

GO-96-002

AUDIT REPORT

AWARD FEE SUBCONTRACTING

GODDARD SPACE FLIGHT CENTER

JULY 17, 1996

WARNING: This document is a final report of audit issued by the NASA Office of Inspector General (OIG). Contractor information contained herein may be company confidential. The restriction of 18 USC 1905 should be considered before this data is released to the public. Any Freedom of Information Act request for this report should be directed to the NASA Inspector General for processing in accordance with Title 14 Code of Federal Regulations, Part 1206.504.



National Aeronautics and
Space Administration

OFFICE OF INSPECTOR GENERAL

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



JUL 17 1996

Reply to Attn of:

W

TO: 100/Center Director, GSFC

FROM: W/Assistant Inspector General for Auditing

SUBJECT: Award Fee Subcontracting
Assignment No. A-GO-95-008
Report No. GO-96-002

The NASA Office of Inspector General (OIG) has completed an audit of Award Fee Subcontracting at the Goddard Space Flight Center (GSFC). The overall objectives of the audit were to determine whether:

- GSFC prime contractors have uniform policies and procedures in place to evaluate performance of their subcontractors.
- GSFC oversight is sufficient to ensure prime contractors properly administer subcontractor award fees.
- Subcontractor award fees are commensurate with the level of performance received.

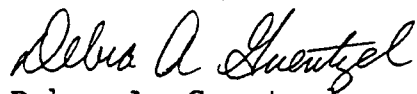
Overall, the audit showed that (1) GSFC prime contractors have uniform policies and procedures in place to evaluate performance of their subcontractors, (2) GSFC oversight is sufficient to ensure prime contractors properly administer subcontractor award fees, and (3) subcontractor award fees are generally commensurate with the level of performance received. While systemic problems were not identified, the audit did show that controls over award fee subcontracting for some specific GSFC contracts require strengthening. Specifically, we identified three areas which require management's attention:

- Required subcontractor reports were either not received or incomplete.
- Available award fee amounts on subcontracts are overstated.
- Subcontractor costs were billed in excess of funding limitations.

Four recommendations are made to GSFC management which, if implemented, will result in improved controls over cost plus award fee subcontracting on specific GSFC contracts.

A draft report was issued on June 11, 1996, requesting written comments. The Center's official response was received on June 26, 1996. The Center's response is included after each recommendation and is presented in its entirety as Attachment I to the report. The response indicates that management has taken corrective actions that are generally considered responsive to the intent of the report's recommendations. We, therefore, consider the recommendations to be closed for reporting purposes.

If you have any questions, please contact Kevin Carson, Audit Field Office Manager, at 301-286-5561; Robert Wesolowski, Director, Audit Division-A or me at 202-358-1232.


Debra A. Guentzel

Enclosure

cc:
JMC/P. Chait
201/J. Clark (w/enclosure)
W/K. Carson (w/o enclosure)

Table of Contents

EXECUTIVE SUMMARY	1
INTRODUCTION	5
OBJECTIVES, SCOPE, AND METHODOLOGY	7
OBSERVATIONS AND RECOMMENDATIONS	11
1. REQUIRED SUBCONTRACTOR REPORTS WERE EITHER NOT RECEIVED OR INCOMPLETE	11
2. AVAILABLE AWARD FEE AMOUNTS ON SUBCONTRACTS ARE OVERSTATED	15
3. SUBCONTRACTOR COSTS WERE BILLED IN EXCESS OF FUNDING LIMITATIONS	19
ATTACHMENT I - GSFC MANAGEMENT RESPONSE	

AWARD FEE SUBCONTRACTING

GODDARD SPACE FLIGHT CENTER

EXECUTIVE SUMMARY

INTRODUCTION

The NASA Office of Inspector General (OIG) has completed an audit of Award Fee Subcontracting at the Goddard Space Flight Center (GSFC). Cost-plus-award-fee (CPAF) contracting is used to encourage contractors to provide the highest quality workmanship at the minimum cost. Many NASA prime contractors also use CPAF contracts for their subcontracted efforts. Subcontractor performance is often evaluated using criteria identical to that used by NASA to evaluate the prime contractor.

During Fiscal Year (FY) 1995, NASA awarded contracts with a total value of approximately \$9.89 billion, of which approximately \$7.48 billion, or 76 percent was for CPAF prime contracts. As of March 1995, GSFC had 57 active CPAF contracts with a total value of approximately \$8.31 billion. A significant portion of the work on these prime contracts was subsequently awarded to subcontractors.

