by the IG to the CFO appear below. The entire memorandum is available on the Web at: <http://www.hq.nasa.gov/office/oig/hq/fundbalance.pdf>

The House and Conference Committee reports accompanying the FY 2005 VA-HUD-Independent Agencies appropriations bill requested that NASA submit to the Committees on Appropriations a report documenting the reconciliation and correction of the discrepancy in NASA's FBWT as of September 30, 2003. Based on our review of supporting documentation provided by the OCFO, we determined that NASA corrected \$1.598 billion of the net adjustments, and the remaining amount of net adjustments to be corrected is \$144 million. In contrast, NASA's December 2004 report to the House and Senate Committees on Appropriations concluded that only \$81 million of the net adjustments remained to be corrected.

We do not believe the net numbers reflect the scope of the remaining FBWT challenges. At this time, OCFO does not know the number of transactions involved, the age of transactions, and whether supporting documentation is available. We believe this information on the scope of the problem is needed before OCFO can articulate a strategy for completing the reconciliation of the FY 2003 discrepancy. We also note that while the net value of remaining adjustments is \$144 million, the absolute value of those adjustments is \$7.018 billion. We believe the absolute value for the adjustments is a relevant data point because it provides some context for assessing the amount of research that will be required to reconcile and correct the net amount of adjustments.

Financial Management Leadership Improvement Plan

The OCFO developed the NASA Financial Management Leadership Improvement Plan which established goals, priorities, and supporting initiatives for improving overall financial management with the Agency. The plan is used to isolate and monitor progress on specific areas targeted for improvement in financial management. However, we find that the March 11, 2005, draft plan still does not articulate a clear strategy for each priority that discusses the scope of the problems as well as the actions, staff, and resources required to resolve them. Without this discussion and an assessment of available staff and resources, we cannot determine whether the milestone and completion dates contained in the plan are realistic or achievable. The OCFO should finalize the plan as soon as possible, recognizing that it will be subject to revision.

We made five recommendations to the OCFO for each of the priorities and supporting initiatives in the plan. In addition, we also recommended that the CFO obtain the concurrence of the Mission Directorates and Support Offices with the Financial Management Leadership Improvement Plan and present it to the Administrator for approval.

Correcting Deficiencies Identified by the OIG and the Government Accountability Office Would Help to Ensure a More Successful Management and Implementation of IFMP

The following report is available on the Web at:

<http://www.hq.nasa.gov/office/oig/hq/ig-05-008.pdf>

We conducted our audit *Final Memorandum on Audit of the Implementation of Integrated Financial Management Program Audit Recommendations* (IG-05-008) to determine the status of OIG and Government Accountability Office (GAO) recommendations which directly relate to IFMP and assess NASA's responsiveness in implementing corrective actions to those recommendations. At the time we issued our report, February 11, 2005, NASA had 26 out of 44 (59 percent) audit recommendations related to IFMP that were still open and for which corrective action had not been completed. Some of those recommendations were more than a year old. Although the open recommendations were due in part to their complexity, the lack of an organized tracking system by the IFMP Office and missing information in the Agency's Corrective Action Tracking System (CATS II) also contributed to the condition. Several corrective actions that the Agency agreed were necessary for successful IFMP implementation had not been taken. In response to our draft report, NASA concurred with each recommendation and established an IFMP audit recommendation tracking system, updated CATS II, and analyzed and assessed the status of each open IFMP audit recommendation. NASA management also concluded that 21 of the 26 open recommendations were considered closed. However, while NASA may have taken action on those 21 recommendations, we will consider them open until either the OIG or GAO verifies corrective actions have been taken and concurs with closing the recommendations.

Internal Audit of an OIG Confidential Fund

An internal audit of a NASA OIG confidential fund found that custodians could accurately account for monies provided to and disbursed from the fund and that the actual balance in the fund agreed with amounts recorded. The audit identified several recommendations to improve budgeting and record keeping for the fund. However, it was determined that the fund did not comply with appropriations law. Specifically, although monies deposited into the account were from appropriations for use in specific fiscal years, the fund retained unspent monies at year-end for use in subsequent years. As a result, the fund spent \$15,433 from appropriations that had expired. The remaining \$114,744 in expired appropriations in the fund were de-obligated and returned to the United States Treasury. In the future, all unused funds will be de-obligated at the end of each fiscal year.

Information Technology Security

NASA's IT security leadership is addressing many of the IT security concerns we raised in past audits and assessments. We noted improvements in upgrading and standardizing NASA's IT security architecture. NASA has initiated several projects designed to better align its IT infrastructure to support centralized management and improve the IT security posture.

During this period, we issued five reports designed to improve Agency IT security. Although those reports are highlighted here, due to the sensitivity surrounding IT security vulnerabilities not all IT reports are publicly available.

Federal Information Security Management Act – 2004 Report from the OIG

In FY 2005, we continue to consider NASA's IT security to be a material weakness reportable in accordance with the Federal Managers' Financial Integrity Act. Our summary report to the Office of Management and Budget on NASA's compliance with the Federal Information Security Management Act, *Federal Information Security Management Act – 2004 Report from the Office of Inspector General*, noted several significant internal control weaknesses associated with IT risk assessments, IT contingency plan testing, certification of IT systems, and vulnerability scanning. Specifically, NASA's IT system risk assessment policies and procedures were inconsistently implemented from Center to Center. We continued to identify IT system contingency plans that were not tested in accordance with Federal guidance. NASA's certification process did not ensure that security controls on medium- and high-risk systems were tested, evaluated, and certified by an independent party. Finally, not all Centers had conducted complete vulnerability scans of their systems as required by the NASA Chief Information Officer (CIO).

