IG-00-054

AUDIT REPORT

PROPERTY ADMINISTRATION DELEGATIONS FOR CONTRACTOR-HELD PROPERTY

September 27, 2000

National Aeronautics and
Space Administration

OFFICE OF INSPECTOR GENERAL

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Acronyms

DOD	Department of Defense
DCMA	Defense Contract Management Agency
FAR	Federal Acquisition Regulation
IPO	Industrial Property Officer
ONR	Office of Naval Research
NPD	NASA Policy Directive
NPG	NASA Policy Guidance

W September 27, 2000

TO: A/Administrator

FROM: W/Inspector General

SUBJECT: INFORMATION: Property Administration Delegations for Contractor-Held Property
Report Number IG-00-054

The NASA Office of Inspector General (OIG) is conducting an audit of NASA and delegated Agency management of contractor-held property. During the audit, we determined that controls for delegating property oversight responsibility could be improved. For example, property administration delegations were not completed for 10 contracts with more than $12 million in contractor-held property. In addition, delegation issues were not resolved between Johnson Space Center (Johnson) and Kennedy Space Center (Kennedy) for three contracts with more than $1.9 billion in contractor-held property. Consequently, neither Center is performing the property administration oversight for this property. As a result, NASA is not assured that these resources are used and safeguarded in accordance with the contract's terms and conditions.

Background

NASA provides Government property, referred to as contractor-held property, to its contractors. While NASA has overall responsibility for this property, the Agency can either retain property administration oversight or delegate this function to the Defense Contract Management Agency (DCMA). NASA's policy is to delegate property administration for off-site contractors and retain property administration for on-site contractors. One of the critical oversight functions is the analysis of the contractor's property management system. It is through this analysis that property administrators determine whether the contractor is complying with the contract terms and conditions regarding property. The analysis results in a report that is provided to the contracting officer.

Recommendation

We recommended that the Associate Administrator for Procurement instruct Procurement officials at Johnson and Marshall Space Flight Center (Marshall) to issue delegation letters to DCMA and obtain acceptance, modification, or rejection of those delegations for the 10 contracts noted earlier. We also recommended that the Associate Administrator for Procurement strengthen controls to ensure that NASA complies with Federal Acquisition

Regulation (FAR) and NASA FAR Supplement regulations that address property administration. We further recommended that Center Directors at Johnson and Marshall ensure that contracting officers comply with the FAR and the NASA FAR Supplement pertaining to property administration. Also, we recommended that Center Directors at Johnson and Kennedy complete the property delegation for the three contracts noted earlier.

Management Response and OIG Evaluation

Management concurred with our recommendations. The complete text of management's response is in Appendix F. Management, however, is not fully responsive to our recommendation to issue delegation letters to DCMA for the ten contracts noted earlier. Management stated that delegations were not needed for six of the ten contracts because the contracting officer retained the property administration responsibility. This property is not located at NASA Centers. NASA's policy is to delegate property administration for property that is not located at NASA Centers. Accordingly, property administration should be delegated for those contracts. We request that management provide additional comments explaining the reasons for not following the policy. Management fully concurred with our recommendation to strengthen administrative controls to ensure compliance with the FAR and NASA FAR Supplement. Management also fully concurred with our recommendation to instruct the Johnson and Marshall Center Directors to ensure that contracting officers comply with the FAR and NASA FAR Supplement pertaining to property administration. Management provided corrective actions along with closure dates for these recommendations. The planned corrective actions, such as assessing regulatory efficacy and issuing guidance, address the intent of our recommendations. While management concurred with the recommendation to resolve the property administration issue at Kennedy, it did not provide a completion date. Completion includes accepting the delegation and providing adequate resources to perform the contractor oversight. Therefore, we request that management provide a completion date in response to the final report.

Details on the status of the recommendations are in the finding section of the report.

[Original signed by]

Roberta L. Gross

Enclosure
Final Report on Audit of Property Administration
Delegations for Contractor-Held Property

PROPERTY FINAL REPORT
ADMINISTRATION
DELEGATIONS FOR CONTRACTOR-HELD PROPERTY

W September 27, 2000

TO: H/Associate Administrator for Office of Procurement
M/Associate Administrator for Space Flight
AA/Director, Lyndon B. Johnson Space Center
AA/Director, John F. Kennedy Space Center
DA01/Director, George C. Marshall Space Center

FROM: W/Assistant Inspector General for Auditing

SUBJECT: Final Report on Audit of Property Administration Delegations for Contractor-Held Property
Assignment Number A0000700
Report Number IG-00-054

The subject final report is provided for your use and comments. Please refer to the Executive Summary for the overall audit results. Our evaluation of your response is incorporated into the body of the report. We request that management reconsider its position not to delegate property administration on selected contracts for which property is located off NASA Centers as set forth in the report and provide its comments in writing by November 27, 2000. The corrective actions planned for recommendations 2 and 3 were responsive. The planned management's actions, if implemented, will be sufficient to close recommendations 2 and 3. We request additional information for recommendation 4 as described in the report. All recommendations will remain open until the above actions are taken.