OBJECTIVES

The overall objectives of the audit were to determine whether:

- GSFC prime contractors have uniform policies and procedures in place to evaluate performance of their subcontractors.
- GSFC oversight is sufficient to ensure prime contractors properly administer subcontractor award fees.
- Subcontractor award fees are commensurate with the level of performance received.

RESULTS OF AUDIT

Overall, the audit showed that (1) GSFC prime contractors have uniform policies and procedures in place to evaluate performance of their subcontractors, (2) GSFC oversight is sufficient to ensure prime contractors properly administer subcontractor award fees, and (3)

subcontractor award fees are generally commensurate with the level of performance received. While systemic problems were not identified, the audit did show that controls over award fee subcontracting for some specific GSFC contracts require strengthening. Specifically, we identified three areas which require management's attention:

- Required subcontractor reports were either not received or incomplete.
- Available award fee amounts on subcontracts are overstated.
- Subcontractor costs were billed in excess of funding limitations.

Four recommendations are made to GSFC management which, if implemented, will result in improved controls over CPAF subcontracting on specific GSFC contracts.

1. REQUIRED SUBCONTRACTOR REPORTS WERE EITHER NOT RECEIVED OR INCOMPLETE. Four of the subcontractors on contract NAS5-31000 with AlliedSignal Technical Services Corporation were either not submitting required management reports, or submitting reports that were incomplete. This condition has occurred because prime contractor personnel responsible for monitoring subcontractor performance have not consistently enforced subcontract clauses which require the timely and accurate submission of various management reports. As a result, subcontractor award fees on this contract may be in excess of the amounts actually warranted. Further, substandard subcontractor performance is promoted when award fees are not adjusted to reflect noncompliance with subcontract requirements. (page 11)

2. AVAILABLE AWARD FEE AMOUNTS ON SUBCONTRACTS ARE OVERSTATED. The available award fee amounts on subcontracts under NASA contract NAS5-32600 with Jackson and Tull are overstated. During each evaluation period, the available award fee for each subcontract is being decreased by the amount of fee earned, instead of the fee available. This condition exists because prime contractor personnel do not have formal policies and procedures to follow when preparing award fee modifications for subcontracts. As of January 31, 1995, available award fees for

subcontracts are overstated by approximately \$65,000. Overstating the subcontractor's available award fee could potentially result in the prime contractor paying subcontractors award fees in excess of amounts warranted (this would affect the prime contractor's earned award fee, but not the Government's liability under the contract). (page 15)

3. SUBCONTRACTOR COSTS WERE BILLED IN EXCESS OF FUNDING LIMITATIONS. Two CPAF subcontractors under prime contract NAS5-32600 with Jackson and Tull submitted invoices containing costs in excess of funding limitations. Further, the subcontractors did not notify the prime contractor in writing that additional funds would be required to continue performance of the contract. This occurred because on one of the subcontracts, neither the prime contractor or the GSFC wanted a break in ongoing work while consent from the NASA contracting officer for a new subcontract was pending. Funding limitations were exceeded on the other subcontract because the prime contractor depended on subcontractor monthly financial status reports which identified that funding had been exceeded, but only subsequent to it actually occurring. As a result, two subcontractor invoices containing \$652,554 of costs in excess of funding limitations were received and approved for payment by the prime contractor. (page 19)

RECOMMENDATIONS

We recommend:

1. The GSFC contracting officer for contract NAS5-31000 with AlliedSignal Technical Services Corporation should notify the contractor that subcontract clauses concerning reports listed as deliverables should be enforced. The contractor should further be notified that a subcontractor's failure to provide the required reports in a complete and timely manner should be reflected through a downward adjustment of the subcontractors' award fee.
2. The GSFC contracting officer for contract NAS5-32600 with Jackson and Tull should direct the contractor to take immediate action to adjust the overstated available award fee amounts on all cost-plus-award-fee subcontracts under this contract.

3. The GSFC contracting officer for contract NAS5-32600 should notify Jackson and Tull that they should not approve subcontractor invoices for payment which contain amounts in excess of funding limitations.
4. The GSFC contracting officer for contract NAS5-32600 should notify Jackson and Tull that subcontractors should provide written documentation in accordance with the Federal Acquisition Regulation, section 52.232-22, whenever they believe costs will exceed 75 percent of allotted funds.

INTRODUCTION

The NASA Office of Inspector General (OIG)-has completed an audit of Award Fee Subcontracting at the Goddard Space Flight Center (GSFC). Cost-plus-award-fee (CPAF) contracting is used to encourage contractors to provide the highest quality workmanship at the minimum cost. Many NASA prime contractors also use CPAF contracts for their subcontracted efforts. Subcontractor performance is often evaluated using criteria identical to that used by NASA to evaluate the prime contractor.

