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Photographs:

Page 16, Vista of Martian gullies on the northern wall of a meteor crater on the red planet. The numerous channels and apron deposits indicate that many tens to hundreds of individual events involving the flow of water and debris have occurred here.

Page 28, The International Space Station

Page 32, Looking down on the north polar region of the asteroid Eros, this spectacular view from the NEAR Shoemaker spacecraft was constructed from six images taken February 29, 2000, from an orbital altitude of about 200 kilometers (124 miles).

FROM THE INSPECTOR GENERAL

On behalf of the NASA Office of Inspector General, I am pleased to submit this semiannual report. The audits, inspections, and investigations reported in this document occurred prior to my appointment as NASA's Inspector General, but I will continue the office's independent efforts to:

- Prevent and detect crime, fraud, waste, abuse, and mismanagement.
- Promote economy, effectiveness, and efficiency.
- Keep the Administrator and Congress fully and currently informed of problems in Agency programs and operations.
- Provide timely and valuable input regarding existing and proposed legislation and regulations.
- Help NASA to improve the security of its information technology systems and bring to justice those who illegally access or otherwise harm those systems.
- Recommend improvements to systems and processes, or disciplinary actions where appropriate, in response to allegations of noncriminal misconduct.

I look forward to working with the Congress, the White House, the NASA Administrator, and NASA management in fulfilling these responsibilities.

NASA currently faces crucial fiscal management issues, and my office considers these to be among its top priorities. During the past semiannual period, PricewaterhouseCoopers (PwC), the accounting firm we contracted with to perform NASA's FY 2001 financial statement audit, issued a disclaimer on NASA's consolidated and combined financial statements. The disclaimer resulted primarily from NASA's inability to provide financial information to PwC in a timely manner. PwC is committed to working diligently with NASA managers to ensure that they understand what is required for the FY 2002 audit. PwC is also committed to providing to the NASA Administrator early warnings of problems that might jeopardize the FY 2002 audit opinion.

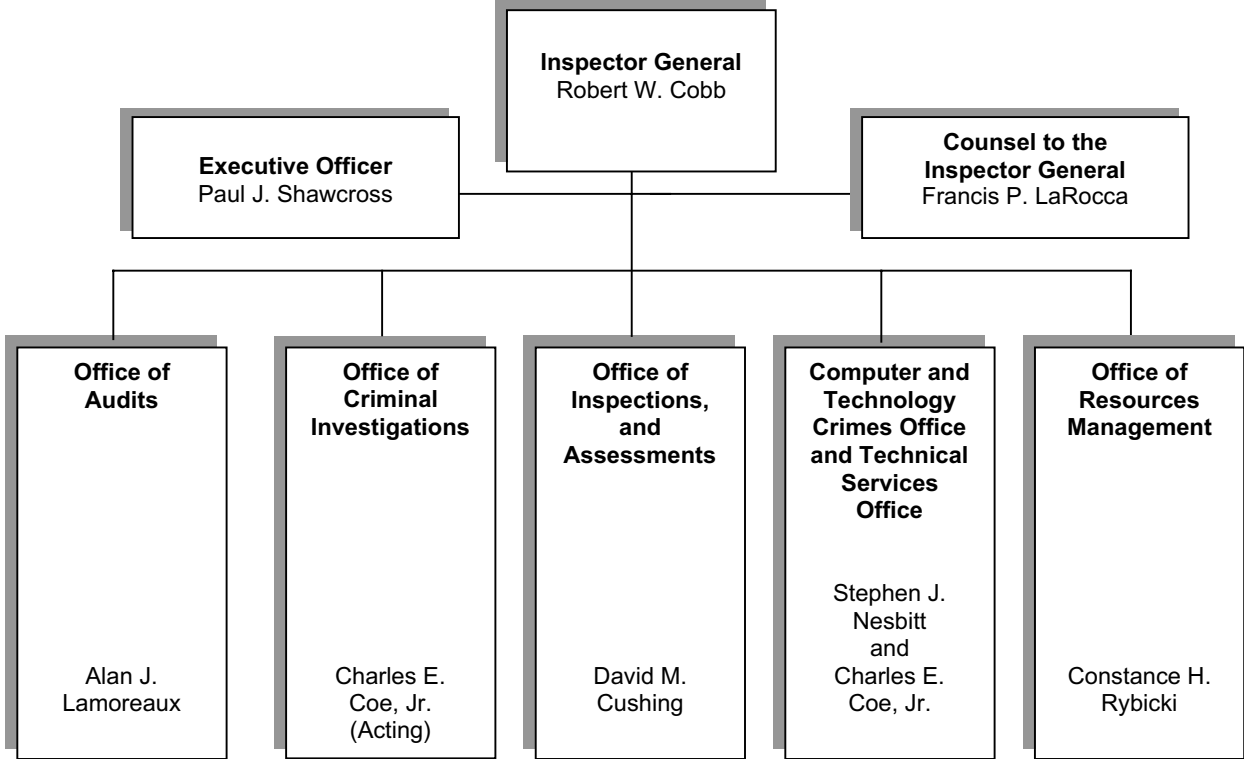
NASA has difficulty in providing financial information primarily because its financial management system is comprised of 10 decentralized, nonintegrated financial management systems. Until the Agency successfully implements an integrated, full cost financial management system, NASA managers will not have complete financial visibility and insight into major programs, such as the International Space Station and Space Shuttle. In addition, until such a system is fully implemented, NASA will have to use cumbersome, alternative procedures to fully account for major programs, and the Agency will incur substantial costs to maintain legacy systems. We are currently reviewing the Agency's efforts to develop an integrated financial management system.

A number of other issues are critical to NASA's future success, including meeting human capital needs, ensuring physical and computer security, and improving program and project management. The Office of Inspector General will strive to ensure that NASA meets these challenges. As a part of this effort, we are working with NASA management to implement processes that will ensure that our future recommendations for improvement are resolved and corrective actions implemented.



Robert W. Cobb
Inspector General

NASA OFFICE OF INSPECTOR GENERAL



Inspector General Robert W. Cobb provides policy direction and leadership for the NASA Office of Inspector General (OIG). The Counsel to the Inspector General advises and assists the Inspector General on a variety of legal issues and matters. The Executive Officer manages special projects and is the OIG point of contact for congressional relations and outreach to external entities.

THE OFFICE OF AUDITS (OA) conducts independent, objective audits and reviews of NASA and NASA contractor programs and projects to improve NASA operations. The OA conducts a broad range of professional audit and advisory services, comments on NASA policies, and is responsible for oversight of audits performed under contract or by other Federal agencies. The OA helps NASA accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the efficiency and effectiveness of NASA operations by deterring fraud, crime, waste, and abuse.

THE OFFICE OF INSPECTIONS AND ASSESSMENTS (OIA) provides independent, objective inspections and assessments of the effectiveness, efficiency, economy, and integrity of NASA’s programs and activities. The OIA also conducts focused reviews of specific management issues. The office provides special emphasis on NASA information technology security, procurement, science and technology, and human resources. In addition to conducting reviews in these areas, the OIA offers technical support to the other OIG divisions. During this period, the Administrative Investigations Unit was transferred to the Office of Criminal Investigations.

Organization

THE OFFICE OF CRIMINAL INVESTIGATIONS (OCI) identifies, investigates, and refers for prosecution cases of crime, waste, fraud, and abuse in NASA programs and operations. The OCI investigates false claims, false statements, conspiracy, theft, mail fraud, and violations of Federal laws such as the Procurement Integrity Act and the Anti-Kickback Act. Through its investigations, the OCI also seeks to prevent and deter crime at NASA. The Administrative Investigations Unit, which was transferred to OCI this period, investigates matters of a noncriminal nature involving NASA's civil servant and contractor employees.

THE COMPUTER AND TECHNOLOGY CRIMES OFFICE AND TECHNICAL SERVICES OFFICE The Computer and Technology Crimes Office (CTCO) performs criminal and cyber-counterintelligence investigations in response to attacks against NASA's information technology systems networks, computer communication systems, and advanced technology programs. The CTCO also investigates criminal misuse of NASA computers. The Technical Services Office (TSO) performs forensic analysis of computer media in support of criminal and cyber-counterintelligence investigations, and is a leader in the development of law enforcement hardware and software. Both CTCO and TSO participate in Federal task forces, provide expert technical assistance to other Federal agencies, and train law enforcement personnel in advanced computer-related crime-fighting techniques.

THE OFFICE OF RESOURCES MANAGEMENT advises the Inspector General and OIG managers and staff on administrative, budget, and personnel matters, and oversees OIG adherence to management policies.

Significant Audits and Inspections

During this period we continued to conduct audits and other reviews in areas presenting significant management challenges to the Agency. Management continues to work with us to resolve issues of concern. The following are significant reports we completed during this period.