If you have questions concerning the report, please contact Mr. Daniel Samoviski, Program Director, Earth and Space Science Audits, at (301) 286-6890, or Mr. Larry J. Timmons, Auditor-in-Charge, at (321) 867-4705. We appreciate the courtesies extended to the audit staff. The final report distribution is in Appendix G.

[Original signed by]

Russell A. Rau

Enclosure

cc:
B/Chief Financial Officer
B/Comptroller
BF/Director, Financial Management Division
G/General Counsel
JM/Acting Director, Management Assessment Division

Contents

NASA Office of Inspector General

IG-00-054 **September 27, 2000**
A0000700

Property Administration Delegations for Contractor-Held Property

Executive Summary

Background. NASA accomplishes much of its mission through the use of contractors. The Agency often provides its contractors Government-furnished property, or the contractors acquire property using NASA funds.[1] In either case, NASA often retains title or ownership of the property while it is in the custody of contractors. Contractors are required to manage and account for NASA property in accordance with the FAR and the NASA FAR Supplement as well as other directives and contractual requirements. To ensure they comply with these requirements, contractors develop and maintain property management systems.

While NASA has overall responsibility for oversight of contractors' property management systems, the Agency normally delegates this responsibility to either the DCMA or the Office of Naval Research (ONR). NASA retains responsibility for contractors located on or near NASA Centers, depending on the Center's guidelines. The NASA Industrial Property Officer (IPO) has overall responsibility for contractor oversight, while NASA property administrators are responsible for detailed oversight of the contractors' property management system.

Objective. The overall audit objective is to determine whether NASA and its delegated agencies appropriately manage Government property held by contractors. This report identifies conditions regarding property administration delegations. We will address the overall objective in future reviews. Details on the objective, scope, and methodology are in Appendix A.

Results of Audit. While property delegations were properly completed at Goddard Space Flight Center, property delegations were not properly completed or resolved in all instances at other NASA Centers**.** Specifically, NASA contracting officers at Marshall and Johnson did not formally delegate or DCMA did not acknowledge receipt of property administration responsibilities, for 10 contracts with contractor-held property totaling $12 million. Also, the IPO at Kennedy did not accept property administration delegations for three Johnson contracts with contractor-held property at Kennedy valued at more than $1.8 billion. Consequently, property administrators did not perform any property

[1] This property is referred to as contractor-held property throughout the report.

administration functions for these contracts. Accordingly, NASA is not assured that its resources, in the possession of contractors, are being utilized and safeguarded consistent with the contract's terms and conditions.

Recommendations. We recommended that management instruct the appropriate contracting officers to delegate property administration to the DCMA and ensure that DCMA accepts, modifies, or rejects the delegation for the identified contracts. Also, management should strengthen administrative controls to ensure that the Agency is in compliance with the FAR and the NASA FAR Supplement regulations that address property administration. Lastly, management should resolve the property administration issue for the Johnson property located at Kennedy.

Management's Response and Evaluation of Response

Management's Response. Management concurred with our recommendations. While management agreed to issue delegation letters for four contracts, they stated that six of the contracts should not be delegated to DCMA because the contracting officer retained property administration oversight. NASA also agreed to review pertinent NASA FAR Supplement regulations and determine whether the regulations should be strengthened. NASA further agreed to remind contracting officers of the need for delegating property administration functions when appropriate. NASA stated it would resolve the property administration issue for the Johnson property located at Kennedy. The complete text of the response is in Appendix F.

Evaluation of Response. While management concurred in principle with each recommendation, we request that management reconsider its position on our recommendation to issue delegation letters to DCMA and provide additional comments. We have also asked management to provide a completion date relating to our recommendation to resolve the Kennedy delegation issue. Management is not fully responsive to our recommendation to issue delegation letters to DCMA. Management stated that property delegations were unnecessary for six contracts because the contracting officer retained this function. This property, however, is not located at NASA Centers. Management's position does not agree with their stated policy of delegating property oversight to DCMA for off-site property. Accordingly, we request that they reconsider their position. Management concurred with our recommendation to strengthen FAR and NASA FAR Supplement controls. Management also concurred with our recommendation to ensure that contracting officers at Johnson and Marshall comply with FAR and NASA FAR Supplement regulations governing property administration. All recommendations will remain open until all corrective actions have been taken.

Introduction

The FAR and NASA FAR Supplement provide guidance and direction to NASA contracting officers for delegating contract administration services, such as property administration. These requirements are set forth in FAR Subpart 42.2, "Contract Administration Services," and NASA FAR Supplement Part 1842, "Contract Administration and Audit Services."

NASA may delegate responsibility to oversee a contractor's property management system to DCMA or ONR. The DCMA oversees for-profit contractors, while the ONR oversees non-profit and educational organizations. NASA retains oversight responsibility for contractors located on or near NASA Centers depending on a Center's guidelines. NASA property administrators oversee contractor's property management systems under the direction of an IPO.