NASA's Information Mission Control Center Concept

In our audit, *Assessment of NASA's Information Mission Control Center Concept (IG-05-003)*, we reviewed NASA's strategy for centralizing control over Agency networks and IT security functions from the Information Mission Control Center (IMCC). We conducted the review to determine whether the strategy underlying the IMCC is feasible and warrants continued funding. We also reviewed the evolution of the intent and functions of the IMCC and whether NASA adequately analyzed the functional and budget requirements. The original planning for the IMCC appears to have been less than rigorous. Further, no formal articulation of the goal and objective of the IMCC existed. However, over the past 2 years, NASA has engaged in detailed planning and a procurement process to more specifically define functional and budget requirements and more fully and effectively utilize the IMCC. The current strategy for IMCC is feasible and warrants continued funding. Although NASA has not yet fully implemented the IMCC, the control center now supports NASA-wide activities under Marshall Space Flight Center management authority. In the future, the IMCC will provide additional services.

Information Technology Security

The OIG conducted an audit, *Final Memorandum on Audit of Network Perimeter Security at [a NASA Center]* (IG-05-009), to determine whether the process of granting external access to the network perimeter at a NASA Center was adequate to reduce the risk of unauthorized access and compromise to the Center's computer systems. In 2003, the Center implemented a process for approving and tracking computer systems which have access outside the Center's network. We identified three opportunities that should strengthen the process and reduce the risks inherent in allowing external access. The Center concurred with all three recommendations. Two of the recommendations have been implemented. The Center is in the process of implementing the third recommendation.

Information Assurance Controls

The OIG completed an audit, *Information Assurance Controls in [a System] at [a NASA Center]* (IG-05-011), to determine whether the Center implemented adequate security and data integrity controls for the system. The audit found that the Center needs to improve controls to comply with Federal, NASA and Center IT security requirements. The Center concurred with 24 of our 25 recommendations and has planned corrective actions to improve controls and security of the system environment. The Center has already completed corrective actions on eight recommendations and is currently working on corrective actions for nine recommendations. The OIG and Center management are working to resolve issues related to the corrective actions needed to address the remaining eight recommendations.

Organizational Structure and Management of IT and IT Security at NASA and its Centers

The following report is available on the Web at:

<http://www.hq.nasa.gov/oig/hq/ig-05-013.pdf>

We conducted an audit, *Final Memorandum Review of Organizational Structure and Management of Information Technology and Information Technology Security Services at NASA* (IG-05-013) and found that NASA's IT organizational structure, which facilitates management of IT resources and IT security, was different at each NASA Center. The NASA CIO had not fully determined the most efficient and effective Agency-wide organizational structure and authorities for managing and executing IT operations, including IT security. The CIO had recommended an organizational approach and responsibilities for the Center CIO positions. However, achieving that intent was left to the discretion of management at each Center. The Agency recently made an effort to standardize responsibilities and authorities for each of the Center IT organizations. We recommended that the NASA CIO determine the most efficient and effective organizational structure and authorities needed to meet the intent of existing laws, regulations, and requirements governing the management of IT and IT security at NASA. Management concurred with each recommendation and has planned responsive corrective actions.

Hackers Sentenced and Ordered to Pay Restitution

Two OIG investigations led to the arrest and subsequent sentencing of two computer hackers.

- An OIG investigation determined that a computer hacker in Portland, Oregon, attacked computers at several universities and NASA. The investigation into the hacking activities also disclosed the hacker had in his possession a large number of credit card files belonging to other individuals. The Portland hacker was sentenced to 6 months' confinement in a Federal prison and ordered to pay restitution of \$200,625 to NASA. The hacker's sentence is to be followed by 3 years' supervised release and employment and Internet access subject to probation officer approval.
- As the result of an OIG investigation into the defacing of an Ames Research Center Web site, a hacker was sentenced to 1 year of home detention, 3 years' probation, and ordered to pay \$135,548 restitution. The hacker was also ordered to not access the Internet for 4 years.

Ethics Issue

We concluded that a senior NASA official inappropriately charged the Government for personal travel performed in conjunction with official travel and used a Government-issued travel card for personal travel in violation of Federal regulations. This resulted in additional costs to the Government. Analyses of travel authorizations, vouchers, and other related records disclosed that the senior official claimed unallowable airfare and per diem costs that totaled \$3,334.65 and received the advantage of lower Government contract airfares for personal travel in violation of 5 C.F.R. 2635.702 (Use of Public Office for Private Gain). We also questioned whether the individual should be allowed to participate in an official capacity in the activities of a non-profit organization on the board of which the employee sits. Management is currently addressing the issues in the report.