International Space Station Our audit, *Restructuring of the International Space Station Contract (IG-02-002)*, determined that NASA did not sufficiently justify the December 1999 restructuring of the International Space Station (ISS) contract. Specifically, Johnson Space Center settled The Boeing Company's requests for additional costs allegedly caused by the Government, and other potential claims, without sufficiently analyzing whether Boeing's proposed costs were fair and reasonable. Also, Johnson did not adequately support its justification for waiving the Federal Acquisition Regulation (FAR) requirement that Boeing submit certified cost or pricing data. In addition, NASA's Office of Procurement did not exercise adequate oversight of the restructured contract, even though it was one of the most significant noncompetitive awards in fiscal year (FY) 2000. Finally, Johnson inappropriately modified the fee structure of the ISS contract by eliminating the Agency's option to recoup provisional fees paid to Boeing if the contractor's technical and cost performance ultimately proves unsatisfactory. Management did not concur with our recommendations that they should: (1) perform an adequate price analysis and properly support justifications for waivers to submit certified cost or pricing data on future modifications of the ISS contract, (2) perform adequate oversight of major procurement actions for the contract, and (3) ensure that the fee pools for the ISS contract are measurable and consistent with Agency criteria or obtain a waiver for not doing so. We referred the recommendations to the NASA Audit Follow-up Official for a management decision.

In another audit, *International Space Station Spare Parts Costs (IG-02-011)*, we found that NASA did not negotiate for separately priced spare parts or develop a pricing history for use in purchasing additional spare parts. As a result, NASA had no assurance that the prices it paid for the \$334 million spent on ISS spare parts through FY 2000 were fair and reasonable. Another result is that NASA may not be able to cost-effectively and competitively procure hundreds of millions of dollars in future ISS spare parts. Additionally, we found that Boeing omitted contractor fee and indirect costs from the value of spare parts recorded on receiving reports it submitted to NASA. As a result, the Agency cumulatively understated the value of ISS spare parts in its annual financial statements by about \$39 million from program inception (FY 1995) through FY 2000. Management was responsive to our recommendations that NASA require Boeing to properly price and account for ISS spare parts and that the Agency reestablish procedures (like those previously used) for acquiring spare parts.

Financial Management We contracted with PricewaterhouseCoopers, an independent certified public accounting firm, to perform NASA's FY 2001 financial statement audit. In its report dated February 22, 2002, PwC declined to express an opinion on NASA's financial statements. The disclaimer resulted primarily from NASA's inability to provide timely evidence to fully substantiate the accuracy and the classification of amounts reported as obligations; expenses; and property, plant, and equipment. Limitations imposed by

Significant Audits and Inspections

NASA's 10 separate, decentralized, non-integrated financial systems impeded NASA from providing the necessary evidence. NASA is formulating a corrective action plan to assure the timeliness of the required information for the FY 2002 audit. NASA is also implementing an Integrated Financial Management Project that is expected to facilitate the preparation and audit of financial statements.

In our audit, *Management of Forward Funding and Undisbursed Costs* (IG-02-015), we found that although NASA adequately managed unobligated budget authority (funds available but not yet obligated), the Agency needs greater emphasis on management of uncosted obligations (funds allocated to programs and contracts for future work). We recommended that NASA's Chief Financial Officer establish a forward funding policy that measures uncosted obligations at the program or project level, performs resource reviews during the fiscal year, and emphasizes funds management throughout the Agency. We also recommended that NASA incorporate the forward funding policy into NASA's procurement regulations, and the NASA FAR Supplement. NASA concurred with the recommendations and plans to establish a forward funding management policy.

Information Technology

Our audit, *Performance Management Related to Agencywide Information Technology Security Program Goals* (IG-02-003), found that NASA did not develop information technology (IT) security performance measures that fully addressed security program performance requirements in the Government Information Security Reform Act. Although NASA's Chief Information Officer established FY 2001 Agencywide IT security performance measures for unclassified systems, we found that these measures either did not fully accomplish NASA's intended Agencywide IT security program goals, or did not ensure that NASA information, data, and systems were adequately protected. We made 12 recommendations to enable NASA to more fully address the IT security program requirements in the Security Act; better protect NASA information, data, and systems; better estimate the vulnerability of its IT systems; and ensure that Agency managers consider specific risks and implement appropriate controls for each life-cycle phase of NASA IT systems. With the exception of one recommendation that we have closed, management's comments were not responsive. We are presently evaluating additional management comments.

Our audit, *Evaluation of NASA Incident Response Capability* (IG-02-001), examined whether NASA established an incident response capability that meets the requirements of the Government Information Security Reform Act and other applicable criteria. We found that although the NASA Incident Response Capability (NASIRC) meets the requirements of the Security Act, the Agency lacks standardization in its IT incident reporting process. Specifically, the NASIRC did not receive consistent, standardized information on IT incidents from NASA's Centers. As a result, the NASIRC had to transcribe the information, which was time-consuming, increased the potential for errors, and complicated the tracking process. We recommended that NASA develop and implement standardized Center IT security incident reporting procedures, including the use of a standardized online form that directly updates the NASIRC IT security incident database. NASA concurred with the recommendation and has planned corrective action.

Significant Audits and Inspections

Our other IT security reviews covered a wide range of issues:

- *Assessment of NASA Penetration Testing Activity* (G-01-008) found that the testing was generally conducted in a professional manner. We consider NASA's approach to be responsive to our recommendations to improve the testing process and to maximize the Agency's benefit from penetration testing.
- *Assessment of Information Technology Security Vulnerabilities at [a NASA Installation]* (G-01-010) found that the installation's network vulnerabilities were well managed and its IT security policies were well defined.
- *Follow-up Review on NASA's Implementation of a Public Key Infrastructure* (G-01-006) found that although NASA has taken significant steps toward implementing a Public Key Infrastructure (PKI) architecture, the Agency still has not fully deployed a PKI.
- *Assessment of Internet-Based Spacecraft Commanding Security Issues* (G-00-017) recommended several steps we believe are critical to reduce vulnerabilities and threats should NASA choose to move ahead with efforts to control spacecraft or payloads via the Internet. Management was generally unresponsive to our recommendations.
- *Assessment of [a NASA Center's] Firewall* (G-01-033), part of an ongoing series of network firewall reviews being conducted at NASA installations, recommended steps that management at one NASA Center should take to enhance the Center's network firewall. Management concurred with the recommendations.

Security

Our audit, *Approvals for Accessing Information Technology Systems* (IG-02-004), found that two NASA installations did not complete required security investigations for all personnel who accessed sensitive IT systems. In our test sample, we found that one Center completed security investigations for less than 20 percent of contractor employees who were accessing sensitive IT systems. At the other Center, we found that temporary employees with access to sensitive IT systems did not receive required security investigations. That Center also misclassified some individuals as temporary rather than permanent employees, thereby precluding those individuals from receiving security investigations. We made several recommendations to improve these control weaknesses. Management concurred with our recommendations and has either planned or implemented responsive corrective actions.

We completed four inspections of program security controls for NASA's Advanced Aeronautics Program (AAP), *Inspection of NASA's Advanced Aeronautics Program* (G-99-019, G-01-004, G-01-017, and G-01-018). We evaluated safeguards and controls designed to protect AAP information and identified significant weaknesses that could negatively impact the security of the AAP. We recommended actions to enhance the overall security of AAP information by improving document inventory accountability and control, record-keeping systems, and administrative housekeeping. NASA management was generally responsive to our Center-based recommendations, but only somewhat responsive to our program-wide recommendations. In the course of the most recent inspection, the Agency refused to provide to the former Inspector General a requested complete list of names of employees who had been granted access to the AAP since its inception. The list was readily available to the Agency and is unclassified information. The former Inspector General reported the refusal to the former Administrator and the issue was subsequently resolved.

Significant Audits and Inspections

The latest in our ongoing series of physical security and badging reviews of NASA installations, *Inspection of [an Installation's] Physical Access and Badging Processes* (G-01-015), focused on determining whether existing policies and procedures were adequate to control access to mission critical locations and facilities containing sensitive or controlled information and materials, and whether installations are implementing those policies and procedures. In this review, as in each of the four previous reviews, we found weaknesses in physical security and promptly notified NASA management to encourage swift corrective action. NASA management was responsive to our recommendations.

Procurement

In our audit, *Lockheed Martin Space Operations' Use of Professional and Consultant Services* (IG-02-013), we found procurements of professional and consultant services that did not meet FAR requirements for competition, as well as professional and consultant service costs that did not meet FAR requirements for allowability. As a result, NASA had reduced assurance that Lockheed Martin Space Operations (LMSO) obtained the best available source or price for professional and consultant services and that the work performed was proper and did not violate law or regulations. Also, we found that \$383,777 charged to NASA for professional and consultant services may include unallowable costs. We recommended that NASA coordinate with the Defense Contract Management Agency (DCMA) Administrative Contracting Officer to require LMSO to prepare written justifications for future noncompetitive selections of professional and consultant services and to maintain sufficient records on the details of actual services performed by the professionals or consultants, including deliverable items such as required analyses and reports. We also recommended that NASA:

- Request the DCMA to include professional and consultant service subcontracts in future risk assessments and reviews of LMSO's purchasing system.
- Request the Defense Contract Audit Agency (DCAA) to review LMSO costs for professional and consultant costs in future incurred cost audits.

NASA concurred with all the recommendations and took responsive corrective actions.

Safety

Our *Assessment of the Institutional Review Board for Human Subject Protection at the Johnson Space Center*, (G-01-002) assessed the Johnson Space Center's Institutional Review Board (IRB) to ascertain whether NASA's IRB's were experiencing problems similar to those experienced by Boards at medical and research facilities funded by other government agencies. We found that the Johnson IRB was generally timely, well organized, and staffed with qualified, hardworking, and dedicated individuals. However, the IRB could be improved further with updates of Agency policy, timely education and training opportunities for IRB members, and periodic reviews of the IRB process. Additionally, we were concerned that the heavy workloads and competing priorities of IRB members could weaken the IRB oversight function. We recommended that Johnson management consider the importance of participation of their employees in the IRB process and allot appropriate duty time to perform this function. NASA management concurred with the recommendations.