The amount of award fee to be paid is determined by periodic evaluations performed in accordance with pre-established rationale and realistic performance criteria outlined in the contract or subcontract Performance Evaluation Plan (PEP). The PEP is a plan developed by either the Government (for prime contractors) or the prime contractor (for subcontractors) and provides both general and specific criteria to use as a basis for evaluating performance. For each designated evaluation category, the PEP describes its criteria and scoring weight. The PEP also identifies the personnel responsible for evaluating performance, and arriving at the official award fee for each evaluation period.

During Fiscal Year (FY) 1995, NASA awarded contracts with a total value of approximately \$9.89 billion, of which approximately \$7.48 billion, or 76 percent was for CPAF prime contracts. As of March 1995, GSFC had 57 active CPAF contracts with a total value of approximately \$8.31 billion. A significant portion of the work on these prime contracts was subsequently awarded to subcontractors.

(THIS PAGE LEFT INTENTIONALLY BLANK)

OBJECTIVES, SCOPE, AND METHODOLOGY

OBJECTIVES

The overall objectives of the audit were to determine whether:

- GSFC prime contractors have uniform policies and procedures in place to evaluate performance of their subcontractors.
- GSFC oversight is sufficient to ensure prime contractors properly administer subcontractor award fees.
- Subcontractor award fees are commensurate with the level of performance received.

SCOPE AND METHODOLOGY

The audit was performed in accordance with generally accepted government auditing standards and included such examinations and tests of applicable records, documents, and management controls as were considered necessary in the circumstances. As part of the audit, we selected eight active GSFC CPAF contracts, with a total value of approximately \$4.2 billion. The contracts selected were each valued in excess of \$100 million, and had one or more CPAF subcontracts. Combined, the eight contracts had 29 CPAF subcontracts with a value of approximately \$748 million.

The eight prime contracts reviewed, and the number of CPAF subcontracts were:

- NAS5-29500, Space Systems/Loral, two CPAF subcontracts
- NAS5-31000, AlliedSignal Technical Services Corporation, four CPAF subcontracts
- NAS5-31500, Computer Sciences Corporation-System Sciences Division, one CPAF subcontract
- NAS5-32350, Hughes STX Corporation, three CPAF subcontracts
- NAS5-32500, Lockheed Martin Astro Space, four CPAF subcontracts

- NAS5-32600, Jackson and Tull, nine CPAF subcontracts
- NAS5-32660, TRW Systems Integration Group, three CPAF subcontracts
- NAS5-33000, Martin Marietta Management and Data Systems, three CPAF subcontracts

For each of the eight contracts selected, we reviewed:

- Prime contract records
- Subcontract records
- Earned award fee evaluations
- Subcontractor award fee processes and evaluations
- Receipt and payment of subcontractor invoices

Interviews were conducted with various GSFC contracting officers, contract specialists, and Performance Evaluation Board (PEB) personnel. In addition, we interviewed prime contractors' subcontract managers and subcontract management personnel.

***MANAGEMENT
CONTROLS
REVIEWED***

The following significant management controls related to award fee subcontracting for GSFC contracts were identified and tested for compliance:

- Subcontract Statements of Work
- Federal Acquisition Regulation (FAR)
- Deliverable Subcontract Reports
- GSFC Form 18-15, "CPAF Contract Individual Event Reports"
- Goddard Management Instruction (GMI) 5151.3E, "Cost Plus Award Fee Contract Administration"

Management control weaknesses were identified and are described in detail in the Observations and Recommendations section of the report.

***AUDIT FIELD
WORK***

Audit field work was conducted from March 1995 through November 1995 at the GSFC, and at each of the eight prime contractor's locations.

(THIS PAGE LEFT INTENTIONALLY BLANK)

OBSERVATIONS AND RECOMMENDATIONS

OVERALL EVALUATION

Overall, the audit showed that (1) GSFC prime contractors have uniform policies and procedures in place to evaluate performance of their subcontractors, (2) GSFC oversight is sufficient to ensure prime contractors properly administer subcontractor award fees, and (3) subcontractor award fees are generally commensurate with the level of performance received. While systemic problems were not identified, the audit did show that controls over award fee subcontracting for some specific GSFC contracts require strengthening. Specifically, we identified three areas which require management's attention:

- Required subcontractor reports were either not received or incomplete.
- Available award fee amounts on subcontracts are overstated.
- Subcontractor costs were billed in excess of funding limitations.

Four recommendations are made to GSFC management which, if implemented, will result in improved controls over CPAF subcontracting on specific GSFC contracts. The results of our review are presented in the following sections.

