IG-00-061

AUDIT REPORT

INTERNAL CONTROLS OVER PROCESSING DEOBLIGATIONS

September 29, 2000

OFFICE OF INSPECTOR GENERAL

National Aeronautics and
Space Administration

Additional Copies

To obtain additional copies of this report, contact the Assistant Inspector General for Auditing at (202) 358-1232, or visit www.hq.nasa.gov/office/oig/hq/issuedaudits.html.

Suggestions for Future Audits

To suggest ideas for or to request future audits, contact the Assistant Inspector General for Auditing. Ideas and requests can also be mailed to:

Assistant Inspector General for Auditing
Code W
NASA Headquarters
Washington, DC 20546-0001

NASA Hotline

To report fraud, waste, abuse, or mismanagement contact the NASA Hotline at (800) 424-9183, (800) 535-8134 (TDD), or at www.hq.nasa.gov/office/oig/hq/hotline.html#form; or write to the NASA Inspector General, P.O. Box 23089, L'Enfant Plaza Station, Washington, DC 20026. The identity of each writer and caller can be kept confidential, upon request, to the extent permitted by law.

Reader Survey

Please complete the reader survey at the end of this report or at http://www.hq.nasa.gov/office/oig/hq/audits.html.

Acronyms

CFO	Chief Financial Officer
FMM	Financial Management Manual
GAO	General Accounting Office
HSF	Human Space Flight
NPD	NASA Policy Directive
OIG	Office of Inspector General
OMB	Office of Management and Budget
SAT	Science, Aerospace, and Technology

W September 29, 2000

TO: A/Administrator

FROM: W/Inspector General

SUBJECT: INFORMATION: Internal Controls Over Processing Deobligations
Report Number IG-00-061

NASA is responsible for ensuring that appropriated funds are used only within specified periods and for the purposes and amounts authorized by Congress. Obligations management is one of the fundamental internal controls designed to produce accurate and consistent financial data and to ensure funds control. An essential part of managing obligations is ensuring that management can rely on the validity of the recorded obligations.

This report is the third in a series of three reports[1] focused on NASA's management of obligations. The objective of this audit was to evaluate internal controls for processing and documenting obligations of appropriated funds. This report identifies conditions related to supporting documentation for deobligations[2] only. Audit work is ongoing for objectives related to obligations.

While financial management officials[3] at Langley Research Center (Langley) and George C. Marshall Space Flight Center (Marshall) processed deobligations in a timely manner, 41 of 78 (53 percent) transactions reviewed were not adequately documented. Neither the NASA Financial Management Manual (FMM) nor the Center-specific financial procedures provide adequate guidance for processing and documenting deobligations. Because supporting documentation was not clear or readily available for examination, we could not attest to the validity and amount of

---

[1]The first report, "Obligations Management – Recording Obligations and Adjustments" (Report number IG-99-021) states that obligations and adjustments were not always promptly recorded. The second report, "Matching Disbursements to Obligations" (Report Number IG-99-059) states that disbursements are not properly matched to the originating obligations. Management nonconcurred with the latter report. Details on both reports are included in Appendix A, under Prior Audit Coverage.

[2]A deobligation is a negative adjustment of a previously recorded obligation attributable to a contract termination or modification, price revision or correction of amounts previously recorded, reprogramming, funds transfer or distribution, or error correction. For purposes of this report, we considered all negative obligation transactions in the accounting system to be deobligations.

[3]Financial management officials include all personnel within the NASA and Center Offices of the Chief Financial Officer including the accounting and resources functions.

deobligations valued at about $7.4 million. Due to the extent of the Centers' documentation deficiencies, we consider this deficiency to be a significant area of concern reportable to the Agency's Internal Control Council.[4]

Background

Because obligations management is key to the accuracy and reliability of Agency financial data, NASA must ensure that both obligations and deobligations are adequately documented. The General Accounting Office (GAO) established standards requiring that all transactions be promptly recorded, properly classified, and supported by documentation that is clear and readily available for examination.