Significant Investigations

Government to Receive Over \$3 Million as a Result of OIG Investigations

OIG investigations resulted more than \$3 million in settlements during this semiannual period.

- RGA Labs, Inc., a NASA contractor, agreed to pay the Government \$1.2 million for violations of the False Claims Act. This payment is in addition to RGA's prior sentencing, which included payments of a criminal fine of \$500,000, \$1.2 million in criminal restitution, a special assessment of \$300, and 5 years of probation. RGA admitted to intentionally falsifying test results for electronic components used in high reliability applications, such as space hardware and military weapons systems.
- The United Space Alliance (USA) agreed to pay \$1.5 million to NASA to settle bid and proposal costs under a NASA contract. The settlement stemmed from a DCAA audit that found USA noncompliant with its cost accounting standards. USA allegedly misclassified significant amounts of its bid and proposal costs to circumvent contract ceilings, resulting in NASA paying USA for substantial unallowable costs.
- Oneida Research Services Incorporated, a former NASA contractor, agreed to pay \$375,000 (but did not acknowledge any wrongdoing) in response to allegations that it had failed to properly test parts according to contract requirements. A former Oneida employee had alleged the company submitted false certifications to NASA and the Department of Defense on electronic parts used on the Space Shuttle, satellites, submarines, and military aircraft.
- LaserGenics Corporation, a NASA contractor, agreed to pay \$25,000 to resolve a false claims action filed by the U.S. Attorney's Office. The company allegedly submitted duplicative research proposals to various Federal agencies through the Small Business Innovation Research program.

In addition to these payments, a series of OIG investigations over the past 3 years led to NASA's recovery of property valued at \$10,630,000. These investigations also resulted in the conviction of 11 contractor and subcontractor employees in a kickback scheme to order unneeded materials, equipment and supplies.

Indictments, Pleas, Sentencings, and Convictions

Our investigative efforts resulted in indictments, guilty pleas, convictions, and sentencings of several companies and persons for violations of Federal statutes. Violations included false statements, money laundering, kickbacks, fraud, and theft of government property.

- The president of Giuliani Associates, Inc., a NASA contractor, was indicted on charges of making false statements, mail fraud, and money laundering. He allegedly submitted inflated progress payment requests on a construction contract to NASA and underpaid his subcontractors. The company president then allegedly attempted to prevent the company's subcontractors from obtaining funds to which they were entitled by hiding the funds he received from NASA in various bank accounts, including one in the Bahamas.

Significant Investigations

- The owners of three companies pled guilty in Federal Court for their roles in a kickback scheme in which they paid employees of a government contractor to provide millions of dollars worth of business to their printing and graphics companies. In total, these subcontractors paid kickback payments in excess of \$1.1 million, while their companies received over \$6.8 million worth of business from a NASA prime contractor. Five of the prime contractor employees who received the kickbacks have also pled guilty.
- A California man pled “no contest” to causing a false police report and was given 3 years of probation for his involvement in an anthrax hoax at a NASA subcontractor facility in Pasadena, California. He was directed to repay NASA \$5,283 for the cost of the investigation and was fired from his job.
- NASA had funded Systems, Technologies & Resources, Inc. (STaR) to build a cart to transport large model aircraft to wind tunnels located at Langley Research Center. Instead of paying subcontractors for work performed on this task, the company president deposited the money in his personal bank account. The company president was sentenced to 6 months in prison followed by 6 months electronic home detention. When the home detention is complete, he will be placed on 3 years of probation and required to perform 200 hours of community service. He was also ordered to pay a special assessment of \$100. StaR was sentenced to 5 years of probation and ordered to pay \$47,747.91 in restitution to its subcontractors and NASA, fined \$65,000, and ordered to pay a special assessment of \$100. The company president had previously pled guilty to one count of false statements and the company pled guilty to one count of wire fraud.
- A former NASA contractor employee pled guilty to wire fraud and conspiracy to defraud NASA. The former employee and a group of subcontractors submitted over \$1.4 million of fraudulent and inflated bids for computer equipment through a prime contractor to NASA. The co-conspirators then obtained lower-priced computer equipment, which they subsequently provided to NASA through the prime contractor. The former employee was sentenced to a 12-month and 1-day term of imprisonment to be followed by 3 years of supervised release. The employee was also ordered to pay \$82,354.32 in restitution to NASA.
- After signing a four-count plea agreement admitting to mail fraud, wire fraud, theft of government property and making a false statement to a government agency, the president of a Florida company was sentenced to 30 months in prison to be followed by 3 years of supervised release and 150 hours of community service. He was ordered to pay restitution of \$356,951 and a \$400 special assessment. He had used two aliases and three shell corporations to defraud NASA Glenn Research Center, a capital management company, two doctors, three publishing companies, and a laser equipment broker of over \$500,000.
- Three defendants were indicted on ten counts of conspiracy, uttering and processing forged securities, mail and wire fraud, embezzlement, forgery, interstate transportation of stolen property, and aiding and abetting for their

Significant Investigations

alleged participation in various fraud schemes that swindled two Los Angeles area businesses out of a combined total of \$574,490 in gold, platinum, and rhodium products, and a New Jersey business out of another \$494,467. The defendants and another individual were allegedly also involved in over \$2.6 million of other frauds, impersonations, and illegal storefront operations. As part of these schemes, the defendants allegedly used forged letterhead, business cards, and purchase order forms. They also allegedly impersonated employees of legitimate companies and government entities including Beckman Coulter, Ball Aerospace & Technologies (a NASA contractor), and the Department of Defense. The defendants then allegedly placed orders for precious metals with these companies and directed the goods to be shipped to addresses that were actually storefronts leased by the defendants.

Computer Intrusions/ Crimes

Computer crimes at NASA have a negative impact on the Agency's mission, reputation, and stewardship of taxpayer dollars. We have solved cases involving extortion of NASA and contractor personnel, loss of communications services costing hundreds of thousands of dollars per intrusion to repair, and use of NASA-funded networks to further criminal enterprises.

During this semiannual period, our computer intrusion investigations resulted in the indictment, arrest, and sentencing of several hackers. Charges against the hackers included unauthorized access to United States Government computers, disruption of computer use, Web page defacement, possession of computer programs with intent to defraud, and illegal possession of access devices.

- A California hacker protesting the public copyright law suits against Napster.com pled guilty to two of eleven counts related to defacement of government Web sites. The hacker (a juvenile) was sentenced to 90 hours of community service; 30 days detention, stayed; 2 years probation; forfeiture of his computer; restricted computer use to e-mail only for 2 years; restitution for damages; and counseling.
- A hacker was sentenced to 21 months incarceration for his involvement in three separate computer hacking cases. He pled guilty to one misdemeanor count of intentional unauthorized access of a government computer; one felony count of knowingly transmitting a program, code, or command which recklessly caused damage to a computer; and one felony charge of unauthorized use of a credit card to obtain over \$6,000 in electronic equipment. He was ordered to pay \$87,736.29 in restitution. The judge imposed stringent restrictions on the hacker's use of computers during the supervised release period that will follow his prison sentence.
- An Alabama man was indicted on 40 Federal counts for accessing government computers without authorization, for causing damage to government Web sites, and for possessing unauthorized access devices with the intent to defraud. The hacker allegedly damaged Web sites at NASA and a number of Department of Defense agencies.

Our computer crimes unit also provides support to our criminal investigators on complex cases involving computer technology (e.g., where key information for a case resides on a suspect's computer) or in cases where the computer was used as a means of

Significant Investigations

committing a crime (e.g., wire fraud, monetary extortion, or trafficking in child pornography).

- A former NASA contractor employee pled guilty to one count of transmitting communications containing threats to injure the persons of others. The messages allegedly contained implied and direct threats of bodily harm against then President-elect George W. Bush, the Sheriff of Humboldt County, California, and the Chief Executive Officer of Boise Cascade Corporation.
- A former NASA subcontractor employee pled guilty to two counts of receiving child pornography and one count of unauthorized access of a nonpublic NASA computer. As a result, he was sentenced to 27 months in prison to be followed by 3 years of supervised release. He was also ordered to pay a \$300 special assessment.

Special Thanks



Special Agent Matthew Campbell

Special Agent Matthew Campbell, Federal Bureau of Investigation (FBI), Southern District of Mississippi, Gulfport, Mississippi, was instrumental in the success of an investigation conducted by the NASA OIG Office of Criminal Investigations at the John C. Stennis Space Center, Mississippi. The OIG appreciates Special Agent Campbell's individual efforts and support, which led to the indictment of 11 NASA contractor and subcontractor employees in a major kickback scheme and theft of NASA government property perpetrated at the Stennis Space Center. Special Agent Campbell is a true professional and we commend his professionalism, dedication and commitment to this long-term investigation. We look forward to a long and productive relationship with him and the FBI.

Legislation, Legal Matters, and Regulations

Legislation and Legal Matters

The USA PATRIOT Act of 2001

Following the September 11 attacks on the United States, Congress passed and the President signed the “Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism” (USA PATRIOT) Act of 2001, Public Law 107-56, to deter and punish terrorist acts in the United States and around the world, to enhance law enforcement investigatory tools, and for other purposes. Several of the Act’s provisions directly impact how we conduct investigations, especially cyber crime investigations.