1. REQUIRED SUBCONTRACTOR REPORTS WERE EITHER NOT RECEIVED OR INCOMPLETE

Four of the subcontractors on contract NAS5-31000 with AlliedSignal Technical Services Corporation were either not submitting required management reports, or submitting reports that were incomplete. This condition has occurred because prime contractor personnel responsible for monitoring subcontractor performance have not consistently enforced subcontract clauses which require the timely and accurate submission of various management reports. As a result, subcontractor award fees on this contract may be in excess of the amounts actually warranted. Further, substandard subcontractor performance is promoted when award fees are not adjusted to reflect noncompliance with subcontract requirements.

Article 19, "Subcontractor Management Reports and Deliverables," is a standard clause in the subcontracts awarded under NASA prime contract NAS5-31000 with AlliedSignal Technical Services Corporation. This article states that the subcontractor shall prepare

several types of management reports including the Triannual Mission Forecast Report. The Triannual Mission Forecast Report shall consist of a technical report which shall serve to comprehensively define what the subcontractor expects to accomplish in the upcoming months, enabling them to highlight areas of concern and/or changes in approach, focus, etc., and a financial report which attaches a dollar value to the operating plan. The prime contractor uses these triannual reports to insure that the subcontractor's perception of the work to be done is comparable to the prime contractor's perception of that work, and that the staffing and purchases planned to accomplish the work is reasonable.

The Performance Evaluation Plan (PEP) states that one of the three evaluation categories under which the subcontractors will be evaluated is Business and Business Management. One of the subcategories under this category, "Fiscal Reporting and Administration," states that the subcontractor will be evaluated on the quality and timeliness of fiscal reporting, as compared to established requirements. Among the reports included are financial reports, cost forecasts, and cost variance analyses.

***REQUIRED
MANAGEMENT
REPORT NOT
RECEIVED FROM
TWO
SUBCONTRACTORS***

According to AlliedSignal's subcontracts manager, the required Triannual Mission Forecast Report has not been received from two subcontractors (Booz-Allen Hamilton, Inc. and Omitron Inc.). Preparation of this report is required by Article 19 of each subcontract. Despite not receiving this report from either subcontractor, no adjustment was made by AlliedSignal to either subcontractor's resulting award fee determination. For example, in the "Fiscal Reporting and Administrative" individual event report for the period October 1, 1994 through January 31, 1995, Booz-Allen Hamilton Inc. was rated as excellent. In the narrative section of the event report, the event monitor stated that "financial reports and financial data have been received from the subcontractor in a timely manner." In the "Fiscal Reporting and Administrative" individual event report for the period October 1, 1994 through January 31, 1995, Omitron Inc. was also rated as excellent. In the narrative section of the report, the event monitor stated that "all financial reports and financial data have been received from the contractor in a timely manner. Further, AlliedSignal considers the fiscal reporting and administration from Omitron to be in the excellent range." These comments and ratings were provided by AlliedSignal even though neither subcontractor has submitted the required Triannual Mission Forecast Report.

***INCOMPLETE
MANAGEMENT
REPORT RECEIVED
FROM TWO
SUBCONTRACTORS***

AlliedSignal's subcontracts manager stated that two other subcontractors (Computer Sciences Corporation and RMS Technologies Inc.) have submitted incomplete Triannual Mission Forecast Reports. Specifically, these subcontractors have submitted only the financial portion of the report, omitting the technical portion. The technical portion of the report is intended to comprehensively define what the subcontractor expects to accomplish during the upcoming months. The technical portion of the report is used by the prime contractor to insure that the subcontractors perception of the work to be done is comparable to the prime contractor's perception of that work.

Despite not receiving the complete triannual report, no adjustment was made by AlliedSignal to either subcontractor's resulting award fee determination. The fact that a required management report was only partially received was not depicted in the supporting documentation for either subcontractor's award fee determination.

This condition occurred because prime contractor personnel responsible for monitoring subcontractor performance have not consistently enforced subcontract clauses which require the submission of the Triannual Mission Forecast Report. When this report is not received or is incomplete, the prime contractor cannot be sure that the subcontractor's perception of the work to be done is the same as the prime's. As a minimum, the GSFC contracting officer should notify the contractor that subcontract clauses concerning reports listed as deliverables should be enforced.

Since the required reports were either not received or were incomplete, subcontractor award fees on this contract may be in excess of the amounts actually warranted. Substandard subcontractor performance is promoted when award fees are not adjusted to reflect noncompliance with subcontract requirements. The contracting officer should further notify the contractor that a subcontractor's failure to provide the required reports in a complete and timely manner should be reflected through a downward adjustment of the award fee.