Whistleblower Matters

During this 6-month period, the OIG has handled a number of allegations of reprisal for "blowing the whistle" on matters pertaining to waste, fraud, abuse of authority, mismanagement, and safety. These allegations generally fall into two categories. Allegations raised by civil servants are protected under the IG Act as well as by the Whistleblower Protection Act. The Office of Special Counsel has primary jurisdiction over the latter. On allegations raised by employees of private contractors, we work cases covered by the Federal Acquisition Streamlining Act (FASA) as well as allegations covered under protections. FASA allegations deal with substantial violations of law relating to a contract with the Government. The Department of Labor has primary jurisdiction over Sarbanes-Oxley allegations, which deal with fraud allegations involving publicly traded companies.

The NASA OIG has several ongoing activities based on information being supplied by credible NASA and contractor sources—in fact, source-provided information is the life blood of OIG audit and investigative activities. We take steps to independently verify the information provided and attempt to understand the extent of the issues raised. (For further information on our views related to whistleblower matters, see the OIG’s whitepaper, *Handling Disagreement with Superiors’ Decisions and Whistleblowing* on the OIG Web site at: <http://www.hq.nasa.gov/office/oig/hq/whistleblower.pdf>)

Some of our work related to whistleblower matters is summarized below.

- A former contract administrator at a university filed complaints alleging that the contract administrator was wrongfully terminated after uncovering alleged contract fraud against NASA and DOD and making disclosures regarding alleged violations of law to NASA officials. The OIG concluded that the contract administrator’s employment was not terminated in reprisal for disclosures to NASA officials, but rather for the individual’s confrontational manner in interpersonal dealings internal and external to the university. Moreover, the “disclosure” made by the individual to NASA officials for which termination of employment is alleged is not among the class of disclosures protected by the FASA.
- A former employee of a NASA contractor leveled several complaints of improprieties against his former employer and sought relief from alleged retaliation by the employer. The OIG investigated the complaints and allegations and examined any entitlement to relief the employee may have had under FASA. The OIG concluded that the allegations of improprieties were unfounded, that no reprisal occurred and that the employee had no entitlement to relief under FASA. We also concluded that the contractor advised, counseled, and subsequently terminated the employee due to a well-documented failure to perform duties as expected.

The OIG determined that as a technical and legal matter, the employee’s disclosures to the contractor’s Ethics Office and management were not “protected disclosures” under FASA. Nonetheless, we investigated whether circumstances suggested that the contractor was engaged in an employment practice inconsistent with NASA’s best interests. Our investigation reflected that the contractor took personnel action against the employee because he was not performing his duties as legitimately defined and expected. We also concluded that the contractor did not take personnel actions against the employee because of his raising issues, except insofar as his raising those issues contributed to his failure to perform his assigned duties.

- A NASA employee alleged retaliation for raising safety issues about the organizational structure and staffing of flight operations at a NASA Center. The OIG concluded that the complainant had not made protected disclosures under the Whistleblower Protection Act. We also concluded that the action taken against the employee was not retaliation, but rather the result of the employee’s statements that he was not required to perform as directed by his superior. The OIG, in its findings, questioned whether a NASA safety review had adequately fulfilled its functions, and articulated that further audits would address Agency aircraft operations.

LEGAL MATTERS

PRIVACY ACT ISSUE

During this reporting period, the OIG made recommendations designed to strengthen NASA's Privacy Program. We recommended NASA specify the levels of approvals a researcher must obtain before engaging in data-mining or other research activities involving personally identifiable information on NASA systems. NASA should also specify the procedures and safeguards that must be observed by the researcher while conducting such research. Further, we recommended NASA consider developing a policy to classify and publish as formal systems of records any groups of electronic records from which information about individuals is capable of being retrieved by means of readily available electronic search tools. The policy is expected to be issued during the next reporting period.

ADVANCED PLANNING AT NASA

In this period the OIG reviewed the appointment of a NASA contractor employee as NASA's Director of Advanced Planning. We focused on whether the position should be considered inherently governmental given the nature of the work involved. The review ceased on March 24, 2005, when the individual in the position returned fulltime to his role with the NASA contractor.

REGULATORY REVIEW

During this period, we processed 31 NASA and Headquarters directives. Of those reviewed, the following were of significance to the OIG: NASA Procedural Requirement 8705.2A, *Human-Rating Requirements for Space Systems*; NASA Policy Directive 1240, *NASA Technical Authority*; NASA Procedural Requirement 7120.5C, *NASA Program and Project Management Processes and Requirements*; NASA Procedural Requirement 1000.2, *Strategic Management Handbook*; NASA Procedural Requirement 8810, *NASA Master Planning for Real Property*; and NASA Policy Directive 8610.24B, *Launch Services Program (LSP) Pre-Launch Readiness Reviews*.

SIGNIFICANT OUTREACH ACTIVITIES

We recognize that visibility and communication within the larger community promote the OIG as an advocate for NASA personnel, Congress, and the taxpayer. Furthermore, the OIG seeks to maximize the benefits of its activities by conveying through outreach the knowledge, experience, and lessons learned from those activities. During this reporting period, the IG engaged in a number of significant outreach efforts.