During the congressional debate over the legislation, the NASA OIG provided information to the Administration regarding the need for a “computer trespasser” provision. Section 217 of the Act contains such a provision. The provision allows the owner or operator of a computer system to consent to have communications from an unauthorized computer user (a “trespasser”) intercepted by law enforcement when: (1) law enforcement personnel are acting under color of law and lawfully engaged in an investigation, (2) the content of the communications will be relevant to an investigation, and (3) the interception does not acquire communications other than those transmitted to or from the computer trespasser. We are working with NASA to obtain the Agency’s consent for the OIG to conduct such interceptions when NASA systems are attacked.

Program Fraud Civil Remedies Act Settlement

The Program Fraud Civil Remedies Act was enacted in 1986 to allow Federal agencies to administratively pursue false claims and false statements valued up to \$150,000. During this semiannual period, NASA reached its first settlement utilizing the Act. In this case, the OIG investigated an allegation that a NASA grantee had not used grant funds in accordance with the terms of the grant. NASA was successful in negotiating a settlement in which the grantee paid NASA \$88,000.

H.R. 3844, the Federal Information Security Management Act of 2002

Congress is currently considering H.R. 3844, the Federal Information Security Management Act of 2002. This legislation is intended to improve information technology security in the Federal Government. The legislation would require the development of mandatory information security risk management standards and provide a mechanism for improved oversight of Federal agency information security programs. It would also make permanent in the Government Information Security Reform Act some provisions which sunset late this year. The bill incorporates several of our suggestions, including a requirement that OIGs review and report on Agency evaluations of information security programs and practices, and a requirement that agency OIGs be notified and consulted on all security incidents.

Legislation, Legal Matters, and Regulations

Regulations

We reviewed and commented on several Agency policy directives and guidelines during this period. Two of the most notable were:

- **External Release of NASA Software:** The revised guideline addressed our concern that the Inspector General be the Software Releasing Authority for forensic software developed by OIG employees. However, while the guideline has more detailed provisions regarding the handling of requests for release of command and control software, the responsibilities remain at the Center level. The provisions also require consultation with the Center counterintelligence official and with the local OIG “as warranted.” We believe the guideline relies overly on Center procedures and that Headquarters’ counterintelligence officials must also be consulted.
- **Management Processes and Requirements:** NASA Procedures and Guidelines (NPG) 7120.5 provides guidance to NASA program and project managers regarding the formulation, approval, implementation, and evaluation of all Agency programs and projects. NASA began the process of re-drafting this important NPG in December 2000. We submitted several comments in the areas of risk management, environmental management, information technology security, and earned value management. The Office of the Chief Engineer substantially improved the draft NPG. We resolved our final concerns with the Office of the Chief Engineer during this semiannual period.

Cooperative and Outreach Activities

OIG Testifies on Financial Management

On March 20, 2002, Mr. Alan J. Lamoreaux, the Assistant Inspector General for Audits, testified before the House Subcommittee on Government Efficiency, Financial Management, and Intergovernmental Relations regarding the disclaimer issued by PricewaterhouseCoopers in their audit of NASA's fiscal year 2001 financial statements. The testimony provided a history of NASA's problems with financial management, as well as the differences between the audit methodologies used and the accounting policy changes between the financial statement audits for FY's 2001 and 2000. The testimony discussed past and current OIG work on NASA's Integrated Financial Management Project, and provided examples of missing or inadequate cost benefit analyses in support of major NASA program decisions. The testimony is available on the Web at: <http://www.hq.nasa.gov/office/oig/hq/ALTestimony032002.pdf>

President's Council on Integrity and Efficiency and the Executive Council on Integrity and Efficiency

The President's Council on Integrity and Efficiency and the Executive Council on Integrity and Efficiency (PCIE/ECIE) represent all of the Federal Offices of Inspector General. During this period the OIG played a key role in several PCIE/ECIE initiatives, including:

- Hosting a joint PCIE/ECIE conference on the Government Information Security Reform Act. This conference focused on best practices/lessons learned regarding agencies' implementation of and reporting on the Act.
- Continuing to lead the PCIE/ECIE review of the nation's critical infrastructure assurance program. Two phases of the four-phase review have been completed. The second phase of the review was essentially completed during this semiannual period and the report of this phase will be issued early in the next semiannual period.
- Initiating and leading the PCIE IT roundtable, a group focused on enhancing cooperation on IT issues among Inspectors General and ensuring that IG's, working with other elements of the government, tackle the important IT issues facing the nation.

Other Outreach

The OIG staff continues to share their expertise through a variety of mechanisms.

- The OIG Legal staff undertook several efforts to publicize information about the USA PATRIOT Act, including hosting training on the Act for the Council of IG Counsels, OIG staff, and NASA Office of General Counsel attorneys.
- One of our division directors is participating in the Council for Excellence in Government's E-Government Fellows Program. The Program helps to identify credible, practical solutions to national information technology problems by facilitating direct student discussions with the Congress, the Executive Branch, and the business and academic communities. The Program provides students with the sustained, collaborative training opportunities.
- One of our procurement analysts and our report editor authored "Procurement's Most Wanted: The Case of the Slim Trimmer," for the spring 2002 issue of the Agencywide *Procurement Countdown* newsletter. This article is to be the first in a series meant to heighten NASA procurement official's awareness of fraud indicators related to NASA acquisitions.

Cooperative and Outreach Activities

- The OIG was instrumental in the developing, implementing, and instructing the Procurement, Contract, and Grant Fraud Investigations Training Program at the Inspector General Academy in Glynco, Georgia. The 5-day program covers the knowledge, skills, techniques, and procedures necessary to conduct various types of procurement, contract, and grant fraud investigations.
- The Assistant Inspector General for Inspections and Assessments was a guest lecturer at George Mason University regarding Federal ethics enforcement and the role of Office of Inspector General.
- The OIG played a major role in establishing and developing the Southwestern Region Inspector General Council. The Council seeks to share information and resources and to coordinate investigative efforts in the Southwestern Region, particularly between the agencies and the Offices of the U.S. Attorney.
- We have been actively participating in the Federal Cyber Service: Scholarship for Service Program. This program seeks to increase the number of qualified students entering the fields of information assurance and computer security and to increase the capacity of the United States higher education enterprise to continue to produce professionals in these fields to meet the needs of our increasingly technological society. Four students from the program will be working at the NASA OIG in the summer of 2002. We also are collaborating with a university involved in the program to improve computer forensics tools.

OIG Employees Recognized for Outstanding Contributions

During this period, NASA Headquarters recognized several OIG employees for their outstanding contributions. Mr. Dana M. Mellerio, Director of the Information Technology and Security Inspections Division of the Office of Inspections and Assessments, received NASA's Creative Management Award. Several members of the Office of Audits staff received the NASA Headquarters Exceptional Performance Award. Among them, Ms. Karey Starnes, Executive Director; Ms. Nancy Cipolla, Report Process Manager; and the Faster, Better, Cheaper Audit Team—Mr. Daniel Samoviski, Program Director, Earth and Space Science Audits; Ms. Esther Judd, Program Manager; Mr. James Richards and Mr. Eugene Bauer, Auditors—for their outstanding efforts in developing and reporting issues that encompassed both Agency and Governmentwide concerns. Ms. Janet A. Campbell, Administrative Specialist, Office of the Executive Officer, was also recognized with an Exceptional Performance Award.