The FAR and NASA FAR Supplement also provide guidance and direction to contractors who manage and account for property either provided to them by NASA or acquired using Government funds. These requirements are set forth in FAR Part 45, "Government Property," and NASA FAR Supplement Part 1845, "Government Property." Contractors may also have to comply with other property management directives if the contracting officers include these requirements in the contract. For example, NASA may include NPG 4300.1, "NASA Personal Property Disposal Procedures and Guidelines," in contracts that involve NASA property. Contractors develop property management systems to ensure that they comply with these requirements.

Finding and Recommendations

Property Administration Functions

NASA contracting officers at Johnson and Marshall did not issue property administration delegations or ensure that DCMA properly acknowledged acceptance, modification, or rejection of the delegations for 10 contracts as required by the FAR and NASA FAR Supplement. In addition, the Kennedy IPO did not accept property administration delegations for three other Johnson contracts. Contracting officers could not provide reasons for the lack of delegations and the lack of DCMA acknowledgement of the delegations. The Kennedy IPO, however, stated that resource limitations prevented acceptance of the Johnson delegation. Consequently, property administration functions have not been performed, resulting in NASA's lack of assurance that more than $1.9 billion in contractor-held property is managed appropriately.

Requirements and Guidance for Property Administration Delegation

The FAR and NASA FAR Supplement contain requirements and guidance on contract administration that includes property administration. NASA can either retain the property administration function or delegate it to the DCMA. The process begins with the NASA contracting officer issuing the delegation on NASA Form 1430, "Letter of Contract Administration Delegation, General." Property administrators can accept, modify, or reject the delegation. Acceptance is evidenced on NASA Form 1431, Letter of Acceptance of Contract Administration Delegation." Further information on property administration requirements and guidance is in Appendix B.

When overseeing a contractor's property management system, DCMA and NASA personnel must follow the Department of Defense (DOD) guidance in DOD 4161.2-M, "DOD Manual for the Performance of Contract Property Administration" (DOD Manual). The purpose of property administration, according to the DOD Manual, is to attain efficient, economic, and uniform management of contractor-held property. The manual identifies 23 functions, as shown in Appendix C, that property administrators must perform.

A critical property management function is the annual analysis of the contractor's property management system. The analysis includes 15 elements, which are described in Appendix D. The purpose of the analysis is to ensure uniformity and consistency in the administration of contract provisions relating to Government property in the custody of contractors. The DOD Manual specifies the levels of analysis, sampling plans and techniques, planning, and reporting that the property administrator must use. It is through performing this analysis that property administrators determine whether contractors are complying with contract terms and conditions regarding property. The property administrator's analysis results in an annual report submitted

to the contracting officer for use in assessing whether a contractor complied with contract terms and conditions.

Compliance with Property Administration Delegation Requirements and Guidance

We reviewed contract files for 119 contracts with contractor-held property totaling $11 billion at 4 NASA Centers to determine whether property administration delegation requirements and guidance were followed. For 10 contracts with more than $12 million in contractor-held property, Marshall and Johnson contracting officers did not issue property administration delegations and, in some cases, DCMA did not acknowledge that it accepted, modified, or rejected the delegation. We interviewed contracting officers, property administrators, and IPOs at Johnson and Marshall to determine why delegation requirements were not being met. The interviewed personnel could not explain why property administration was not delegated or accepted, modified, or rejected by DCMA.

Johnson Request for Property Administrative Services

The Johnson IPO appropriately requested that the Kennedy IPO perform contract property administration services for three contracts with more than $1.8 billion in contractor-held property located at Kennedy. The Johnson IPO used NASA Forms 1430 and 1431 when requesting the services. The requests complied with NASA FAR Supplement Subpart 1845.7209, which states that contractor-held property may be located at an alternate or different location from the prime contractor. In those cases, the IPO at the prime contractor's location will determine whether property administration is needed at the alternate location. If the IPO determines that property administration is needed, then the IPO will request the alternate location IPO to perform the services.

The Kennedy IPO stated that resource limitations prevented acceptance of the Johnson requests for property delegation. The resource limitations are evidenced by a recent reorganization at Kennedy, which reduced the number of property administrators from four to three thereby reducing the Center's ability to manage contractor-held property.

Performance of Property Administration Functions

The 13 contracts (see Appendix E) for which property administration functions are not being performed totaled more than $1.9 billion. If property administration services are not performed, then serious consequences can occur. For example, one of the functions listed in the DOD manual is the annual analysis of the contractor's property management system. If the analysis is not performed, then NASA cannot rely on a contractor's property system. It is through the analysis that the property administrator determines whether the contractor is effectively and efficiently complying with the terms and conditions of the contract. The system analysis may identify unsatisfactory conditions, such as inadequate controls for safeguarding Government

property. These unsatisfactory conditions may, in turn, lead to the disapproval of the contractor's property control system and a subsequent increase in the contractor's liability for the loss, damage, or destruction of Government property. Because the property administration functions were not performed, NASA cannot be assured that its Government resources, in the possession of contractors, are being utilized consistent with the intent of the contract's terms and conditions.

The lack of acceptance of property administration responsibilities by the Kennedy IPO is in need of immediate attention because of the value and sensitivity of the property in question. Kennedy and Johnson need to resolve this issue quickly to ensure that the contractors are following contract terms and conditions and that contracting officials are advised of property administration deficiencies. NASA FAR Supplement 1842.202 requires that the delegation be accepted, modified, or rejected on NASA Form 1431.