- The IG serves as the President’s Council on Integrity and Efficiency (PCIE) Liaison to the Chief Acquisition Officers Council (CAOC). The CAOC consists of acquisition professionals in the Executive Branch and was established to provide a senior-level forum for monitoring and improving the Federal acquisition system.
- The IG attended NASA’s ASAP fact-gathering meetings held in October 2004, and January and April 2005, and the NASA Advisory Council Financial Audit Committee meetings held in February and March 2005.
- The IG was a panelist for a discussion on key issues facing the IG community as part of the Inspector General Management Institute’s basic applied management studies course.
- The NASA OIG and the Special Inspector General for Iraqi Reconstruction (SIGIR) signed a Memorandum of Agreement on March 17, 2005, for the NASA OIG to provide SIGIR access to a case management system. SIGIR will use the system to support its criminal investigations of Iraq post-war reconstruction efforts.
- During this period, we supported several training efforts. Those efforts included:
 - » Presenting “Auditing Contract Performance: Enhancing Compliance and Ethics Through a Performance Focus,” to senior-level procurement professionals across Government and industry at the Government Contract Management Summit.
 - » Providing instructors for the procurement courses and the undercover operations training at the Federal Law Enforcement Training Center, Inspector General Criminal Investigator Academy.
 - » Conducting a fraud awareness briefing to Government employees attending the Contracting Officer’s Technical Representative training at the Goddard Space Flight Center.
 - » Piloting a whistleblower protection course curriculum, which focuses on the Whistleblower Protection Act and the whistleblower protection provisions of the Federal Acquisition and Streamlining Act, with OIG investigative managers in December 2004.
- The OIG participated in an interagency working group to reassess, update, and revise the *Guide for Conducting External Peer Reviews of the Audit Operations of Offices of Inspector General*.

OIG Hosts 2005 Association of Directors of Investigation Conference

The NASA OIG hosted the 2005 Association of Directors of Investigation Conference in March 2005. The conference, which brought together many Assistant Inspectors General for Investigation and other investigative community personnel, served as a forum for discussing issues of interest to the PCIE and the Executive Council on Integrity and Efficiency (ECIE), as well as other topical areas important to the OIG investigative mission.



NASA Inspector General Robert W. Cobb welcomes attendees to the 2005 Annual Association of Directors of Investigation (ADI) Conference for OIG Assistant Inspectors General for Investigation.

ADI attendees visit the original Apollo-era Mission Control as part of a tour of the Johnson Space Center in Houston, Texas.

AWARDS AND SPECIAL THANKS

AWARDS

Pictured: Special Agent Joseph A. Schopper (left) is presented the Gold Dollar Award by James E. Hattaway, Jr., Associate Director, KSC



OIG Employee Contributions Recognized

James W. Kennedy, KSC Director, awarded Special Agent Joseph Schopper and Procurement Analyst Joseph Fasula the Gold Dollar Award, a Center Director award given to individuals who perform an outstanding act that falls in line with KSC’s core values and overall mission. Special Agent Schopper and Procurement Analyst Fasula were recognized for their efforts in obtaining a \$1.4 million settlement in a False Claims Act case against a NASA contractor.



Pictured: Procurement Analyst Joseph Fasula (left) is presented the Gold Dollar Award by James E. Hattaway, Jr., Associate Director, KSC



Special Agent
Mark F. Voegelin

In December 2004, David M. Uhlmann, Chief, Environmental and Natural Resources Crimes Division, Department of Justice, presented NASA OIG Special Agent Mark Voegelin a Certificate of Commendation for Outstanding Performance and Invaluable Assistance in Support of the Activities of the Environmental and Natural Resources Crimes Division.

Jamil Farshchi, formerly of the NASA OIG Office of Audits, received an Audit Award for Excellence at the PCIE/ECIE awards ceremony held in October 2004. Mr. Farshchi was recognized for his OIG work in assessing NASA's wireless networks and increasing Federal agencies' awareness of wireless security risks. In November 2004, also as a result of his work for the NASA OIG, Mr.

Farshchi received a Cooperative External Achievement Award at the NASA Honor Awards for his outreach activities related to wireless network security.



Pictured: Jamil Farshchi (left) receiving his award from Gaston L. Gianni, Jr., former Vice-Chair of the PCIE



Pictured from left to right: Sean O'Keefe, former NASA Administrator; Jamil Farshchi; James L. Jennings, NASA Associate Administrator for Institutions and Management

SPECIAL THANKS

Ralph Hopkins, Assistant U.S. Attorney, Middle District of Florida, was recognized by the OIG for obtaining a \$1.4 million settlement in a False Claims Act case against a NASA contractor. As a result, the \$1.4 million was returned to NASA. We commend Mr. Hopkins for his professionalism and dedication in protecting NASA interests.



Pictured from left to right: John Corbett, NASA OIG Special Agent in Charge; Patricia Searle, NASA OIG Resident Agent in Charge; Ralph Hopkins, Assistant U.S. Attorney, Middle District of Florida; Donald Shiller, NASA Assistant Chief Counsel, KSC; James Hattaway, NASA Associate Director, KSC; James Klindt, First Assistant U.S. Attorney, Middle District of Florida.

The NASA OIG recognized Paul Wogaman, Lead Trial Attorney; Ryan Fahee, Trial Attorney; and John Neal, Trial Attorney from the U.S. Attorney's Office, Northern District of Texas. The OIG thanked the team for its efforts in concluding a \$2.9 million settlement agreement with a company to resolve a false certification of parts issue. As a result, \$300,000 was returned to NASA. The company supplied improperly calibrated gas tube pressure vessels to NASA and other Federal agencies. We commend the legal team for their professionalism and dedication in protecting NASA interests.