We tested a sample of deobligation transactions at Langley and Marshall to determine whether transactions were adequately documented and valid. The types of deobligating transactions reviewed included contract modifications, funds transfers between programs and contracts, yearend or cost accounting adjustments, and corrections in internal accounting records.

Recommendations

We recommended that criteria for processing and documenting deobligations be added to the FMM and Center financial management procedures. We also recommended that the Centers review the unsupported transactions identified in this report to ensure that they are valid and adequately documented. Finally, we recommended that the Centers report the documentation deficiencies as a significant area of concern to the Agency Internal Control Council.

Management's Response and OIG Evaluation

Management concurred with the recommendation to publish Agency criteria in the FMM for processing and documenting deobligations but partially concurred with the need to establish policy at each Center. However, both Langley and Marshall management responded that additional guidance would be established.

Financial management officials at Langley and Marshall concurred with the recommendation to ensure that the unsupported transactions identified in this report were adequately documented and valid. However, the Centers did not agree that existing data was inadequate. For example, Langley stated that only one transaction reviewed was inadequately documented and that daily transaction registers and internal Center correspondence adequately addressed the majority of the remaining

[4]The Internal Control Council makes recommendations to the NASA Administrator on issues for NASA's annual statement of assurance to the President and Congress, pursuant to the Federal Managers' Financial Integrity Act and for incorporation into NASA's annual Accountability Report.

transactions. Marshall stated that one transaction was adequately documented but did not address documentation for the remaining transactions. Both Langley and Marshall stated that all of the transactions were valid.
We maintain that copies of general ledger printouts and noted explanations such as "to reflect accuracy" and “to reflect correct charges" were inadequate to support deobligations and did not meet the GAO standards for accounting transaction documentation. In addition, we do not agree that reasons such as "to use expiring funds first" or "reduce uncosted carryover balances" are valid deobligations. Deobligations should accurately reflect the results of NASA programs and operations as specified in the Agency appropriation. Based on the Center's comments, we ask management to reexamine these transactions and provide additional comments.

Management nonconcurred with the recommendation to report documentation deficiencies to the Agency Internal Control Council, stating that the transactions in question were insignificant. The Chief Financial Officer's (CFO's) plan to issue guidance in the FMM demonstrates support for our recommendation to correct documentation deficiencies. However, Marshall's lack of addressing the documentation deficiencies and Langley's comments that the majority of transactions were adequately documented raises concern that detailed information will not be prepared and maintained to support future deobligating transactions. We believe that a correct course of action would be to determine whether similar documentation deficiencies exist at other Centers rather than minimize the significance of the deficiencies at the two Centers reviewed. When controls such as adequate documentation and proper management approvals are not in place, inaccurate financial information and reporting can result. We ask management to reconsider its position on this issue and provide additional comments based on our evaluation.

[original signed by]
Roberta L. Gross

Enclosure
Final Report on Audit of Internal Controls Over Processing Deobligations

FINAL REPORT
AUDIT OF INTERNAL CONTROLS OVER PROCESSING DEOBLIGATIONS

W September 29, 2000

TO: B/Chief Financial Officer
106/Director, Langley Research Center
DA01/Director, Marshall Space Flight Center

FROM: W/Assistant Inspector General for Auditing

SUBJECT: Final Report on the Audit of Internal Controls Over Processing Deobligations
Assignment Number A0000900
Report Number IG-00-061

The subject final report is provided for your use and comments. Our evaluation of your response is incorporated into the body of the report. Recommendations 1 and 2 will remain open until corrective action is completed. Please notify us when action has been completed on the recommendations, including the extent of testing performed to ensure that corrective actions are effective. We consider management's responses to recommendations 3 and 4 nonresponsive. We request that management reconsider its position on those recommendations and submit additional comments by November 28, 2000. The recommendations will remain open for reporting purposes.