Control Improvements Needed

The Agency should establish a milestone date for delegating contract administration functions, such as property administration. Contract administration delegations are evidenced on the "Checklist for Contract Award File Content" document, which is included in contract award files. The control would help to ensure that contract administration delegations are made and completed by the contracting officer or his representative in a timely manner.

In addition, the Agency should strengthen contract administration controls to ensure that contracting officers receive property administration reports. For example, the controls should ensure that property administration reports are received annually or that the contracting officer is formally advised as to why it was not received. Such controls would result in assurance that contract provisions are properly administered and those contracting officials are advised of any contractor property administration deficiencies.

Conclusion

In some instances, contracting officers are not delegating property administration to DCMA property administrators as required by the FAR or NASA FAR Supplement. Also, NASA contracting and property officials have not ensured that DCMA acknowledged receipt and acceptance of delegations. If property administration functions are not performed, then NASA has reduced assurance that contractor-held property is managed appropriately.

Recommendations, Management's Response, and Evaluation of Response

1. **The Associate Administrator for Procurement should instruct the Johnson Director of the Procurement Directorate and the Marshall Director of the Procurement Office to direct their respective contracting officers to immediately issue delegation letters to DCMA for those contracts that have not been delegated and to obtain acceptance, modification, or rejection for those contracts for which the DCMA has not responded to the delegation request.**

Management's Response. Concur. The Associate Administrator for Procurement (Associate Administrator) contacted the respective contracting officers at Johnson and Marshall to ensure that delegations will be issued and acceptances obtained where necessary.

The Associate Administrator stated that Johnson has taken appropriate action for two contracts listed in the report. The contracting officer submitted the property administration delegation for the Canadian Commercial Corporation (NAS9-19569). The IPO has oral confirmation that it has been received and will be accepted. The contracting officer and IPO are awaiting acceptance. The contracting officer sent a delegation request to DCMA for Honeywell, Inc. (NAS9-19605). The contracting officer will follow up to ensure a written acceptance is received.

The Associate Administrator further stated that the Marshall Procurement Office has taken appropriate action for those contracts listed in the report. Delegations were not made for six Small Business Innovative Research Phase II type contracts. The Associate Administrator stated these contracts are part of a continuous improvement initiative aimed at streamlining property administration for small, short-duration contracts, which involve no contractor-held property. Accordingly, the contracting officers retained property administration for these contracts. However, the Associate Administrator stated that property delegations were made for the Thiokol contract (NAS8-97238) and that DCMA accepted the delegation on January 27, 2000. The complete text of management's response is in Appendix F.

Evaluation of Response. Management's comments are not fully responsive to the recommendation. The actions taken by Johnson are appropriate, but not complete. We consider the delegations complete when they are accepted by DCMA. We do not agree that the actions taken by Marshall are appropriate. This property is located at off-site contractor locations. NASA should follow its policy of delegating property administration to DCMA for off-site contractors. Accordingly, we maintain our position that property delegations should be completed for these contracts. We, therefore, request that management reconsider its position and provide comments explaining the reasons for not following this policy.

We concur with management that property administration for the Thiokol contract (NAS8-97238) has been delegated and accepted. We believed that this contract had not been delegated because we were provided documentation that showed that the contracting officer signed the Thiokol property delegation (Form 1430) on March 1, 2000. Subsequent

information showed that the delegation was made and accepted in January 2000. Accordingly, we removed the Thiokol contract from Appendix E and revised the report accordingly.

The recommendation is not resolved and will remain undispositioned and open until the property delegations for the Johnson contracts are completed and the delegation issue for the Marshall contracts is resolved.

2. **The Associate Administrator for Procurement should strengthen administrative controls to ensure that NASA complies with the FAR and NASA FAR Supplement regulations that address property administration. Specifically, NASA should establish milestone dates for NASA issuance of delegations on new contract awards and develop controls that ensure that annual property system analysis reports are received in a timely manner.**

Management's Response. Concur. Management stated that it will review the current NASA FAR Supplement. A corrective action official and closure official have been selected. The projected closure date for this action is March 31, 2001 (see Appendix F).

Evaluation of Response. The Associate Administrator's planned actions are responsive to the recommendation. The recommendation is resolved but will remain undispositioned and open until agreed-to corrective actions are completed.

3. **The Center Directors at Johnson and Marshall should ensure that contracting officers comply with FAR and the NASA FAR Supplement regulation pertaining to property administration.**

Management's Response. Concur. The Johnson Center Director stated that the Johnson IPO will address the Johnson Procurement Forum on November 8, 2000, and will cover the need for contracting officers to delegate remote contracts. Johnson is also considering spot checks on contracting officer files to verify that delegations have been made and accepted. The Marshall Center Director stated that the Procurement Office would issue guidance by December 31, 2000, to all contracting officers on the importance of complying with pertinent regulations (see Appendix F).

Evaluation of Response. The Center Director's planned actions are responsive to the recommendation. We encourage Johnson to issue guidance similar to that of Marshall. The recommendation is resolved but will remain undispositioned and open until agreed-to corrective actions are completed.