Pictured from left to right: Ryan Fahee, Trial Attorney; John Neal, Trial Attorney; Jacqueline Spiller, NASA OIG Special Agent; Paul Wogaman, Lead Trial Attorney; Lance Carrington, NASA Assistant Inspector General for Investigations; John Corbett, NASA Special Agent in Charge

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APPENDIX A

Inspector General Act Reporting Requirements

| INSPECTOR GENERAL ACT CITATION | REQUIREMENT DEFINITION | CROSS REFERENCE PAGE NUMBER(S) |
|--------------------------------|---|--------------------------------|
| Section 4(a)(2) | Review of Legislation and Regulations | 23 and 35 |
| Section 5(a)(1) | Significant Problems, Abuses, and Deficiencies | 3-5, 9-22 |
| Section 5(a)(2) | Recommendations for Corrective Actions | 3-5, 9-22 |
| Section 5(a)(3) | Prior Significant Audit Recommendations Yet To Be Implemented | 34 |
| Section 5(a)(4) | Matters Referred to Prosecutive Authorities | 36 |
| Section 5(a)(5 and 6(b)(2) | Summary of Refusals to Provide Information | None |
| Section 5(a)(6) | OIG Audit Reports Issued | 32 |
| Section 5(a)(7) | Summary of Significant Audit Reports | 9-22 |
| Section 5(a)(8) | Total Number of Reports and Total Dollar Value for Audits with Questioned Costs | None |
| Section 5(a)(9) | Total Number of Reports and Total Dollar Value for Audits with Recommendations That Funds Be Put To Better Use | None |
| Section 5(a)(10) | Summary of Prior Audit Reports for Which No Management Decision Has Been Made | None |
| Section 5(a)(11) | Description and Explanation of Significant Revised Management Decisions | None |
| Section 5(a)(12) | Significant Management Decisions With Which the Inspector General Disagreed | None |
| Section 5(a)(13) | Reporting in Accordance With Section 05(b) of the Federal Financial Management Improvement Act of 1996 Remediation Plan | 17 |

Debit Collection. The Senate Reporting accompanying the supplemental Appropriations and Rescissions Act of 1980 (Public Law 96-304) requires Inspectors General to report amounts due the agency, and amounts that are overdue and written off as uncollectible.

The Financial Management Division provides this data each November for the previous fiscal year. For the period ended September 30, 2004, the receivables due from the public totaled \$50,590,909, of which \$3,326,981 is delinquent. The amount written off as uncollectible for the period October 1, 2003, through September 30, 2004, was \$ 158,384.

APPENDIX B

Statistical Reports

During the period of October 1, 2004 through March 31, 2005, the OIG issued 12 audit reports.¹

Table 1: Audit Reports and Impact

| REPORT NUMBER/ DATE ISSUED | REPORT TITLE | IMPACT |
|---|--|---|
| AUDIT AREA: INFORMATION TECHNOLOGY | | |
| IG-05-001 10/04/04 | Federal Information Security Management Act – 2004 Report from the Office of Inspector General | This report summarizes work we performed during FY 2004 in IT security. As a result of identified weaknesses, NASA should identify IT security as a material weakness reportable in accordance with the Federal Managers Financial Integrity Act. |
| IG-05-003 12/21/04 | Final Memorandum on Assessment of NASA's Information Mission Control Center Concept | Information Mission Control Center's centralized management of services increases efficiency and effectiveness of NASA's IT operations. |
| IG-05-009 02/24/05 | Final Memorandum on Audit of Network Perimeter Security at [a NASA Center] | OIG recommendations to increase vulnerability scans of external system should reduce the risk of compromises to NASA computers. |
| IG-05-011 03/28/05 | Information Assurance Controls in [a System] at [a NASA Center] | Improving IT controls as recommended by the OIG should reduce the risk of unauthorized access and compromise to a critical NASA system and related data. |
| IG-05-013 03/30/05 | Final Memorandum on Review of Organizational Structure and Management of Information Technology and Information Technology Security Services at NASA | Recommendations made by the OIG should result in more consistent and compatible IT operations across NASA, particularly in the areas of IT procurement and the management of IT security. |
| AUDIT AREA: PROCUREMENT | | |
| IG-05-002 10/20/04 | Final Memorandum on Management of NASA Procurement Workforce | The audit resulted in improvements in the manner that NASA conducts and administers COTR training. |

¹ Our audit, *Government Mandatory Inspections for Solid Rocket Booster Bolt Catchers*, IG-04-024, listed on this table is not included in the total audits issued for this period. The audit was issued last period but required additional work before reporting on the audit in the Semiannual Report.