PCIE/ECIE Award for Excellence

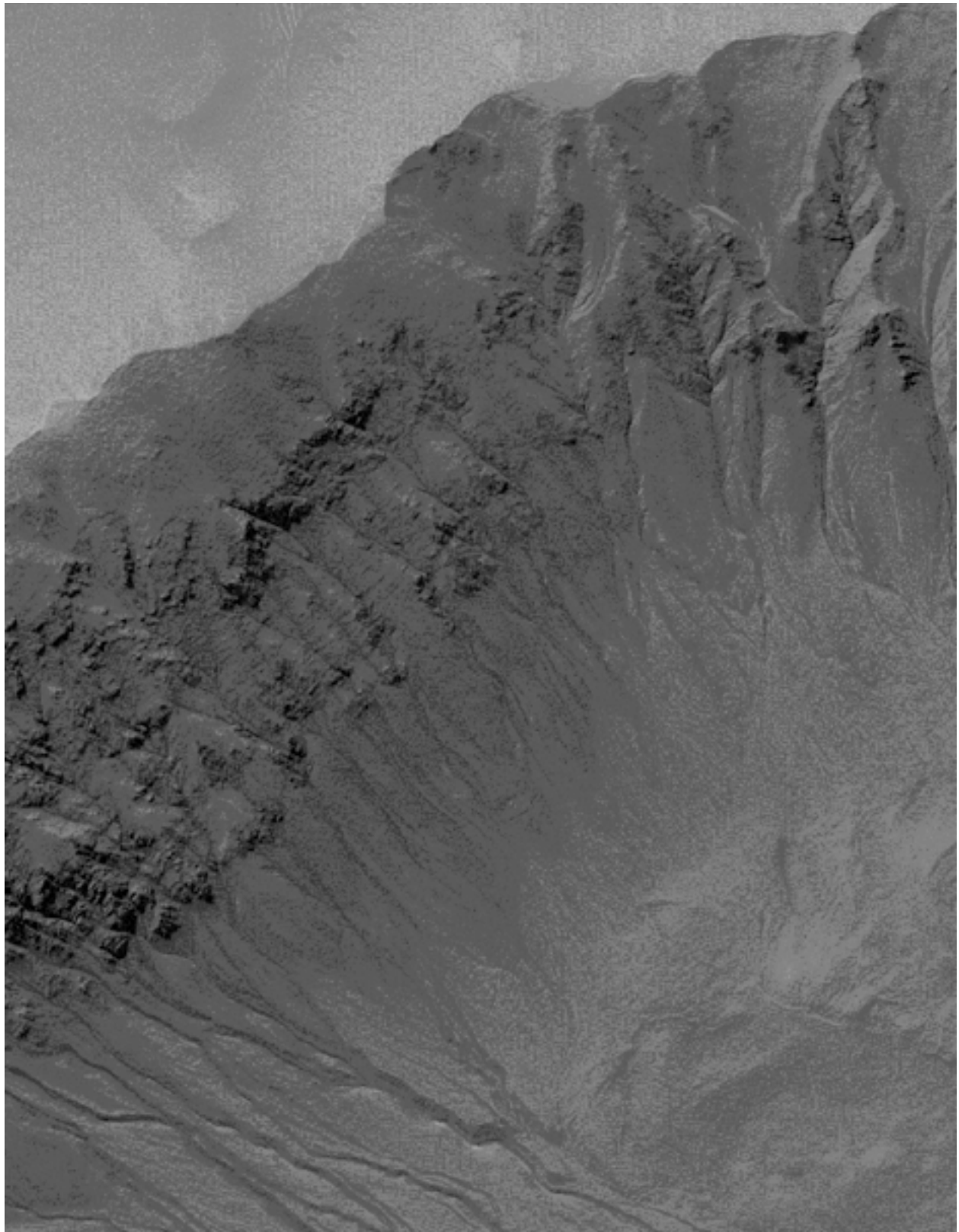
OIG audit staff David L. Gandrud and Roger W. Flann received the PCIE/ECIE Award for Excellence. The award recognized the outstanding efforts of Messrs. Gandrud and Flann in leading a PCIE/ECIE review of the nation's critical infrastructure assurance program based on the Administration's policy on critical infrastructure protection—Presidential Decision Directive 63. Mr. Alan J. Lamoreaux, Assistant Inspector General for Auditing, accepted the award for the team.



Mr. Alan J. Lamoreaux (right) receives award plaque from PCIE Vice-chair Gaston Gianni

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Appendix A

Inspector General Act Reporting Requirements

The Inspector General Act of 1978, as amended, specifies reporting requirements for semiannual reports to the Congress. Those requirements are defined below and cross-referenced to this report.

IG Act Citation	Requirement Definition	Cross Reference Page Number(s)
Section 4(a)(2)	Review of Legislation and Regulations	11
Section 5(a)(1)	Significant Problems, Abuses, and Deficiencies	1-10
Section 5(a)(2)	Recommendations for Corrective Actions.....	3-6
Section 5(a)(3)	Prior Recommendations Yet to Be Implemented.....	18
Section 5(a)(4)	Matters Referred to Prosecutive Authorities.....	22
Section 5(a)(5) and 6 (b)(2)	Summary of Refusals to Provide Information	5
	<i>(See Inspection of NASA's Advanced Aeronautics Program)</i>	
Section 5(a)(6)	OIG Audit Reports Issued—Includes Total Dollar Values of Questioned Costs, Unsupported Costs, and Recommendations Funds Be Put to Better Use.....	16
Section 5(a)(7)	Summary of Significant Audit Reports.....	3-6
Section 5(a)(8)	Table—Total Number of Audit Reports and Total Dollar Value Questioned Costs	17
Section 5(a)(9)	Table—Total Number of Audit Reports and Total Dollar Value Funds Be Put to Better Use	17
Section 5(a)(10)	Summary of Prior Audit Reports for which No Management Decision Has Been Made	18
Section 5(a)(11)	Description and Explanation of Significant Revised Management Decisions	17
Section 5(a)(12)	Significant Management Decisions with which the Inspector General Disagreed.....	17

Debt Collection

The Senate Report 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.

NASA's Financial Management Division provides this data each November for the previous fiscal year. For the period ended September 30, 2001, the receivables due from the public total \$10,018,523, of which \$2,143,960 is delinquent. The amount written off as uncollectible for the period October 1, 2000, through September 30, 2001, was \$9,755.

Appendix B Statistical Reports

TABLE 1 – AUDIT REPORTS AND IMPACT

Report Number/ Date Issued	Report Title	Questioned Costs	Funds Put to Better Use
IG-02-001 10/25/01	EVALUATION OF NASA INCIDENT RESPONSE CAPABILITY		
IG-02-002 11/08/01	RESTRUCTURING OF THE INTERNATIONAL SPACE STATION CONTRACT		\$1,400,000
IG-02-003 11/19/01	PERFORMANCE MANAGEMENT RELATED TO AGENCYWIDE INFORMATION TECHNOLOGY PROGRAM GOALS		
IG-02-004 11/19/01	APPROVALS FOR ACCESSING INFORMATION TECHNOLOGY SYSTEMS		
IG-02-005 12/06/01	R.J. RICCIARDI, CPA, AUDIT OF THE SEARCH FOR EXTRATERRESTRIAL INTELLIGENCE INSTITUTE FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 1999		
IG-02-006 12/20/01	LEATHERBURY-BROACHE & Co., P.C., AUDITS OF NATIONAL AERONAUTICS AND SPACE ADMINISTRATION WALLOPS FLIGHT FACILITY EXCHANGE AND MORALE ASSOCIATION FINANCIAL STATEMENTS FOR THE FISCAL YEARS ENDED SEPTEMBER 30, 1998, 1999, AND 2000		
IG-02-007 01/23/02	ERNST & YOUNG LLP AND DEFENSE CONTRACT AUDIT AGENCY AUDIT OF SOUTHWEST RESEARCH INSTITUTE FOR THE FISCAL YEAR ENDED SEPTEMBER 24, 1999		
IG-02-008 02/21/02	ERNST & YOUNG LLP AUDIT OF THE BERNICE P. BISHOP MUSEUM FOR THE FISCAL YEAR ENDED JUNE 30, 2000		
IG-02-009 03/26/02	SUMMARY REPORT ON UNIX OPERATING SYSTEM SECURITY AND INTEGRITY		
IG-02-010 03/26/02	TELEPHONE MANAGEMENT		
IG-02-011 03/22/02	INTERNATIONAL SPACE STATION SPARE PARTS COSTS		
IG-02-012 03/27/02	ERNST & YOUNG LLP AUDIT OF THE ALABAMA COMMISSION AND AUTHORITY FOR THE FISCAL YEAR ENDED SEPTEMBER 26, 1999		
IG-02-013 03/26/02	LOCKHEED MARTIN SPACE OPERATIONS' USE OF PROFESSIONAL AND CONSULTANT SERVICES		
IG-02-014 03/27/02	NASA ACQUISITION OF SERVICES USING THE FEDERAL SUPPLY SCHEDULES		
IG-02-015 03/29/02	MANAGEMENT OF FORWARD FUNDING AND UNDISBURSED COSTS		
Total Reports Issued	15		
Subtotal Audit Dollar Impact		\$0	\$1,400,000
TOTAL AUDIT DOLLAR IMPACT		\$1,400,000	

Appendix B Statistical Reports

TABLE 2 – AUDITS WITH QUESTIONED COSTS

	<u>Number of Audit Reports</u>	<u>Total Costs Questioned</u>
No management decision made by beginning of period	2	\$11,014,734
Issued during period	0	\$ 0
Needing management decision during period	2	\$11,014,734
Management decision made during period:	0	
Amounts disallowed	—	\$ 0
Amounts not disallowed	—	\$ 0
No management decision at end of period:	2	\$11,014,734
Less than 6 months old	0	\$ 0
More than 6 months old	2	\$11,014,734

TABLE 3 – AUDITS WITH RECOMMENDATIONS FUNDS BE PUT TO BETTER USE

	<u>Number of Audit Reports</u>	<u>Total Costs Questioned</u>
No management decision made by beginning of period	2	\$179,700,000
Issued during period	1	\$ 1,400,000
Needing management decision during period	3	\$181,100,000
Management decision made during period:	2	\$ 66,100,000
Amounts management agreed be put to better use:		\$ 1,400,000
Based upon proposed management action	—	\$ 1,400,000
Based upon proposed legislative action	—	\$ 0
Amounts which management disagreed be put to better use	—	\$ 64,700,000
No management decision at end of period:	1	\$115,000,000
Less than 6 months old	0	\$ 0
More than 6 months old	1	\$115,000,000

TABLE 4 – REVISED DECISIONS AND DISAGREEMENT ON PROPOSED ACTIONS

	<u>Number</u>	<u>Description</u>
Revised Management Decision(s)	0	N/A
Inspector General Disagreement with Significant Management Decision(s)	0	N/A