4. **The Center Directors at Johnson and Kennedy should resolve the property administration issue at Kennedy. Resolution should result in either Kennedy**

acceptance of the property administration delegation and assurance that adequate resources will be provided to properly oversee the contractors or Johnson retention of the property administration function.

Management's Response. Concur. The Johnson IPO is modifying delegation acceptance letters dated June 30, 2000. The modifications reflect changes in personnel and changes in responsibilities that resulted from the FY 2000 Industrial Property Conference (see Appendix F).

Evaluation of Response. The Center Director's planned actions are responsive to the recommendation. The response, however, does not project when the acceptance letters will be finalized. Accordingly, we request that management provide a closure date for this recommendation. The recommendation is resolved but will remain undispositioned and open until the letters are finalized and adequate resources are provided to oversee the contractors.

Appendix A. Objectives, Scope, and Methodology

Objective

Our overall objective, which will be addressed in future reviews, is to determine whether NASA and its delegated agencies appropriately manage Government property held by contractors. This report specifically addresses conditions regarding delegation of property administration.

Scope and Methodology

The audit scope focused primarily on property administration delegations made on or before February 29, 2000. We made limited reviews of Government property management, which we will address, in subsequent reviews. We reviewed contract documentation for 119 contracts with more than $11 billion in contractor-held property to determine whether property administration requirements and guidance was followed. We did not review any ONR contracts. We reviewed pertinent audit reports and relevant DOD and NASA guidance. We interviewed program and contractor personnel to understand property administration delegation. We did not assess the reliability of computer-processed data because our survey raised concerns about the validity and reliability of this data. We plan to address this issue in a future review.

Management Controls Reviewed

We reviewed the following management controls:

- FAR Part 42, "Contract Administration and Audit Services," Subpart 42.2, "Contract Administration Services," and Subpart 42.3, "Contract Administration Office Functions," states that property administration can be delegated.

- FAR Part 45, "Government Property," Subpart 45.3, "Providing Government Property to Contractors," describes policies and procedures for providing Government property to contractors.

- FAR Part 45, "Government Property," Subpart 45.5, "Management of Government Property in the Possession of Contractors," prescribes the minimum requirements contractors must meet in establishing and maintaining control over Government property.

- NASA FAR Supplement Part 1845, "Government Property," Subpart 1845.1, "General," states that NASA will use DOD Manual 4161.2-M, "Manual for the Performance of Contract Property Administration," when reviewing a contractor's property administration system.

- NASA FAR Supplement Part 1845, "Government Property," Subpart 1845.72, "Contract Property Management," Section 1845.7203, "Delegations of Property Administration and Plant Clearance," states that when property administration is delegated to DOD, property administration will be performed in accordance with DOD regulations and procedures.

- NASA FAR Supplement Part 1845, "Government Property," Subpart 1845.72, "Contract Property Management," Section 7204, "Retention of property administration and plant clearance," states that NASA may occasionally retain the property administration and plant clearance functions.

- DOD Manual 4161.2-M, "DOD Manual for the Performance of Contract Property Administration," sets forth instructions to ensure uniformity and consistency in the administration of the contract provision relating to Government property in the possession of contractors.

Audit Field Work

We performed the audit field work from October 1999 through July 2000. We conducted the audit in accordance with generally accepted government auditing standards.

Appendix B. FAR and NASA FAR Supplement Guidance

The FAR and NASA FAR Supplement provide guidance for contract administration, which includes property administration delegation and acceptance. The guidance includes the following:

- **FAR Subpart 42.2, "Contract Administration Services."** This subpart describes contract administration responsibilities and assignment of contract administration.

- **FAR Subpart 42.3, "Contract Administration Office Functions."** This section lists the various functions, such as property administration, that can be delegated.

- **NASA FAR Supplement Part 1842, "Contract Administration and Audit Service**s." This part describes the assignment of contract administration (delegation and acceptance) process.

- **NASA FAR Supplement Subpart 1845.1, "General."** This subpart states that property administration is normally delegated unless NASA retains property administration. This subpart also states that property administrators will use the DOD Manual for the Performance of Contract Property Administration.

- **NASA FAR Supplement Subpart 1845.72, "Contract Property Management."** This subpart provides a general description of contract property management.

- **NASA FAR Supplement Subpart 1845.7209-1, "Government property at alternate locations of the prime contractor and subcontractor plants."** This subpart provides property administration delegation and acceptance procedures to be followed whenever a NASA Center delegates property administration to another NASA Center.

Appendix C. Property Management Functions

DOD Manual for the Performance of Contract Property Administration lists 23 duties and responsibilities that a property administrator must perform. These include:

1. Administering contract provisions, requirements, and obligations relating to contractor-held property.

2. Participating in pre-award surveys and postaward reviews.

3. Reviewing contracts to ensure that property is identified and applicable provisions are included.

4. Ensuring that contractor property organizations are aware of and understand applicable provisions of Government contracts dealing with contractor-held property.

5. Establishing contract property control data files.

6. Providing a contracting officer with recommendations concerning contractor liability for property loss, damage, or destruction.