Table 1: Audit Reports and Impact (continued)

| REPORT NUMBER/ DATE ISSUED | REPORT TITLE | IMPACT |
|--|---|--|
| AUDIT AREA: FINANCIAL MANAGEMENT | | |
| IG-05-007 01/21/05 | Audit of NASA's Use of Bonuses, Allowances, and Other Incentives for Recruiting and Retaining Science and Engineering Personnel | Implementation of the Competency Management System should provide both an Agencywide automated capability to track, project, and analyze critical workforce competencies and a consistent approach for approving, budgeting, and funding bonuses and incentives. |
| IG-05-008 02/11/05 | Final Memorandum on Audit of the Implementation of Integrated Financial Management Program (IFMP) Audit Recommendations | Improving the tracking of recommendations would help ensure more successful implementation of IFMP. Specifically, IFMP management could understand the impact of yet-to-be corrected deficiencies on the implementation of IFMP. |
| AUDIT AREA: SAFETY AND SECURITY | | |
| IG-04-024 09/28/04 | Final Memorandum on Government Mandatory Inspections for Solid Rocket Booster Bolt Catchers | Improving the inspection quality of the manufacturing process of bolt catchers is critical to improving Shuttle mission safety. |
| AUDIT AREA: QUALITY CONTROL REVIEWS | | |
| IG-05-004 01/07/05 | Final Report on the Quality Control Review of Cobb, Doerfler & Associates, CPA, Audit of Dryden Flight Research Center Exchange Financial Statements for the Fiscal Year Ended September 30, 2003 | The Chair of the Dryden Exchange took corrective actions to resolve audit issues related to separation of duties, inventory management, maintenance of a general ledger, and preparation of periodic financial statements. |
| IG-05-005 01/10/05 | Final Report on the Quality Control Review of the Mir-Fox & Rodriguez, P.C., Audit of the Lyndon B. Johnson Space Center Exchange Financial Statements for the Fiscal Year Ended September 30, 2003 | Certified Public Accountant audit work complied with standards. |
| IG-05-006 01/13/05 | Alexander, Van Loon, Sloan, Levens & Favre, PLLC, Audit of John C. Stennis Space Center Exchange Financial Statements for the Fiscal Year Ended September 30, 2003 | The Stennis Exchange Council implemented procedures that should strengthen internal controls and operating efficiencies in the areas of segregation of duties, payments to vendors, and inventory control. |
| IG-05-010 03/07/05 | KPMG LLP Audit of the University of Alabama in Huntsville for the Fiscal Year Ended September 30, 2003 | Certified Public Accountant audit work complied with standards. |

Table 2: Prior Significant Audit Recommendations Yet To Be Implemented

| REPORT NO./ DATE ISSUED | REPORT TITLE | DATE RESOLVED | NUMBER OF RECOMMENDATIONS | | LATEST TARGET CLOSURE DATE |
|--|---|------------------|---------------------------|--------|-------------------------------|
| | | | OPEN | CLOSED | |
| NEW SINCE LAST REPORTING PERIOD | | | | | |
| Audit Area: Financial Management | | | | | |
| IG-04-027 09/24/04 | NASA's Travel Module Lacks Management Control Structure and Compliance With Federal Requirements | | 1 | 7 | 05/31/05 |
| Audit Area: Information Technology | | | | | |
| IG-04-018 04/15/04 | Information Assurance Controls for [a NASA Center's IT System] Need Improvement | | 1 | 6 | 07/31/05 |
| REPORTED IN PREVIOUS SEMIANNUAL REPORTS | | | | | |
| Audit Area: Information Technology | | | | | |
| IG-00-055 09/28/00 | System Information Technology Security Planning | 12/29/00 | 2 | 8 | 07/31/05 |
| IG-03-009 03/27/03 | Performance Management Related to Agencywide Fiscal Year 2002 Information Technology Security Program Goals | 03/27/03 | 1 | 11 | 07/31/05 |
| Audit Area: International Space Station | | | | | |
| IG-02-011 03/22/02 | International Space Station Spare Parts Costs | 03/22/02 | 1 | 4 | 07/20/05 |
| Audit Area: Launch Vehicles | | | | | |
| IG-01-021 03/30/01 | X-37 Technology Demonstrator Project Management | 07/23/02 | 1 | 12 | 07/20/05 |
| IG-02-028 09/30/02 | Space Launch Initiative: Primary Requirements for a Second Generation Reusable Launch Vehicle | 09/30/02 | 1 | 1 | 07/20/05 |

Table 3: Legal Activities and Reviews

| | |
|------------------------------------|----|
| Freedom of Information Act Matters | 19 |
| Inspector General Subpoenas Issued | 6 |
| Regulations Reviewed | 31 |

Table 4: Investigations Activities

| | |
|-----------------------------|-----|
| Cases Opened | 59 |
| Cases Closed | 87 |
| Cases Pending | 173 |
| Hotline Complaints: | |
| Received | 68 |
| Referred to Audits | 2 |
| Referred to Investigations | 1 |
| Referred to NASA Management | 61 |
| Referred to Other Agencies | 0 |
| No Action Required | 4 |

Table 5: Investigations Impact

| | |
|--|----|
| Indictments/Informations | 16 |
| Convictions/Plea Bargains/Pretrial Diversions | 13 |
| Cases Referred for Prosecution | 44 |
| Cases Declined | 40 |
| Cases Referred to NASA Management for Action | 3 |
| Against NASA Employees | 0 |
| Against Contractor Employees | 3 |
| Against Firm(s) | 0 |
| Other | 0 |
| Case Recommendations Referred to Management for Action | 35 |
| Against NASA Employees | 11 |
| Against Contractor Employees | 18 |
| Against Firm(s) | 2 |
| Other | 4 |
| Cases Referred to Other Agencies for Action | 2 |

Table 5: Investigations Impact (continued)

| | |
|---|--------------------|
| Suspensions/Debarments from Government Contracting | 4 |
| Individuals | 4 |
| Firms | 0 |
| Administrative/Disciplinary Actions ¹ | 17 |
| Against NASA Employees | 3 |
| Against Contractor Firm(s) | 0 |
| Reported Actions Taken by Contractor Against Contractor Employees | 14 |
| Total Recoveries (in Dollars) | \$7,558,188 |
| NASA ² | 2,764,001 |
| NASA Property | 2,309 |
| Other ³ | 4,791,878 |

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

² Includes administrative recoveries and contract credits.