RECOMMENDATION 1

The GSFC contracting officer for contract NAS5-31000 with AlliedSignal Technical Services Corporation should notify the contractor that subcontract clauses concerning reports listed as deliverables should be enforced. The contractor should further be notified that a subcontractor's failure to provide the required reports

in a complete and timely manner should be reflected through a downward adjustment of the subcontractors' award fee.

***MANAGEMENT
RESPONSE***

Concur. The contracting officer has addressed the issues raised by the OIG report with the contractor. AlliedSignal Technical Services Corporation is currently in the process of modifying the four subcontracts to accurately reflect current reporting requirements versus original contract reporting requirements. Please note that the four subcontractors were providing the information required by the reports through current reporting requirements not yet incorporated into the contract. Therefore, award fees paid under the subcontracts were commensurate with subcontractor performance.

***EVALUATION OF
MANAGEMENT'S
RESPONSE***

The actions taken are considered responsive to the intent of the recommendation.

**2. AVAILABLE
AWARD FEE
AMOUNTS ON
SUBCONTRACTS
ARE OVERSTATED**

The available award fee amounts on subcontracts under NASA contract NAS5-32600 with Jackson and Tull are overstated. During each evaluation period, the available award fee for each subcontract is being decreased by the amount of fee earned, instead of the fee available. This condition exists because prime contractor personnel do not have formal policies and procedures to follow when preparing award fee modifications for subcontracts. As of January 31, 1995, available award fees for subcontracts are overstated by approximately \$65,000. Overstating the subcontractor's available award fee could potentially result in the prime contractor paying subcontractors award fees in excess of amounts warranted (this would affect the prime contractor's earned award fee, but not the Government's liability under the contract).

Article B.4, "Award Fee," is a standard clause in the subcontracts awarded under NASA prime contract NAS5-32600 with Jackson and Tull. This article states that when an award fee payment from the Government is received by the prime contractor, an award fee payment will be made to the subcontractor. Further, payment to the subcontractor will be the same ratio of the subcontractor's available award fee as the prime contractor's payment was to its available award fees.

Subcontract Article H.11, "Performance Evaluation Plan," states that performance of the subcontractor's will be included in the Government's appraisal of the prime contractor's performance. The article further states that subcontractor's will be evaluated in accordance with the prime contractor's Performance Evaluation Plan (PEP). The PEP for contract NAS5-32600 contains no provision allowing the contractor to be paid in future evaluation periods for award fees lost in prior periods that had performance scores of less than 100 percent (rollover). After subcontract award fees are determined each period, a subcontract modification is prepared by the prime contractor to establish the earned fee and the current available fee.

Since the PEP contains no provision for rollover of unearned fees, the available award fee pools for each subcontract should be reduced by the available fee for that period. However, the audit showed that available award fee pools on subcontracts were being reduced after each evaluation period by the earned fees. This practice results in the available award fee pools for subsequent evaluation periods being overstated. Some examples of subcontracts with overstated available

award fee amounts are as follows.

Hughes STX (subcontract 9335-0001)

As of the evaluation period ending January 31, 1995, the available award fee pool on this subcontract was overstated by at least \$12,010. This overstatement occurred because the total available award fee pool was being decreased by the amount of award fee earned during each evaluation period, instead of by the available fee. For example, during the subcontract's first evaluation period (October 1, 1993 through January 31, 1994), the total available fee was \$2,704. The subcontractor earned 75 percent of the available fee or \$2,028. On the modification to the subcontract to establish the earned award fee, the total available fee of \$328,866 was reduced by the fee earned during the period of \$2,028. The available fee was therefore overstated by \$676 (\$2,704 - \$2,028). This also occurred for the three subsequent evaluation periods through January 31, 1995. As a result, the available award fee on this contract is overstated by at least \$12,010.

Litton (subcontract 9335-0003)

As of the evaluation period ending January 31, 1995, the available award fee pool on this subcontract was overstated by at least \$24,039. This overstatement has also occurred because the total available award fee pool was being decreased by the amount of award fee earned during each evaluation period, instead of the available fee. For example, the total amount of fee available for the evaluation period ending January 31, 1995 was \$47,086. Of this amount, the subcontractor earned a total of \$33,943. On the modification to the subcontract to establish the earned award fee, the total available fee of \$455,970 was reduced by the fee earned during the period of \$33,943 instead of the fee available of \$47,086. The available fee was therefore overstated by \$13,143 (\$47,086 - \$33,943). This also occurred during at least two other evaluation periods. As a result, the available award fee on this contract is overstated by at least \$24,039.