7. Granting relief of responsibility for property loss, damage, or destruction.

8. Performing functions described in FAR 45.5, "Management of Government Property in the Possession of Contractors."

9. Developing and applying a property system analysis.

10. Evaluating the contractor's property management system.

11. Advising NASA officials of contractor's noncompliance with contract terms.

12. Notifying contracting officer of excessive acquisition by the contractor.

13. Performing reviews of property acquisition, control, management, use, and disposition.

14. Supporting and assisting contractor's management.

15. Reviewing Government-furnished material for receipt and reconciliation.

16. Providing guidance, counsel, and direction to Government and contract managers.

17. Ensuring that the contractor promptly reports excess property.

Appendix C

18. Supporting the assigned Plant Clearance Officer.

19. Obtaining and reviewing contractually required reports.

20. Preparing and reviewing other reports prescribed by higher headquarters.

21. Requesting supporting property administration.

22. Performing supporting property administration.

23. Recognizing the functions of other Government personnel having cognizance of property, and obtaining their assistance when required.

Appendix D. Property Management System Analysis Elements

The DOD Manual for the Performance of Contract Property Administration lists 15 system analysis techniques by property function:

1. **Property Management**. Ensures that the contractor establishes and maintains an approved property control system.

2. **Acquisition**. Ensures that only contractually approved items are bought or fabricated.

3. **Receiving.** Ensures that damaged or missing items are resolved and that accepted items are properly recorded.

4. **Identification**. Ensures that property is properly identified, marked, and recorded.

5. **Records**. Ensures proper accountability of property.

6. **Movement**. Ensures that property is moved under the proper authority, with appropriate documentation and adequate protection.

7. **Storage**. Ensures that stored property is controlled, protected, and preserved.

8. **Physical Inventories**. Ensures that the contractor schedules and performs inventories in accordance with the contractor's approved property control system.

9. **Reports Preparation**. Ensures that the contractor's property reports are timely, accurate, and complete.

10. **Materials Consumption**. Ensures that materials are consumed in accordance with contract requirements and are not diverted to other work.

11. **Utilization.** Ensures that the contractor used property in accordance with the contract terms and conditions.

12. **Maintenance**. Ensures that the contractor established and follows an appropriate method of maintaining property.

13. **Subcontract Control**. Ensures that the contractor established adequate subcontract control.

14. **Disposition**. Ensures that the contractor has a system for disclosing excess property and effecting its timely disposition.

15. **Contract Close-Out**. Ensures that the contractor has a method to ensure completion of all contract closeout actions related to property.

Appendix E. Contracts Without Completed Contract Delegations

Contract Number	Contractor	Property Value
Johnson		
NAS9-19569	Canadian Commercial Corporation	$ 4,720,214
NAS9-19605	Honeywell, Inc.	282,705
NAS9-97199	Spacehab*	15,551,122
NAS9-98100	Lockheed-Martin*	581,460,942
NAS15-10000	The Boeing Company*	1,291,989,965
	Subtotal	**$ 1,894,004,948**
Marshall		
NAS8-40369	Ion Electronics	$ 12,628,181
NAS8-97017	Physical Sciences	23,642
NAS8-97036	Sohar	21,067
NAS8-97309	University of Arizona	7,757
NAS8-98028	Makel Engineering	10,000
NAS8-98077	Digital Optical	14,271
NAS8-98086	X-Ray Optical	55,331
NAS8-99076	Adroit Systems	1,914
	Subtotal	**$ 12,762,163**
	Grand Total	**$ 1,906,767,111**

* The Kennedy IPO did not accept property administration responsibility for these contracts.

Appendix F. Management's Response

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

SEP. 1 4 2000

Reply to Attn of:
HK

TO: W/Assistant Inspector General for Auditing

FROM: HK/Director, Contract Management Division

SUBJECT: Code H Response to OIG Draft Audit Report on Property Administration Delegations for Contractor-Held Property Assignment No. A0000700

Enclosed is our response to the subject report dated August 18, 2000.

Please call Jim Dolvin at (202) 358-1279 or Jack Horvath at (202) 358-0456 if you have any questions or need further coordination on this matter.

R. Scott Thompson

Enclosure

Cc: JM/M. Team
IG-GSFC/D. Samoviski
GSFC/J. Clark
JSC/P. Ritterhouse
MSFC/D. Walker
KSC/J. Nary
JG/B. Wilchek

Appendix F

Headquarters Office of Procurement

Response To

Office of Inspector General (OIG)

Draft Report Assignment Number A0000700

Dated August 18, 2000

Property Administration Delegations

For Contractor-Held Property

Date: SEP. 1 4 2000

Enclosure

General Comments:

Although information regarding the KSC delegation had been provided to the Office of Inspector General prior to the issuance of the draft report, the report does not reflect this information. It is recommended that the findings on page 3, of the report be changed to reflect the current status. Also, on page 3, the first sentence under "Performance of Property Administration Functions" is misleading. It is suggested that it be reworded to read: "The 14 contracts reviewed at JSC and MSFC (See Appendix E) for which property administration functions are not being performed total more than $1.9 billion in contractor-held property."