If you have questions concerning the report, please contact Mr. Chester A. Sipsock, Program Director, Environmental and Financial Management Audits, at (216) 433-8960, or Ms. Linda Wagner Anderson, Auditor-in-Charge, at (757) 864-3745. 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/Comptroller
BF/Director, Financial Management Division
G/General Counsel
JM/Acting Director, Management Assessment Division
MSFC/RS01/Chief Financial Officer
LaRC/Chief Financial Officer

NASA Office of Inspector General

IG-00-061 **September 29, 2000**
A0000900

Internal Controls Over Processing Deobligations

Introduction

This report is the third in a series of three reports focused on NASA's management of obligations. The first report, "Obligations Management – Recording Obligations and Adjustments" (Report number IG-99-021) states that obligations and adjustments were not always promptly recorded. The second report, "Matching Disbursements to Obligations" (Report Number IG-99-059) states that disbursements are not properly matched to the originating obligations. Details on the two audit reports are in Appendix A.

The objective of this audit was to evaluate internal controls for processing and documenting deobligations of appropriated funds. This report identifies conditions related to supporting documentation for deobligations only. Details on the audit objectives, scope, and methodology are in Appendix A. Audit work is ongoing for objectives related to obligations.

Results in Brief

Financial management officials at Langley and Marshall processed deobligations in a timely manner. However, those officials did not adequately document deobligations for more than half of the transactions reviewed. Because of the lack of documentation for the deobligations, we were unable to attest to the validity and amount of deobligations, valued at about $7.4 million.

Due to the extent of inadequate documentation to support the financial transactions, we consider this deficiency to be a significant area of concern at the two Centers, reportable to the Internal Control Council in accordance with NASA Policy Directive (NPD) 1200.1A, "Internal Management Controls and Audit Liaison and Followup," dated June 1, 2000. Requirements for evaluating and reporting on management controls are further described in Appendix B.

Background

Federal agencies may obligate and expend funds only in accordance with an appropriation.[5] Obligations are the amount of orders placed or contracts awarded that represent a contractual agreement by NASA to pay for the items or services when they are received. Deobligations are downward adjustments of obligations, which may reduce or transfer prior obligations. Some of the common reasons Langley and Marshall deobligated funds included:

- contract modifications, contract closeout, or reduction in contract scope;
- funds transfers between programs and contracts and from old to new contracts;
- yearend or other cost accounting adjustments;
- correction in internal accounting records;
- costing oldest or expiring funds first; and
- funds transfers to meet obligation and/or cost metrics.[6]

Because obligations management is key to the accuracy and reliability of Agency financial data, NASA must ensure that both obligations and deobligations are adequately documented. Criteria for accounting controls and documentation requirements for Federal agencies are contained in various publications. Some of the current guidance includes:

- General Accounting Office (GAO), "Standards for Internal Control in the Federal Government," dated November 1999.
- GAO's, "Reliable Financial Information: A Key to Effective Program Management and Accountability," dated January 1997.
- Office of Management and Budget (OMB) Circular A-123, "Management Accountability and Control," dated June 21, 1995.
- OMB Circular A-127, "Financial Management Systems," dated June 23, 1993.

Each publication requires that agency managers incorporate basic management controls in policies and procedures governing their programs and operations. Further, to ensure an effective system of internal controls, managers should clearly document systems, transactions, and other significant events relative to the financial accounting data and ensure that the documentation is readily available for examination.

[5]An appropriation is an authorization by an act of Congress that permits Federal agencies to incur obligations and to make payments out of the U. S. Treasury for specified purposes.
[6]NASA established a means of measuring performance goals referred to as metrics. Budget submission instructions for the Office of Life and Microgravity Sciences and Applications require that 83 percent of obligation authority be obligated by the end of the first year of the 2-year period. The Office of Space Flight and the Office of Life and Microgravity Sciences and Applications require that 100 percent be obligated by the end of the first quarter of the second year. The NASA CFO Functional Leadership Plan requires that 70 percent of obligations be costed by the end of the first year of the 2-year period.

Supporting Documentation for Deobligations

Finding. Thirty-three (55 percent) of the total of 60 statistically sampled deobligations and 8 (44 percent) of the 18 judgmentally selected deobligations reviewed at Langley and Marshall were not adequately documented to support the transactions. Neither the NASA FMM nor the Center-specific financial procedures provide adequate guidance for processing and documenting deobligations. As a result, we could not attest to the validity of 17 (28 percent) of the 60 deobligations, valued at about $3.4 million. In addition, we could not attest to the validity of two (22 percent) of the nine deobligations judgmentally selected at Marshall and valued at $4 million. Due to the extent of the Centers' documentation deficiencies, we consider this deficiency to be a significant area of concern reportable to the Agency's Internal Control Council.