The audit showed that the condition identified above concerning the overstatement of available award fee was occurring on a total of eight subcontracts under prime contract NAS5-32600 with Jackson and Tull. We estimate that the overstated amount is at least \$64,831 for the eight subcontracts as detailed in the chart below.

<u>Subcontract Number</u>	<u>Overstated Amount</u>
9335-0001	\$ 12,010
9335-0002	538
9335-0003	24,039
9335-0004	5,953
9335-0006	5,166
9335-0007	1,920
9335-0008	8,002
9335-0009	<u>7,203</u>
TOTAL	\$ <u>64,831</u>

This condition exists because the prime contractor does not have formal policies and procedures in place for subcontract administrators to follow when preparing award fee modifications for subcontracts. Without formal policies and procedures, personnel responsible for preparing subcontractor modifications do not have guidance instructing them on the proper manner of preparation. This has resulted in the available award fee on subcontracts being incorrectly reduced after each evaluation period by the earned fee, instead of the available fee. Overstating the subcontractor's available award fee could potentially result in the prime contractor paying subcontractors award fees in excess of amounts warranted (this would affect the prime contractor's earned award fee, but not the Government's liability under the contract). To correct this condition, the GSFC contracting officer should direct the contractor to take immediate action to adjust the overstated available award fee amounts on all cost-plus-award-fee subcontracts under this contract.

RECOMMENDATION 2

The GSFC contracting officer for contract NAS5-32600 with Jackson and Tull should direct the contractor to take immediate action to adjust the overstated available award fee amounts on all cost-plus-award-fee subcontracts under this contract.

MANAGEMENT RESPONSE

Concur. The contracting officer issued a letter to Jackson and Tull on May 15, 1996, directing the contractor to take immediate action to adjust the overstated available award fee amount on all cost-plus-award-fee subcontracts under contract NAS5-32600 and to establish a procedure to ensure that each award fee subcontract reflects only its award fee earned and remaining award fee available.

EVALUATION OF MANAGEMENT'S RESPONSE

The actions taken are considered responsive to the intent of the recommendation.

(THIS PAGE LEFT INTENTIONALLY BLANK)

3. SUBCONTRACTOR COSTS WERE BILLED IN EXCESS OF FUNDING LIMITATIONS

Two CPAF subcontractors under prime contract NAS5-32600 with Jackson and Tull submitted invoices containing costs in excess of funding limitations. Further, the subcontractors did not notify the prime contractor in writing that additional funds would be required to continue performance of the contract. This occurred because on one of the subcontracts, neither the prime contractor or the GSFC wanted a break in ongoing work while consent from the NASA contracting officer for a new subcontract was pending. Funding limitations were exceeded on the other subcontract because the prime contractor depended on subcontractor monthly financial status reports which identified that funding had been exceeded, but only subsequent to it actually occurring. As a result, two subcontractor invoices containing \$652,554 of costs in excess of funding limitations were received and approved for payment by the prime contractor.

FAR 52.232-22, "Limitation of Funds," states that the Government is not obligated to reimburse the contractor for costs incurred in excess of the total amount allotted by the Government to this contract. It also requires that the contractor notify the contracting officer in writing, whenever it has reason to believe costs will exceed 75 percent of allotted funds. The written notice must state the amount of funds required to continue performance for the period specified.

Jackson and Tull received and approved two subcontractor invoices for payment which contained \$652,554 of costs in excess of funding limitations. Neither of these subcontractors notified the prime contractor in writing that additional funds would be required to continue performance of the contract. Details on the two invoices are as follows.

<u>Subcontract Number</u>	<u>Invoice Number</u>	<u>Cumulative Amount</u>	<u>Funding Amount</u>	<u>Excess Amount</u>
9335-0009	18-63	\$1,194,421	\$553,882	\$640,539
9335-0004	12-K063	606,166	594,151	<u>12,015</u>
Total				\$ <u>652,554</u>

According to representatives of the prime contractor, invoices on subcontract 9335-0009 (OMITRON Inc.) in the cumulative amount of \$1,194,421 were approved for payment as of March 7, 1995, even though total funding on the contract at that time was \$553,882. As a result, a total \$640,539 of costs in excess of funding limitations were incurred, invoiced, and approved by the prime contractor for payment. According to Jackson and Tull's Contracts Manager, the reason for

the invoices being approved for payment was that neither the prime contractor or the GSFC wanted a break in ongoing work while consent from the NASA contracting officer for a new subcontract was pending. He further stated that OMITRON continued to perform their assigned tasks at their own risk. Notwithstanding the subcontractor's acknowledgement of risk, the invoices for payment in excess of funding limitations should not have been approved for payment.