On page 2 of the report, under the heading **Property Administration Function,** first paragraph, first sentence; The report states that, "NASA contracting officers at Johnson and Marshall did not issue property administration delegations or ensure that DCMA properly acknowledged acceptance, modification, or rejection of the delegations for 11 contracts as required by the FAR and NASA FAR Supplement." This statement is not accurate for all the MSFC contracts listed in Appendix E for the following reasons:

NAS8-40369 Ion Electronics: At the time of contract award on 10/1/95, the Contracting Officer (CO) retained responsibility for property administration. For the period of 2/26/96 through 3/17/00, the responsibility for property administration was appointed to a MSFC Property Administrator (PA). On 3/17/00, the CO delegated property administration to DCMA's ACO at Twin Cities, MN. Note that this delegation may have occurred during the fieldwork of the audit. The management information system (PROMIS) used by the MSFC procurement office was updated in August, 2000, to show the current delegation.

NAS8-97238 Thiokol: The CO did delegate property administration to DCMA at Thiokol and it was accepted by the DCMA commanding officer via a signed NF1431 dated 1/27/00. These documents may have been overlooked in the audit.

NAS8-97017 Physical Siences; NA8-97036 Sohar; NAS8-98028 Makel Engineering; NAS8-98077 Digital Optical; NAS8-98086 X-Ray Optical; NAS8-99076 Adroit Systems: These are Small Business Innovative Research (SBIR) Phase II type contracts and MSFC does not plan to delegate the property administration function.

Appendix F

The responsible CO's have retained property administration on all SBIR contracts. This was a continuous improvement initiative aimed at streamlining property administration and plant clearance on these small, short-duration, firm fixed price contracts, which generally involve no Government-furnished property or any contractor acquired property that title would be vested with the Government. In some instances, SBIR contractors will erroneously submit NF 1018 even though there is no government-owned property to report.

NAS8-97309 University of Arizona: The CO is in the process of delegating this contract to the Office of Naval Research for property administration and plant clearance.

OIG RECOMMENDATION 1:

The Associate Administrator for Procurement should instruct the Johnson Director of the Procurement Directorate and the Marshall Director of the Procurement Office to direct their respective contracting officers to immediately issue delegation letters to DCMA for those contracts that have not been delegated and to obtain acceptance, modification, or rejection for those contracts for which the DCMA has not responded to the delegation request.

CODE H RESPONSE TO RECOMMENDATION 1: CONCUR

Although Code H feels that this recommendation should be directed to the centers, Code H will however, and notwithstanding the actions already taken by JSC and MSFC, contact the respective procurement offices at JSC and MSFC to ensure that delegations are issued and acceptances are obtained where necessary.

In the case of JSC, they have already taken appropriate action for the two contracts listed in the report. For NAS9-19569, Canadian Commercial Corporation, delegation has been submitted to DCMA by the contracting officer. The Industrial Property Officer (IPO) has verbal confirmation that it has been received, and will be accepted. The contracting officer and IPO are awaiting written acceptance. For NAS9-19605, Honeywell, Inc., a delegation has been sent to DCMA. The contracting officer will follow up to ensure a written acceptance is received.

In the case of MSFC, the Procurement Office has already taken appropriate action, as indicated above, for those contracts listed in the report.

OIG RECOMMENDATION 2:

The Associate Administrator for Procurement should strengthen administrative controls to ensure that NASA complies with the FAR and NASA FAR Supplement (NFS) regulations that address property administration. Specifically, NASA should establish milestone dates for NASA issuance of delegations on new contract awards and develop controls that ensure that annual property system analysis reports are received in a timely manner.

CODE H RESPONSE TO RECOMMENDATION 2: CONCUR

Considering the fact that the IG auditor reviewed 118 contracts and only found 11 contracts where there was some question concerning the delegation and acceptance procedures, the recommendation to strengthen administrative controls agency-wide appears to be an overreaction. We believe that this is supported by the auditor's statement in the **Conclusion** paragraph, which says, "In *some instances,* contracting officers are not delegating property administration...Supplement." That being said, we concur with the intent of the recommendation, and we will review the current NFS coverage on property administration and determine if areas require strengthening and if so, provide adequate coverage as needed.

CORRECTIVE ACTION OFFICIAL: Code HK/J. Dolvin
CORRECTIVE ACTION CLOSURE OFFICIAL: Code HK/S.Thompson
PROJECTED CORRECTIVE ACTION CLOSURE DATE: March 30, 2001

Appendix F

OIG RECOMMENDATION 3:

The Center Directors at Johnson and Marshall should ensure that contracting officers comply with FAR and NASA FAR Supplement regulations pertaining to property administration.

JSC AND MSFC RESPONSE TO RECOMMENDATION 3: CONCUR

JSC – To further emphasize this requirement, JSC has scheduled the IPO to address the JSC Procurement Forum for procurement professionals on November 9, 2000. The need for contracting officers to delegate remote contracts will be covered. One suggestion under consideration is for the JSC Procurement Policy and Systems Office to perform spot checks on contracting officer files to verify that delegations have been made and accepted.