Internal Control Standards for Documentation

Sound management controls for recording and reporting obligations and deobligations must be maintained to ensure appropriation integrity and compliance with fiscal law. Controls are to be consistent with the "Standards for Internal Control in the Federal Government," which describe the proper execution of transactions and events and state that the Government must assure that only valid transactions to "exchange, transfer, use, or commit resources … are initiated or entered." Specifically, the standards state:

> Internal controls and all transactions . . . need to be clearly documented, and the documentation should be readily available for examination. The documentation should appear in management directives, administrative policies, or operating manuals and may be in paper or electronic form. All documentation and records should be properly managed and maintained.
> .

The GAO standards also include specific management controls for recording and documenting financial transactions:

> Transactions should be promptly recorded, properly classified and accounted for in order to prepare timely accounts and reliable financial and other reports. The documentation for transactions, management controls, and other significant events must be clear and readily available for examination.

Inaccurate or incomplete documentation to support transactions can result in unreliable financial data and ultimately, noncompliance with appropriation law.

Adequate documentation is briefly defined in the "GAO Standards for Internal Controls in the Federal Government." However, the NASA FMM does not define adequate documentation. In the absence of specific criteria, we believe that adequate documentation includes, but is not limited to, documents such as contract modifications, purchase requests, or documents that provide a complete, detailed narrative explanation of why the transaction is requested.

Supporting documentation should include evidence of management's approval, the approval date, and appropriate signatures.

Documentation for Deobligations

We reviewed the Langley and Marshall procedures for processing deobligations. Specifically, we tested 39 transactions at each Center for a total of 78 transactions. The sampling methodology and quantitative analysis is described in Appendixes A and C. We identified documentation deficiencies in 29 transactions at Langley and 12 transactions at Marshall. The results are summarized, by Center, as follows.

Summary of Results

Center	Totals	Documentation		Validity	
		Adequate	Inadequate/ None	Valid	Invalid/ Questionable
Langley	39	10	29	24	15
Marshall	39	27	12	35	4
Totals	78	37	41	59	19

Of 78 transactions, 37 were adequately documented and supported. We considered 36 of the transactions to be valid and supported by contract modifications, purchase requests, or other documented requests to correct internal accounting information or close out contracts. We considered one transaction, valued at $34,000, to be invalid based on an interview with the program analyst. The analyst stated that the deobligation was made to reduce the amount of the uncosted obligations.[7] By deobligating the funds, accounting personnel increased the ratio of costed obligations to total obligations. In our opinion, deobligating funds to reduce uncosted obligations is not a valid deobligation.

Of the 78 transactions, 41 were either not documented or inadequately documented. We found no documentation to support 19 of the 41 transactions. Based on discussions with financial, program, and budget personnel, we considered 13 of the 19 transactions to be valid (7 were cost accounting adjustments, 5 were error corrections, and 1 was a duplicate transaction). We could not validate the remaining six deobligations.

Although we identified documentation for 22 of the remaining 41 transactions, the documentation did not fully support processing the deobligations. For example, we identified written notes from accountants and program or budget analysts, requesting that accounting personnel transfer funds from one financial record to another. However, some of the notes did not include reasons for the transfer while others merely stated that the transfer of funds was "to reflect accuracy."

[7]An uncosted obligation is an obligation awaiting completion of work or accrual of costs.

Because the notes did not fully support the need for the transfers, we traced the transactions back to the accountants, budget or program analysts, or NASA researchers associated with the deobligation. Accountants, budget or program analysts, or NASA researchers stated that they requested the transfers for the following reasons:

- to meet obligations and cost metrics,
- to fully obligate an expiring reimbursement from another Federal agency or an expiring NASA appropriation,
- to distribute obligations and costs to benefiting activities,
- to correct prior transaction errors and changes in accounting codes, and
- to close out contracts.