When funding limitations were exceeded on subcontract 12-K063 (OAO Corp.) by \$12,015, the problem was identified by the prime contractor only after reviewing the subcontractor's monthly financial status report. An adjustment to funding was made in the following month. The contracts manager stated that funding for subcontracts is usually provided for two to three month increments. Further, subcontractor funding needs are reviewed only when the monthly financial status reports are received. Regardless of how the funding shortfall was determined, the prime contractor should have been notified in writing by the subcontractor that the funding limitations were going to be exceeded.

RECOMMENDATION 3

The GSFC contracting officer for contract NAS5-32600 should notify Jackson and Tull that they should not approve subcontractor invoices for payment which contain amounts in excess of funding limitations.

***MANAGEMENT
RESPONSE***

Concur. The contracting officer issued a letter to Jackson and Tull on May 15, 1996, notifying the contractor that it should ensure compliance of its subcontractors with the regulations set forth in FAR 52.232-22, "Limitation of Funds." The contracting officer cautioned the contractor not to approve subcontractor payments that are in excess of funding limitations and requested the contractor establish a procedure to prevent this from occurring.

Although GSFC agrees that the subcontractors should have notified the prime contractor in writing when they approached the 75 percent funding limitation, the lack of written notification did not result in any significant programmatic cost or schedule impact. Indeed, the Government is protected by the prime contractor's 75 percent aggregate reporting requirement based on the prime contract's funding limit. GSFC is, however, concerned about apparent poor subcontract management with respect to payment of subcontractor invoices.

***EVALUATION OF
MANAGEMENT'S
RESPONSE***

The actions taken are considered responsive to the intent of the recommendation.

RECOMMENDATION 4

The GSFC contracting officer for contract NAS5-32600 should notify Jackson and Tull that subcontractors should provide written documentation in accordance with FAR 52.232-22, whenever they believe costs will exceed 75 percent of allotted funds.

***MANAGEMENT
RESPONSE***

Concur. The contracting officer issued a letter to Jackson and Tull on May 15, 1996, notifying the contractor that it should ensure compliance of its subcontractors with the regulations set forth in FAR 52.232-22, "Limitation of Funds," and that subcontractors must notify the contractor in writing whenever it has reason to believe costs will exceed 75 percent of the allotted funds. The written notice should state the amount of funds required to continue performance for the period specified. The contracting officer also informed the contractor that the Government has no obligation to reimburse the contractor for costs incurred in excess of the total amount allotted by the Government to the contract, nor does the contractor have that obligation to its subcontractors.

As stated in our response to Recommendation 3, although GSFC agrees that the subcontractors should have notified the prime contractor in writing when they approached the 75 percent funding limitation, the lack of written notification did not result in any significant programmatic cost or schedule impact. Indeed, the Government is protected by the prime contractor's 75 percent aggregate reporting requirement based on the prime contract's funding limit. GSFC is, however, concerned about apparent poor subcontract management with respect to payment of subcontractor invoices.

***EVALUATION OF
MANAGEMENT'S
RESPONSE***

The actions taken are considered responsive to the intent of the recommendation.

Attachment I
Management's Response

National Aeronautics and
Space Administration
Goddard Space Flight Center
Greenbelt, MD 20771



Reply to Attn of: 201

JUN 26 1996

TO: NASA Headquarters
Attn: W/Assistant Inspector General for Auditing

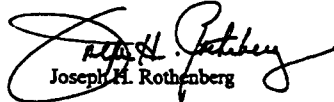
FROM: 100/Director

SUBJECT: GSFC Response to OIG Draft Report on Award Fee Subcontracting,
A-GO-95-008

Enclosed is our response to the subject draft audit report dated June 11, 1996.

We appreciate the opportunity you provided us to contribute to this report and are pleased with your response to management's considerations. We concur with all of your recommendations.

Please call Ms. Barbara Sally at 301-286-8436 if you have any questions or need further information or followup on this response.


Joseph H. Rothenberg

Enclosure

Attachment I
Management's Response

GODDARD SPACE FLIGHT CENTER (GSFC)
RESPONSE TO
OFFICE OF INSPECTOR GENERAL (OIG)
DRAFT AUDIT REPORT A-GO-95-008
DATED JUNE 11, 1996
ON
AWARD FEE SUBCONTRACTING

JUN 26 1996
Date _____

ENCLOSURE

**Attachment I
Management's Response**

GSFC Response to OIG
6/11/96 Draft Report
A-GO-95-008
Page 2

The following is GSFC's response to the four recommendations.