³ Includes fines, penalties, restitutions, and settlements from criminal and civil investigations, some of which were conducted jointly with other law enforcement agencies. Also includes miscellaneous receipts received by NASA and returned to the Treasury.

DCAA AUDITS OF NASA CONTRACTORS

The DCAA provides various audit services to NASA on a reimbursable basis. The DCAA provided the following information during this period on reports involving NASA activities, results of NASA actions on those reports, and significant reports that have not been completely resolved.

DCAA Audit Reports Issued

During the period, DCAA issued 296 audit reports (excluding pre-award contractor proposal evaluations) on contractors who do business with NASA. DCAA also issued 177 reports on audits of NASA contractor proposals totaling \$2,355,915,000, which identify cost exceptions totaling about \$28,519,000. However, some of DCAA's reported cost exceptions are attributable to unsuccessful contractor proposals that NASA never accepted or relied upon for contract negotiation. Therefore, the actual amount of potential savings to NASA from DCAA-cited cost exceptions in its audit reports is less than the reported total cost exceptions amount.

NASA Actions

Corrective actions taken on DCAA audit report recommendations usually result from negotiations between the contractor and the Government contracting officer. The following tables show the number of all DCAA audit reports and amounts of questioned costs and funds put to better use for the reporting period. During this period, NASA management resolved 50 reports with \$39,102,000 of questioned costs and 25 reports with \$52,595,000 of funds put to better use. NASA management sustained 20.9 percent of DCAA's questioned costs and 22.9 percent of the funds put to better use.

Table 6: DCAA Audits with Questioned Costs^{1,2}

| | NUMBER OF AUDIT REPORTS ³ | TOTAL COSTS QUESTIONED (IN THOUSANDS) |
|---|---|--|
| No management decision made by beginning of period ⁴ | 250 | \$243,096 |
| Issued during period | 52 | 26,058 |
| Needing management decision during period | 302 | 269,154 |
| Management decision made during period: | 50 | 39,102 |
| Dollar value of contract recoveries | | 8,190 |
| Dollar value of costs not recovered | | 30,912 |
| No management decision made by end of period | 252 | 230,052 |

¹ This data is provided to the NASA OIG by the DCAA and includes incurred costs, Cost Accounting Standards, and defective pricing. Because of limited time between availability of management information system data and legislative reporting requirements, there is minimal opportunity for the DCAA to verify the accuracy of reported data. Accordingly, submitted data is subject to change based on subsequent DCAA authentication.

² None of the data presented includes statistics on audits that resulted in contracts not awarded, or the contractor was not successful. The data in "No management decision made by end of period" may include some audit reports that will ultimately meet this same circumstance, but are not yet recorded as such.

³ Number of reports includes only those with questioned costs and, therefore, differs from the total number of reports noted in the paragraph "DCAA Audit Reports Issued" found on page 37.

⁴ Represents amounts beginning October 1, 2004, adjusted for (a) contracts not awarded, and (b) revised audit findings and recommendations.

Table 7: DCAA Audits with Recommendations That Funds Be Put to Better Use^{1,2}

| | NUMBER OF AUDIT REPORTS ³ | TOTAL COSTS QUESTIONED (IN THOUSANDS) |
|---|---|--|
| No management decision made by beginning of period ⁴ | 48 | \$110,428 |
| Issued during period | 43 | 28,950 |
| Needing management decision during period | 91 | 139,378 |
| Management decision made during period: | 25 | 52,595 |
| Amounts agreed to by management | | 12,026 |
| Amounts not agreed to by management | | 40,569 |
| No management decision made by end of period | 66 | 86,783 |

¹ This data is provided to the NASA OIG by the DCAA and includes forward pricing proposals and operations audits. Because of limited time between availability of management information system data and legislative reporting requirements, there is minimal opportunity for the DCAA to verify the accuracy of reported data. Accordingly, submitted data is subject to change based on subsequent DCAA authentication.

² None of the data presented includes statistics on audits that resulted in contracts not awarded, or the contractor was not successful. The data in "No management decision made by end of period" may include some audit reports that will ultimately meet this same circumstance, but are not yet recorded as such.

³ Number of reports includes only those with funds put to better use and therefore differs from the total number of reports noted in the paragraph "DCAA Audit Reports Issued" found on page 37.

⁴ Represents amounts beginning October 1, 2004, adjusted for (a) contracts not awarded, and (b) revised audit findings and recommendations.

APPENDIX C

GLOSSARY AND ACRONYMS

Glossary

Final Action (The IG Act of 1978 definition). The completion of all actions management has concluded, in its decision, are necessary with respect to the findings and recommendations included in an audit report. In the event that management concludes no action is necessary, final action occurs when a management decision has been made.