Appendix B Statistical Reports

TABLE 5 – AUDIT REPORTS ISSUED PRIOR TO OCTOBER 1, 2001, FOR WHICH NO MANAGEMENT DECISION HAS BEEN MADE

Report Number/ Date Issued	Report Topic	Number of Recommendations	
		Resolved	Unresolved
NEW SINCE LAST REPORTING PERIOD			
SAFETY AND MISSION ASSURANCE			
IG-01-034 08/31/01	CONTROLS OVER THE USE OF PLASTIC FILMS, FOAMS, AND ADHESIVE TAPES IN AND AROUND THE SPACE SHUTTLE ORBITER VEHICLES <i>Status: We will refer the unresolved recommendation regarding increased NASA involvement in the safe use of these materials to the NASA Audit Follow-up Official for a management decision.</i>	4	1
COST ESTIMATING			
IG-01-029 08/31/01	CONSOLIDATED SPACE OPERATIONS CONTRACT: EVALUATING AND REPORTING OF COST SAVINGS <i>Status: We are evaluating whether management's revised approach to communicating cost performance to Congress meets congressional requirements.</i>	0	2
REPORTED IN PREVIOUS SEMIANNUAL REPORTS			
INFORMATION TECHNOLOGY			
IG-01-008 02/16/01	REVIEW OF THE COLLECTION OF PERSONALLY IDENTIFIABLE INFORMATION ON NASA'S WEB SITES <i>Status: We recommended that NASA develop and implement policies and procedures required by Office of Management and Budget (OMB), revise the NASA Web site privacy statement, implement Web-based measures to warn users leaving NASA's Web sites, and inventory the Agency's publicly accessible Web sites. NASA was not responsive to any of our recommendations. We are currently working with management to resolve our differences.</i>	0	6
IG-00-017 03/21/00	GENERAL CONTROLS AT JOHNSON SPACE CENTER <i>Status: We are awaiting the Audit Follow-up Official's written management decision.</i>	13	1
PROGRAM AND PROJECT MANAGEMENT			
IG-00-045 09/20/00	NASA'S INDEPENDENT COST ESTIMATING CAPABILITY <i>Status: We are working with management to resolve the nonconcurrences.</i>	2	3
IG-01-021 03/30/01	X-37 TECHNOLOGY DEMONSTRATOR PROJECT MANAGEMENT <i>Status: We will refer the unresolved recommendation to the NASA Audit Follow-up Official for a management decision.</i>	12	1
LAUNCH VEHICLES			
IG-01-003 12/21/00	AUDIT OF SPACE SHUTTLE PAYLOADS <i>Status: NASA and the OIG disagree whether the pricing system is required by law and whether NASA must establish a definition for the "fair value" that must be charged to Department of Defense customers in accordance with Federal law. We requested a management decision from the Audit Follow-up Official on June 28, 2001.</i>	0	5
INTERNATIONAL SPACE STATION			
IG-99-007 01/28/99	SPACE STATION CORRECTIVE ACTION PLANS <i>Status: We will refer the unresolved recommendations to the Audit Follow-up Official for a management decision.</i>	1	2
IG-99-009 03/09/99	SPACE STATION CONTINGENCY PLANNING FOR INTERNATIONAL PARTNERS <i>Status: We will refer the unresolved recommendations to the Audit Follow-up Official for a management decision.</i>	0	2

Appendix B Statistical Reports

TABLE 6 – PRIOR OIG AUDIT RECOMMENDATIONS YET TO BE IMPLEMENTED

Report Number/ Date Issued	Report Topic	Date Resolved	Total Monetary Findings	Number of Recommendations Open	Number of Recommendations Closed	Latest Target/Closure Date
NEW SINCE LAST REPORTING PERIOD						
SECURITY						
IG-01-038 09/27/01	NASA PLANNING AND IMPLEMENTATION OF PRESIDENTIAL DECISION DIRECTIVE 63 PHASE III	09/27/01	*	2	0	See Note 1
SAFETY AND MISSION ASSURANCE						
IG-01-042 09/28/01	SAFETY OF LIFTING DEVICES AND EQUIPMENT AT STENNIS SPACE CENTER	09/28/01	*	16	0	04/05/02
INFORMATION TECHNOLOGY						
IG-01-043 09/28/01	INFORMATION TECHNOLOGY SECURITY REQUIREMENTS IN NASA CONTRACTS, GRANTS, AND COOPERATIVE AGREEMENTS	09/28/01	*	3	0	06/30/02
REPORTED IN PREVIOUS SEMIANNUAL REPORTS						
SAFETY AND MISSION ASSURANCE						
IG-99-036 09/20/99	X-38/CREW RETURN VEHICLE OPERATIONAL TESTING	09/20/99	*	1	1	05/31/05
IG-99-047 09/22/99	SAFETY CONSIDERATIONS AT GODDARD SPACE FLIGHT CENTER	03/18/02	*	2	3	09/15/02
INTERNATIONAL SPACE STATION						
IG-00-007 02/16/00	PERFORMANCE MANAGEMENT OF THE INTERNATIONAL SPACE STATION CONTRACT	02/16/00	*	1	13	See Note 2
INFORMATION TECHNOLOGY						
IG-98-041 09/30/98	CONSOLIDATED NETWORK MISSION OPERATIONS SUPPORT CONTRACT, TRANSITION, AND IMPLEMENTATION	11/20/98	\$1,800,000	1	0	12/31/02
IG-00-055 09/28/00	SYSTEM INFORMATION TECHNOLOGY SECURITY PLANNING	12/29/00	*	3	7	10/01/02
IG-00-057 09/28/00	NASA'S PLANNING AND IMPLEMENTATION FOR PRESIDENTIAL DECISION DIRECTIVE 63—PHASE I	09/28/00	*	2	1	See Note 1
IG-01-022 03/30/01	INFORMATION TECHNOLOGY SECURITY PLANNING	03/30/01	*	4	0	03/31/02

*Non-monetary finding

(continued)

Appendix B Statistical Reports

TABLE 6 – Prior OIG Audit Recommendations Yet to Be Implemented (Continuation)

Report Number/ Date Issued	Report Topic	Date Resolved	Total Monetary Findings	Number of Recommendations Open	Closed	Latest Target/ Closure Date
PROCUREMENT						
IG-98-030 09/14/98	SINGLE SOURCE SUPPLIERS FOR CRITICAL ITEMS	03/17/99	*	1	2	See Note 3
FISCAL MANAGEMENT						
IG-99-001 11/03/98	X-33 FUNDING ISSUES	08/30/01	*	2	0	04/15/02
IG-99-053 09/27/99	CONTRACTOR-LEASED FACILITIES AT MARSHALL SPACE FLIGHT CENTER	09/27/99	\$9,214,734	2	3	05/31/02
IG-99-059 09/30/99	MATCHING DISBURSEMENTS TO OBLIGATIONS	10/31/00	*	1	2	06/30/02
PROGRAM AND PROJECT MANAGEMENT						
IG-99-016 03/24/99	AUDIT OF ADVANCED X-RAY ASTROPHYSICS FACILITY	03/24/99	*	2	0	09/30/02
IG-99-052 09/24/99	X-33 COST ESTIMATING PROCESSES	11/07/01	*	1	3	09/30/02
IG-99-058 09/30/99	EARNED VALUE MANAGEMENT AT NASA	11/08/00	*	3	0	09/30/02
IG-00-005 02/09/00	X-38/CREW RETURN VEHICLE PROJECT MANAGEMENT	02/09/00	*	1	0	See Note 4
IG-00-029 03/30/00	X-34 TECHNOLOGY DEMONSTRATOR	03/30/00	*	8	8	See Note 5
IG-00-043 09/20/00	CONSOLIDATED SPACE OPERA- TIONS CONTRACT—COST- BENEFIT ANALYSIS AND AWARD FEE STRUCTURE	12/07/01	*	2	5	09/30/02
IG-01-009 03/13/01	FASTER, BETTER, CHEAPER: POLICY, STRATEGIC PLANNING, AND HUMAN RESOURCE ALIGNMENT	05/14/01	*	5	0	See Note 3
IG-01-018 03/27/01	ADVANCED AERONAUTICS PROGRAM	03/27/01	*	7	6	09/15/02
LAUNCH VEHICLES						
IG-00-009 02/23/00	STAFFING OF THE EXPENDABLE LAUNCH VEHICLE PROGRAM OFFICE AT THE KENNEDY SPACE CENTER	02/23/00	*	1	2	See Note 3
INTERNATIONAL AGREEMENTS						
IG-99-020 03/31/99	NASA CONTROL OF EXPORT- CONTROLLED TECHNOLOGIES	03/31/99	*	5	1	See Note 6
IG-00-018 03/23/00	NASA OVERSIGHT OF CONTRACTOR EXPORTS OF CONTROLLED TECHNOLOGIES	03/23/00	*	2	0	09/30/02

*Non-monetary finding

(continued)

Appendix B Statistical Reports

TABLE 6 – Prior OIG Audit Recommendations Yet to Be Implemented (Continuation)

Report Number/ Date Issued	Report Topic	Date Resolved	Total Monetary Findings	Number of Recommendations		Latest Target/ Closure Date
				Open	Closed	
IG-00-034 05/12/00	FOREIGN NATIONAL VISITORS AT NASA CENTERS	05/12/00	*	4	0	09/30/02
IG-00-048 09/19/00	CONTRACTOR EXPORTS OF CONTROLLED TECHNOLOGIES	09/19/00	*	2	0	09/30/02
ENVIRONMENTAL MANAGEMENT						
IG-00-030 03/31/00	COMPLIANCE WITH THE NATIONAL ENVIRONMENTAL POLICY ACT	09/28/01	*	2	7	09/30/02

*Non-monetary finding

- Note 1. Management has not provided an updated estimated completion date for implementation of corrective actions.
- Note 2. Closure of recommendation 13 depends upon a determination by the DCAA that NASA is receiving a 2:1 savings-to-cost ratio on a corporate restructuring by The Boeing Company, as stated in recommendations 1 and 2 in audit report IG-01-006.
- Note 3. Closure of the recommendation depends on NASA's issuance of NPG 7120.5B.
- Note 4. NASA has drastically reduced funding on the project through FY 2003. Implementation of the recommendation depends upon a future decision by NASA to fully fund the project.
- Note 5. Management has not provided an updated estimated completion date for implementation of corrective actions. We are reviewing documentation provided by management to close the recommendations.
- Note 6. Closure of the recommendation depends upon NASA's issuance of NPG 2190.