For each of the remaining 22 transactions, the sources considered the deobligations valid. Based on the limited documentation and subsequent interviews with applicable personnel, we considered 10 of the deobligations to be valid. We could not determine the validity of the remaining 12 transactions. As a result, compliance with the governing requirements for deobligations could not be assured.

Documentation problems for the 41 transactions are summarized below:

Details of Center Documentation Problems

	Documentation		
Center	No Documentation at Time of Review	Inadequate Documentation	Total with Documentation Problems
Langley	11	18	29
Marshall	8	4	12
Totals	19	22	41

Validity problems for the 19 transactions are summarized below:

Details of Center Validity Problems

	Validity			
Center	Invalid	Could not Determine Validity Due to No Documentation	Could Not Determine Validity Due to Inadequate Documentation	Totals
Langley	0	3	12	15
Marshall	1	3	0	4
Totals	1	6	12	19

We questioned one other deobligation that was not in our sample. On September 24, 1999, budget and accounting personnel transferred funds ($2,875) for Langley contract NAS1 20342 from the FY 1999 Science, Aeronautics, and Technology (SAT) appropriation to the FY 1998

Human Space Flight (HSF) appropriation.[8] The supporting documentation for this transaction stated that the funds should be transferred to "reflect correct charges." Since the documentation was vague, we contacted the budget analyst to obtain additional support. The budget analyst stated that additional contract funding was needed under the FY 1998 HSF appropriation. Therefore, the analyst reduced the costs and obligations by $2,875 in the FY 1999 SAT appropriation and transferred the amount to the FY 1998 HSF appropriation. The need for the deobligation was still unclear, so we contacted a NASA researcher associated with the contract. The researcher in charge of the HSF funds was not aware that the project had ever been in need of additional funding. Therefore, we were unable to determine why the funds had been transferred. In our opinion, accounting and resources management officials transferred the funds because of the impending expiration of the 1998 HSF appropriation.[9]

Langley financial managers stated that transferring funds between appropriations within the same contract was proper. Appropriation law requires that obligations be recorded for the purpose intended and in the period for which the obligation was incurred. The budget analyst's explanation did not indicate that the transfer of funds was to correct either the appropriation used or the period (fiscal year) that the obligation was incurred. In the absence of more specific documentation, we could not attest to the validity of the transaction.

Audit Results at Marshall and Langley

Of the 78 deobligations reviewed at Langley and Marshall, 41 were not adequately documented. (Thirty-three deobligations were from the statistical sample, and eight were from the judgmental sample.) Projecting the statistical sampling results to the transaction universe (194 transactions) we estimated, with a 95-percent confidence level, that at least 86 deobligations, valued at about $13.2 million, are not adequately documented. The eight judgmentally selected deobligations were valued at $5.9 million.

Agency Guidance for Documentation

The NASA FMM 9040 provides criteria for recording and reporting obligations. Although chapter 9041-6 requires that all obligations be supported by documentary evidence, there is no specific documentation requirement for deobligations. In addition, neither Langley nor Marshall has Center-specific financial guidance for processing and documenting deobligations.

---

[8]Contract NAS1 20342 is funded by both the SAT and HSF appropriations. The contract is for Aircraft and Spacecraft Guidance and Control and is a task order contract. The two accounting records involved a movement of funds from Reusable Launch Vehicle Crew Module (Task 11, International Space Station Operations Drivers for Guidance Navigation and Control Systems Control) to Dynamic Load Sensors (Task 31, Analysis of Mir Space Station Acceleration Environment).

[9]The 1998 HSF appropriation was for 2 fiscal years and would expire on September 30, 1999; therefore, funds would not be available for new obligations after this date.

Langley financial management personnel stated that the Center has an oral policy requiring written requests for processing deobligations. Additionally, Langley issued a one-page report[10] that identified suggested explanations for requested changes in the financial system. Some suggested explanations included "to reflect correct charges, realignment of funds to reflect accuracy, and to cost program's old year funds first." A copy of the report is in Appendix D. In our opinion, the suggested explanations are unclear and inadequate because they do not fully explain reasons for the funds transfers.