Investigative Recoveries. Investigative recoveries are the total dollar value of (1) recoveries during the course of an investigation (before any criminal or civil prosecution); (2) court (criminal or civil) ordered fines, penalties, and restitution; and (3) out-of-court settlements, including administrative actions resulting in non-court settlements.

Investigative Referrals. Investigative referrals are cases that require additional investigative work, civil or criminal prosecution, or disciplinary action. Those cases are referred by the OIG to investigative and prosecutive agencies at the Federal, State, or local level, or to agencies for management or administrative action. An individual case may be referred for disposition to one or more of these categories.

Latest Target/Closure Date. Management's current estimate of the date it will complete the agreed-upon corrective action(s) necessary to close the audit recommendation(s).

Management Decision (The IG Act of 1978 definition). The evaluation by management of the findings and recommendations included in an audit report and the issuance of a final decision by management concerning its response to such findings and recommendations, including actions concluded to be necessary.

Material Weakness. Reportable conditions that the agency head determines to be significant enough to report outside the agency. A reportable condition is a control deficiency, or combination of control deficiencies, that in management's judgment should be communicated because they represent significant weaknesses in the design or operation of internal controls that could adversely affect the organization's ability to meet its internal control objectives.

Prosecutive Activities. Investigative cases referred for prosecutions that are no longer under the jurisdiction of the OIG, except for cases on which further administrative investigation may be necessary. This category comprises cases investigated by the OIG and cases jointly investigated by the OIG and other law enforcement agencies. Prosecuting agencies will make decisions to decline prosecution, to refer for civil action, or to seek out-of-court settlements, indictments, or convictions. Indictments and convictions represent the number of individuals or organizations indicted or convicted (including pleas and civil judgments).

Questioned Cost (The IG Act of 1978 definition). A cost that is questioned by the OIG because of: (1) alleged violation of a provision of a law, regulation, contract, grant, cooperative agreement, or other agreement or document governing the expenditure of funds; (2) a finding that, at the time of the audit, such cost is not supported by adequate documentation; or (3) a finding that the expenditure of funds for the intended purpose is unnecessary or unreasonable.

Questioned Costs for Which a Management Decision Has Not Been Made. Costs questioned by the OIG about which management has not made a determination of eligibility for reimbursement or about which there remains disagreement between the OIG and management. All agencies have formally established procedures for determining the ineligibility of costs questioned. This process takes time; therefore, this category may include costs that were questioned in both this and prior reporting periods.

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

Recommendations That Funds Be Put to Better Use. (The IG Act of 1978 definition) A recommendation by the OIG that funds could be more efficiently used if management took actions to implement and complete the recommendation, including: (1) reductions in outlays; (2) deobligation of funds from programs or operations; (3) withdrawal of interest subsidy costs on loans or loan guarantees, insurance, or bonds; (4) costs not incurred by implementing recommended improvements related to the operations of the establishment, a contractor, or grantee; (5) avoidance of unnecessary expenditures noted in pre-award reviews of contract or grant agreements; or (6) any other savings which are specifically identified. (Note: Dollar amounts identified in this category may not always allow for direct budgetary actions, but generally allow the agency to use the amounts more effectively in accomplishment of program objectives.)

Unsupported Cost. (The IG Act of 1978 definition) An unsupported cost is a cost that is questioned by the OIG because the OIG found that, at the time of the audit, such cost is not supported by adequate documentation.

ACRONYMS

| | | | |
|----------------|---|----------------|---|
| AFOSI | Air Force Office of Special Investigations | G&A | General and Administrative |
| AOD | Aircraft Operations Division | GAO | Government Accountability Office |
| ASAP | Aerospace Safety Advisory Panel | IFMP | Integrated Financial Management Program |
| CAIB | Columbia Accident Investigation Board | IG | Inspector General |
| CAOC | Chief Acquisition Officers Council | IMCC | Information Mission Control Center |
| CATS | Corrective Action Tracking System | ISS | International Space Station |
| CFO | Chief Financial Officer | IT | Information Technology |
| C.F.R. | Code of Federal Regulations | JSC | Johnson Space Center |
| CIO | Chief Information Officer | KSC | Kennedy Space Center |
| COTRs | Contracting Officer's Technical Representatives | NASA | National Aeronautics and Space Administration |
| DCAA | Defense Contract Audit Agency | OA | Office of Audits |
| DCIS | Defense Criminal Investigative Service | OCFO | Office of the Chief Financial Officer |
| DCMA | Defense Contract Management Agency | OI | Office of Investigations |
| DOD | Department of Defense | OIG | Office of Inspector General |
| DOE | Department of Energy | OMP | Office of Management and Planning |
| DOT | Department of Transportation | PCIE | President's Council on Integrity and Efficiency |
| E&Y | Ernst & Young | QARs | Quality Assurance Representatives |
| ECIE | Executive Council on Integrity and Efficiency | RTF | Return-to-Flight |
| EVA | Extravehicular Activity | SADBUO | Small and Disadvantaged Business Utilization Office |
| FASA | Federal Acquisition Streamlining Act | SBIR | Small Business Innovative Research |
| FBI | Federal Bureau of Investigation | SIGIR | Special Inspector General for Iraqi Reconstruction |
| FBWT | Fund Balance with Treasury | SRB | Solid Rocket Booster |
| FOIA | Freedom of Information Act | TVA | Tennessee Valley Authority |
| FY | Fiscal Year | | |

NOTES

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