TABLE 7 – STATUS OF A-133¹ FINDINGS AND QUESTIONED COSTS RELATED TO NASA AWARDS²

Total Audits Reviewed	53
Audits with Recommendations	1
Total Disallowed/Questioned Costs	0
Total Disallowed/Questioned Costs Recovered/Sustained	0
Recommendations:	
Beginning Balance	27
New Recommendations	1
Recommendations Dispositioned	8
Ending Balance	20
Average Age of Recommendations Not Completed	7.6 months

¹OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, requires Federal agencies to audit non-Federal entities expending Federal awards.

²Data prepared by NASA Office of Procurement for the financial reporting period ending March 31, 2002, in accordance with OMB Circular A-50, *Audit Follow-up*.

Appendix B Statistical Reports

**TABLE 8 – INSPECTIONS/ASSESSMENTS
ACTIVITIES¹**

Activities Opened	16
Activities Closed	19
Activities Pending	19
¹ Includes inspection and assessment reports, special studies, responses to congressional inquiries, and management alerts.	

**TABLE 9 – ADMINISTRATIVE INVESTIGATIONS
ACTIVITIES**

Cases Opened	43
Cases Closed	108
Cases Pending	57
Referred to Management	7
Closed	2
Pending	5
Referred to Criminal Investigations	0

**TABLE 10 – LEGAL ACTIVITIES AND
REVIEWS**

Freedom of Information Act Matters	6
Inspector General Subpoenas Issued	24
Regulations Reviewed	36

**TABLE 11 – CRIMINAL INVESTIGATIONS
ACTIVITIES**

Cases Opened	276
Cases Closed	260
Cases Pending	359
Hotline Complaints Received	53
Referred to Audits or Investigations	43
Referred to NASA Management	0
Referred to Other Agencies	5
No Action Required	5

TABLE 12 – Criminal INVESTIGATIONS IMPACT

Indictments/Informations	32
Convictions/Plea Bargains/ Pretrial Diversions	26
Cases Referred for Prosecution	51
Cases Declined	16
Cases Referred to NASA Management for Action	32
Cases Referred to Other Agencies for Action ¹	30
Suspensions/Debarments	9
Individuals	8
Firms	1
Administrative Actions	21
NASA Employees	9
Contractor Employees	12
Recoveries ²	\$20,108,440
Potential Impact ³	\$ 8,309,409
Total Investigations Dollar Impact	\$28,417,849
¹ Includes referrals to State, local and other Federal law enforcement agencies.	
² Includes administrative recoveries, fines and penalties, restitutions, settlements and judgments, and special assessments.	
³ Includes funds put to better use and potential cost impact.	

DCAA AUDITS OF NASA CONTRACTORS

The Defense Contract Audit Agency (DCAA) provides various audit services to NASA on a reimbursable basis. The following summarizes information provided during this period by DCAA 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 317 audit reports (excluding pre-award contractor proposal evaluations) on contractors who do business with NASA. DCAA also issued 246 reports on audits of NASA contractor proposals totaling \$7.714 billion, which identified cost exceptions totaling about \$95.021 million. These figures include proposals from several contractors bidding on the same contract; therefore, the total amount of exceptions is larger than the amount of potential savings to NASA.

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 DCAA audit reports and amounts of questioned costs and funds put to better use for the reporting period. During this period, NASA management resolved 59 reports with \$23,044,000 of questioned costs, and 45 reports with \$155,472,000 of funds put to better use. NASA management sustained 86 percent of DCAA’s questioned costs and 87 percent of the funds put to better use.

TABLE 13 — DCAA AUDITS WITH QUESTIONED COSTS

	<u>Number of Audit Reports</u>	<u>Total Costs Questioned (In Thousands)</u>
No management decision made by beginning of period	320	\$198,697
Issued during period	48	\$ 37,478
Needing management decision during period	368	\$236,175
Management decision made during period:	59	\$ 23,044
amounts agreed to by management	—	\$ 19,715
amounts not agreed to by management	—	\$ 3,329
No management decision made by end of period:	309	\$213,131

TABLE 14 — DCAA AUDITS WITH RECOMMENDATIONS FUNDS BE PUT TO BETTER USE

	<u>Number of Audit Reports</u>	<u>Total Costs Questioned (In Thousands)</u>
No management decision made by beginning of period	102	\$396,279
Issued during period	65	\$100,090
Needing management decision during period	167	\$496,369
Management decision made during period:	45	\$155,472
Amounts management agreed to by management	—	\$134,704
Amounts not agreed to by management	—	\$ 20,768
No management decision at end of period	122	\$340,897

DCAA AUDITS OF NASA CONTRACTORS

Significant Contract Audits

DCAA Assignment No.: 1201-1999J10100001**Contractor: Teledyne Brown Engineering**

Action Office: NASA George C. Marshall Space Flight Center

DCAA Office: Huntsville Branch Office

Type Audit/Savings: Incurred Cost/\$282,000 (\$93,000 NASA)

An audit of Teledyne Brown Engineering's incurred cost submission resulted in questioned costs of \$282,000, of which \$93,000 are attributable to NASA contracts. (An incurred cost submission is a final indirect rate proposal prepared by the contractor.) The questioned costs resulted from the contractor's misallocation of legal expenses inappropriately charged to the Government, and the claiming of costs that the FAR deems "expressly unallowable." Errors in the contractor's new accounting software allowed fringe benefits cost allocated to unallowable indirect labor to be included as an allowable cost. The audit also led to the successful elimination of a separate general and administrative rate the contractor had established—in violation of Cost Accounting Standards—specifically for a NASA contract.

DCAA Assignment No.: 1701-1998J10100340**Contractor: Federal Data Corporation**

Action Office: NASA Glenn Research Center

DCAA Office: Northern Ohio Branch Office

Type Audit/Savings: Incurred Cost/\$336,000

An audit of Federal Data Corporation's incurred cost submission resulted in savings of \$336,000 on NASA contracts. The savings primarily related to differences between the audited home office allocation amounts and the amounts recorded on the contractor's books and records. The contractor agreed with the audit results and signed a rate agreement letter that included a schedule of allowable costs by contract.

DCAA Assignment No.: 1701-1998J10100085**Contractor: Dynacs Engineering Co.**

Action Office: NASA Glenn Research Center

DCAA Office: Northern Ohio Branch Office

Type of Audit/Savings: Incurred Cost/\$284,000

An audit of Dynacs Engineering Co., Inc.'s incurred cost submission resulted in savings of \$284,000 on NASA contracts. Questioned costs principally were related to understatements in the base used for determining the allocation rate for an indirect cost pool, medical insurance not allocable to government contracts, unallowable awards and bonuses, and overstated rent and direct cost. Although the contractor declined to sign a rate agreement for the local division, the results of the audit were combined with the corporate results and resolved as part of the company-wide incurred cost settlement.

DCAA Assignment No.: 3421-1999D10150001**Contractor: McDonnell Douglas Aerospace-Space & Defense Systems-Huntington Beach**

Action Office: Defense Contract Management Agency – Huntington Beach

DCAA Office: Boeing St. Louis Resident Office

Type of Audit/Savings: Incurred Cost/\$1.6 million (\$840,000 NASA)

An audit of the contractor's incurred cost submission questioned \$1.8 million of indirect costs from the Government's share of costs claimed by the contractor. Significant items questioned included a credit for insurance proceeds for environmental clean-up costs, overhead applicable to unallowable base costs, and facilities capital cost of money for the recorded value of an idle facility. In addition, the contractor removed from its claim a significant write-off of software costs because another DCAA audit found that the costs were not recorded in the proper period. In negotiations, over 90 percent of the questioned costs were sustained, resulting in a reduction of approximately \$1.6 million in the overhead that could be allocated to government contracts. NASA contracts saved about 53 percent of the \$1.6 million, or approximately \$840,000.

DCAA AUDITS OF NASA CONTRACTORS

DCAA Assignment No.: 4701-1998L10150001**Contractor: Rocketdyne Propulsion and Power**

Action Office: NASA George C. Marshall Space Flight Center, Johnson Space Center, and Kennedy Space Center

DCAA Office: Boeing Seal Beach Resident Office

Type of Audit/Savings: Incurred Cost/\$5.4 million (\$3.8 million NASA)

DCAA litigation support of Armed Services Board of Contract Appeals Case No. 51334 resulted in \$5.4 million in savings to the Government, of which \$3.8 million was attributable to NASA contracts. The case concerned the contracting officer's denial of the contractor's claim for \$17.8 million of capital losses on the Rocketdyne Hypersonic Flow Laboratory project that were included in the contractor's 1996 indirect rates. DCAA supported the litigation settlement by:

- Providing accounting analysis and advice to support the government position that independent research and development costs claimed by the contractor were unallowable because the costs exceeded the total amount of independent research and development costs that the contractor may claim.
- Preparing for Alternative Disputes Resolution (ADR) with the DCMA counsel and the contracting officer.
- Providing accounting expertise at the ADR proceedings.
- Assisting the Government in calculating the settlement amount.