OIG RECOMMENDATION 1: (\$0)

The GSFC contracting officer for contract NAS5-31000 with AlliedSignal Technical Services Corporation should notify the contractor that subcontract clauses concerning reports listed as deliverables should be enforced. The contractor should further be notified that a subcontractor's failure to provide the required reports in a complete and timely manner should be reflected through a downward adjustment of the subcontractor's award fee.

GSFC RESPONSE TO RECOMMENDATION 1: (\$0) CONCUR

The contracting officer has addressed the issues raised by the OIG report with the contractor. AlliedSignal Technical Services Corporation is currently in the process of modifying the four subcontracts to accurately reflect current reporting requirements versus original contract reporting requirements. Please note that the four subcontractors were providing the information required by the reports through current reporting requirements not yet incorporated into the contract. Therefore, award fees paid under the subcontracts were commensurate with subcontractor performance. GSFC considers the action under this recommendation to be closed for reporting purposes.

OIG RECOMMENDATION 2: (\$0)

The GSFC contracting officer for contract NAS5-32600 with Jackson and Tull should direct the contractor to take immediate action to adjust the overstated available award fee amounts on all cost-plus-award-fee subcontracts under this contract.

GSFC RESPONSE TO RECOMMENDATION 2: (\$0) CONCUR

The contracting officer issued a letter to Jackson and Tull on May 15, 1996, directing the contractor to take immediate action to adjust the overstated available award fee amount on all cost-plus-award-fee subcontracts under contract NAS5-32600 and to establish a procedure to ensure that each award fee subcontract reflects only its award fee earned and remaining award fee available. GSFC considers the action under this recommendation to be closed for reporting purposes.

**Attachment I
Management's Response**

GSFC Response to OIG
6/11/96 Draft Report
A-GO-95-008
Page 3

OIG RECOMMENDATION 3: (\$0)

The GSFC contracting officer for contract NAS5-32600 should notify Jackson and Tull that they should not approve subcontractor invoices for payment which contain amounts in excess of funding limitations.

GSFC RESPONSE TO RECOMMENDATION 3: (\$0) CONCUR

The contracting officer issued a letter to Jackson and Tull on May 15, 1996, notifying the contractor that it should ensure compliance of its subcontractors with the regulations set forth in Federal Acquisition Regulation (FAR) 52.232-22, "Limitation of Funds." The contracting officer cautioned the contractor not to approve subcontractor payments that are in excess of funding limitations and requested the contractor establish a procedure to prevent this from occurring.

Although GSFC agrees that the subcontractors should have notified the prime contractor in writing when they approached the 75 percent funding limitation, the lack of written notification did not result in any significant programmatic cost or schedule impact. Indeed, the Government is protected by the prime contractor's 75 percent aggregate reporting requirement based on the prime contract's funding limit. GSFC is, however, concerned about apparent poor subcontract management with respect to payment of subcontractor invoices.

GSFC considers the action under this recommendation to be closed for reporting purposes.

OIG RECOMMENDATION 4: (\$0)

The GSFC contracting officer for contract NAS5-32600 should notify Jackson and Tull that subcontractors should provide written documentation in accordance with FAR 52.232-22, whenever they believe costs will exceed 75 percent of allotted funds.

Attachment I Management's Response

GSFC Response to OIG
6/11/96 Draft Report
A-GO-95-008
Page 4

GSFC RESPONSE TO RECOMMENDATION 4: (\$0) CONCUR

The contracting officer issued a letter to Jackson and Tull on May 15, 1996, notifying the contractor that it should ensure compliance of its subcontractors with the regulations set forth in FAR 52.232-22, "Limitation of Funds," and that subcontractors must notify the contractor in writing whenever it has reason to believe costs will exceed 75 percent of the allotted funds. The written notice should state the amount of funds required to continue performance for the period specified. The contracting officer also informed the contractor that the Government has no obligation to reimburse the contractor for costs incurred in excess of the total amount allotted by the Government to the contract, nor does the contractor have that obligation to its subcontractors.

As stated in our response to Recommendation 3, although GSFC agrees that the subcontractors should have notified the prime contractor in writing when they approached the 75 percent funding limitation, the lack of written notification did not result in any significant programmatic cost or schedule impact. Indeed, the Government is protected by the prime contractor's 75 percent aggregate reporting requirement based on the prime contract's funding limit. GSFC is, however, concerned about apparent poor subcontract management with respect to payment of subcontractor invoices.

GSFC considers the action under this recommendation to be closed for reporting purposes.