MSFC – The MSFC Procurement Officer will issue guidance to all contracting officers regarding the importance of complying with the FAR and NASA FAR Supplement regulations pertaining to property administration by 12/31/00.

OIG RECOMMENDATION 4:

The Center Directors at Johnson and Kennedy should resolve the property administration issue at Kennedy. Resolution should result in either Kennedy acceptance of the property administration delegation and assurance that adequate resources will be provided to properly oversee the contractors or Johnson retention of the property administration function.

JSC AND KSC RESPONSE TO RECOMMENDATION 4: CONCUR

JSC has received acceptance letters from KSC dated June 30, 2000, for the 3 contracts (SpaceHab, Lockheed Martin, and Boeing), and no exceptions were noted. These letters are available for the OIG's review. Those delegations were first processed in July and August 1999, and are currently being modified to reflect changes in personnel, as well as changes in responsibilities that resulted from the FY 2000 Industrial Property Conference held in June 2000. The JSC IPO is working these issues with the specific KSC property administrators. While a request has been made for a KSC Property Administrator to verify that procedures are in place for SpaceHab, an analysis for FY 2000 will not be requested by the JSC IPO for Lockheed Martin or Boeing. With the property delegations in effect, we consider appropriate actions have been taken by JSC and KSC regarding this recommendation, and consider it closed.

Note: While the question of delegation was being resolved, specific actions to ensure oversight of contractor-held property included:

NAS9-98100 – Lockheed Martin – Contractor self-oversight analysis was arranged and performed by Lockheed Martin Houston. Findings are on file with the JSC IPO.

NAS 15-10000 – Boeing – Although Space Station assets specifically were not audited, the assets are managed in the same property control system used by Boeing, for the PGOC contract at KSC. We understand that the property control system is in an approved status.

Appendix G. Report Distribution

National Aeronautics and Space Administration (NASA) Headquarters

A/Administrator
AI/Associate Deputy Administrator
B/Chief Financial Officer
B/Comptroller
BF/Director, Financial Management Division
G/General Counsel
H/Associate Administrator for Procurement
HK/Director, Contract Management Division
HS/Director, Program Operations Division
J/Associate Administrator for Management Systems
JM/Acting Director, Management Assessment Division
L/Associate Administrator for Legislative Affairs
M/Associate Administrator for Space Flight

NASA Centers

Director, John F. Kennedy Space Center
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Chief Counsel, John F. Kennedy Space Center
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Industrial Property Officer, George C. Marshall Space Flight Center

Non-NASA Federal Organizations and Individuals

Assistant to the President for Science and Technology Policy
Deputy Associate Director, Energy and Science Division, Office of Management and Budget
Branch Chief, Science and Space Programs Branch, Energy and Science Division, Office of Management and Budget
Associate Director, National Security and International Affairs Division, Defense Acquisition Issues, General Accounting Office
Professional Assistant, Senate Subcommittee on Science, Technology, and Space

Appendix G

Chairman and Ranking Minority Member – Congressional Committees and Subcommittees

Senate Committee on Appropriations
Senate Subcommittee on VA, HUD, and Independent Agencies
Senate Committee on Commerce, Science, and Transportation
Senate Subcommittee on Science, Technology, and Space
Senate Committee on Governmental Affairs
House Committee on Appropriations
House Subcommittee on VA, HUD, and Independent Agencies
House Committee on Government Reform
House Subcommittee on Government Management, Information, and Technology
House Subcommittee on National Security, Veterans Affairs, and International Relations
House Committee on Science
House Subcommittee on Space and Aeronautics

Congressional Member

Honorable Pete Sessions, U.S. House of Representatives

NASA Assistant Inspector General for Auditing
Reader Survey

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Report Title: Property Administration Delegations for Contractor-Held Property

Report Number:_____ **Report Date:** _____

Circle the appropriate rating for the following statements.

	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree	N/A
1. The report was clear, readable, and logically organized.	5	4	3	2	1	N/A
2. The report was concise and to the point.	5	4	3	2	1	N/A
3. We effectively communicated the audit objectives, scope, and methodology.	5	4	3	2	1	N/A
4. The report contained sufficient information to support the finding(s) in a balanced and objective manner.	5	4	3	2	1	N/A

Overall, how would you rate the report?

Excellent Fair
Very Good Poor
Good

If you have any additional comments or wish to elaborate on any of the above responses, please write them here. Use additional paper if necessary. _____

_____

How did you use the report? _____

_____

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How could we improve our report? _____

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How would you identify yourself? (Select one)

Congressional Staff	Media
NASA Employee	Public Interest
Private Citizen	Other: _____
Government: _____ Federal: _____ State: _____ Local: _____	

May we contact you about your comments?

Yes:_____ **No:_____**

Name:

_____

Telephone: _____

Thank you for your cooperation in completing this survey.

Major Contributors to the Report

Daniel Samoviski, Program Director, Earth and Space Science Audits

Robert Williams, Program Manager

Larry J. Timmons, Auditor-in-Charge

Ellis Lee, Auditor

Nancy Cipolla, Report Process Manager

Iris Purcarey, Program Assistant