As a result of the joint effort, \$7 million of Rocketdyne Hypersonic Flow Laboratory costs were excluded from negotiated indirect rates, resulting in \$5.4 million in savings to the Government.

DCAA Assignment No.: 4231-1999F10100003**Contractor: Daniel, Mann, Johnson & Mendenhall**

Action Office: NASA Ames Research Center

DCAA Office: San Fernando Valley Branch Office

Type of Audit/Savings: Incurred Cost/\$2.0 million (\$1.0 million NASA)

The audit of Daniel, Mann, Johnson & Mendenhall's incurred cost submission resulted in questioned and sustained cost of approximately \$2.0 million. The audit identified math errors,

overstated state taxes, misclassified direct labor costs, and an understatement of the total allocation base. The company concurred in the audit findings, which resulted in \$1.0 million in savings to the NASA Ames Research Center On-Site Architectural and Engineering Services contract.

DCAA Assignment No.: 6501-2001B21000010**Contractor: Lockheed Martin Services, Inc.**

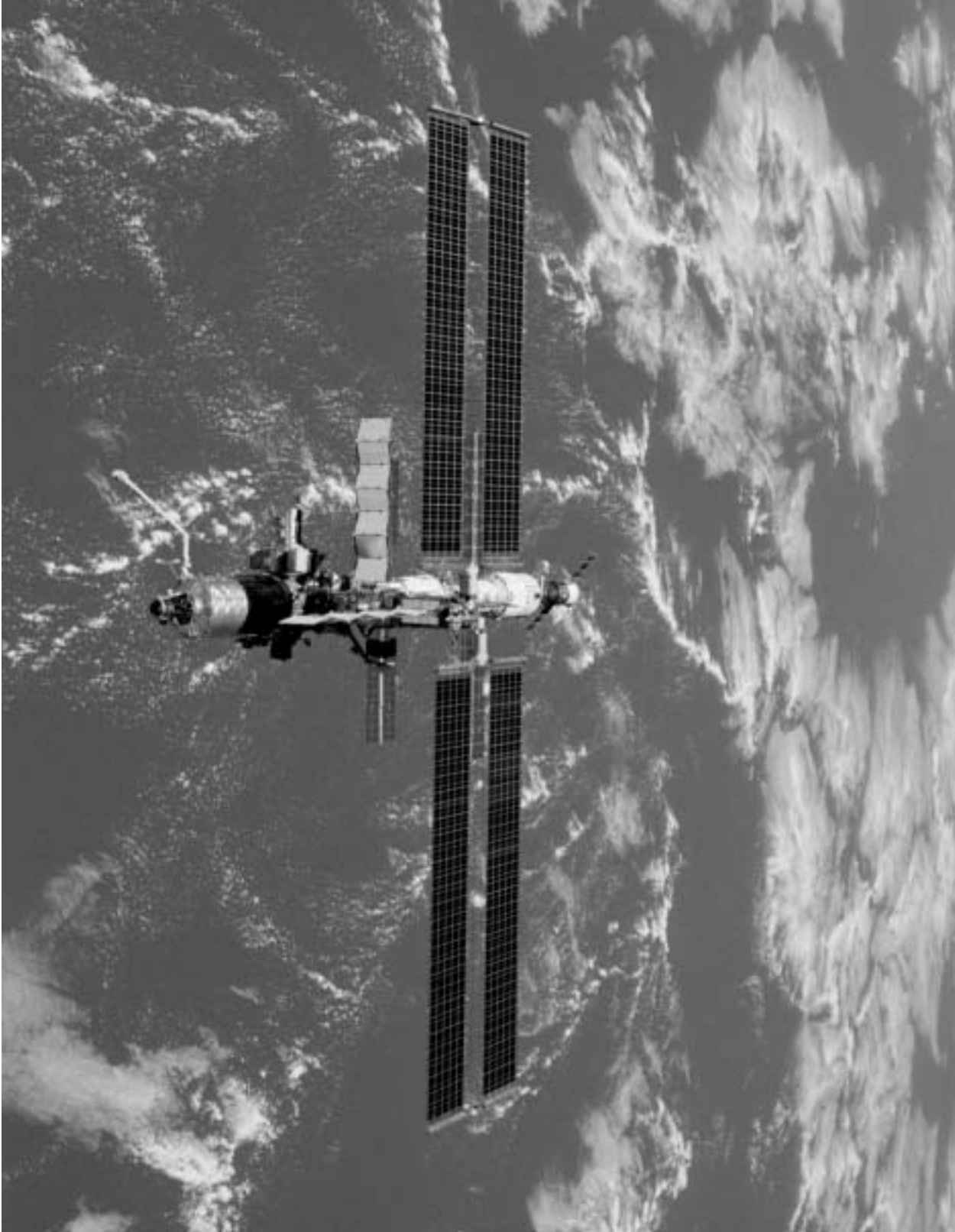
Action Office: NASA George C. Marshall Space Flight Center

DCAA Office: Lockheed Martin Mt. Laurel Resident Office

Type of Audit/Savings: Forward Pricing

Proposal/\$268,000

This audit of a \$14.8 million cost-plus-fixed-fee engineering change proposal resulted in \$268,000 of fixed-fee savings. Lockheed Martin had performed an internal price analysis on a proposed subcontract, resulting in a \$3.3 million decrement to proposed subcontract costs. The impact of the internal price analysis, however, was not reflected in the proposal to the Government. The DCAA audit report incorporated the calculation of \$3.5 million of questioned cost associated with the decremented subcontract costs, plus an allocable share of general and administrative expense. The resulting NASA price negotiation memorandum revealed that the final settlement for material costs included an estimated \$2.9 million attributable to the questioned subcontract costs. This reduction in estimated costs generated approximately \$268,000 of fixed-fee savings.



Glossary

ADMINISTRATIVE INVESTIGATION

Inquiry involving noncriminal allegations of administrative wrongdoing.

DISALLOWED COST

A questioned cost that management, in a management decision, has sustained or agreed should not be charged to the Government.

EXCEPTIONS SUSTAINED

(DCAA definition) Costs which were questioned by auditors and which agency management has agreed are ineligible for payment or reimbursement. Ineligibility may occur for any number of reasons such as: (1) a lack of satisfactory documentation to support claims, (2) contract provisions, (3) public law, and (4) Federal policies or regulations.

FINAL ACTION

(P.L. 100-504 definition) The completion of all actions management has concluded, in its decision, that are necessary with respect to the findings and recommendations included in an audit report; and in the event that management concludes no action is necessary, final action occurs when a management decision has been made.

INVESTIGATIVE RECOVERIES

Investigations by the OIG that may result in the recovery of money or property of the Federal Government. The amounts shown represent: (1) the recoveries which management has committed to achieve as the result of investigations during the reporting period; (2) recoveries where a contractor, during the reporting period, agrees to return funds as a result of investigations; and (3) actual recoveries during the reporting period not previously reported in this category. These recoveries are the direct result of investigative efforts of the OIG and are not included in the amounts reported as the result of audits or litigation.

INVESTIGATIVE REFERRALS

Cases that require additional investigative work, civil or criminal prosecution, or disciplinary action. These 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 in 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

(P.L. 100-504 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.

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 represents 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. Cases declined represent the number of cases referred that are declined for prosecution (not including cases that are settled without prosecution). Indictments and convictions represent the number of individuals or organizations indicted or convicted (including pleas and civil judgments).

QUESTIONED COST

(P.L. 100-504 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 Follow-up Official determines whether the recommended corrective action should be taken.

Appendix D Glossary and Acronyms

RECOMMENDATIONS THAT FUNDS BE PUT TO BETTER USE

(P.L. 100-504 definition) A recommendation by 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

(P.L. 100-504 definition) A cost that is questioned by OIG because OIG found that, at the time of the audit, such cost is not supported by adequate documentation.

Appendix D Glossary and Acronyms

Acronyms

AAP	Advanced Aeronautics Program	NPG	NASA Procedures and Guidelines
ADR	Alternative Disputes Resolution	OA	Office of Audit
CTCO	Computer and Technology Crimes Office	OIA	Office of Inspections and Assessments
DCAA	Defense Contract Audit Agency	OIG	Office of Inspector General
DCMA	Defense Contract Management Agency	OMB	Office of Management and Budget
ECIE	Executive Council on Integrity and Efficiency	PCIE	President's Council on Integrity and Efficiency
FAR	Federal Acquisition Regulation	P.L.	Public Law
FBI	Federal Bureau of Investigation	PKI	Public Key Infrastructure
FY	Fiscal Year	PwC	PricewaterhouseCoopers
IRB	Institutional Review Board	StaR	Systems, Technologies & Resources, Inc.
ISS	International Space Station	TSO	Technical Services Office
IT	Information Technology	USA	United Space Alliance
LMSO	Lockheed Martin Space Operation	USA	Uniting and Strengthening America
NASA	National Aeronautics and Space Administration	PATRIOT	by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism
NASIRC	NASA Incident Response Capability		