A Marshall financial management official stated that the Center has a policy requiring procurement requests and contract modifications for obligations and deobligations. However, Marshall has no written policy for making correcting entries, yearend transactions, and miscellaneous adjustments.

Validity of Deobligations

For the deobligations that were adequately documented, we considered only one to be invalid. We believe the personnel processed the invalid deobligation to meet Agency internal metrics for obligations and funds management. Additionally, budget and program personnel cited metrics as reasons for processing other deobligations we reviewed. We are concerned about Agency managers using metrics as a means to control funds because of the potential impact on the proprietary use of funds. Emphasis is needed to ensure that transactions are proper and well supported and that they meet timeliness metrics. We will continue to review the use of metrics in ongoing audit work.

Lack of adequate documentation to support financial transactions is an internal control weakness that can result in inaccurate and unreliable financial data. For the deobligations at Langley and Marshall, we were unable to attest to the validity of 17 statistically selected deobligations, valued at about $3.4 million and 2 judgmentally selected deobligations, valued at $4 million. Projecting the sample results to the transaction universe, we estimated, with a 95-percent confidence level, that at least 32 deobligations from the universe of 194 deobligations valued at about $4.7 million, may not be valid.[11] Due to the extent of the Centers' documentation deficiencies, we consider this deficiency to be a significant area of concern reportable to the Agency's Internal Control Council.

Recommendations, Management's Response, and Evaluation of Response

[10]The Center Management Control Officer based the report, originally issued on September 24, 1998, on a Center Chief Financial Officer internal review performed at Langley.

[11]We based projections on the statistical samples taken at Langley and Marshall for August and September 1999. We did not make projections for the judgmental selections taken from October 1999.

1. The NASA Headquarters CFO should establish criteria in the NASA FMM for processing and documenting deobligations.

Management's Response. Concur. Management plans to publish appropriate FMM guidance by November 30, 2000. The complete text of management's response is in Appendix E. Management also provided extensive comments on the report, which we address in Appendix F.

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

The Center Directors at Langley and Marshall should:

> **2. Establish written policies requiring adequate documentation for all deobligation transactions.**

Management's Response. Partially concur. NASA management believes the FMM guidance will be sufficient and additional Center-specific policies are not necessary. However, Marshall plans to add criteria for documenting transactions for closing contracts, and Langley has reviewed with financial personnel the need for clearer notes when accounting adjustments and corrections are made (see Appendix E).

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

> **3. Review the unsupported transactions identified in this report to ensure that they are valid and adequately documented.**

Management's Comments. Concur. The unsupported transactions identified in the report have been reviewed to ensure they are valid and adequately documented. Management included additional data that addressed the unsupported transactions (see Appendix E).

Evaluation of Response. Management's comments are not fully responsive to the recommendation. Although management concurred with the recommendation, Center management maintains that transactions were adequately documented and valid. Marshall management did not address documentation, while Langley responded that only one transaction reviewed was inadequately documented and that daily transaction registers and funding change memorandums adequately addressed the majority of the remaining transactions. Based on our reviews of accounting records and interviews with personnel, we maintain that the transactions cited in this report were not adequately documented. In the majority of transactions, the documentation presented during our review was not clear or readily available for examination, both of which are required by the GAO standards. We have provided a detailed response to management's comments regarding adequate documentation and validity in Appendix F, OIG comment 3.

If Center management would agree to prepare and maintain documents with complete, detailed explanations of why the transaction was processed and include evidence of management's approval for the transaction, such actions would be sufficient to resolve this recommendation. Regarding the validity of the cited transactions, Center management stated that reasons such as "to reflect accuracy," "to reflect correct charges," "to use expiring funds first," and "to reduce uncosted carryover balances" are valid deobligations. Such descriptions are overly vague. In the case of using expiring funds first, a valid obligation is deobligated and a new obligation or increase to an existing obligation is made against an expiring appropriation. Such transactions must be properly documented to ensure compliance with fiscal statutes. Fiscal statues require that Agency funds be used for a specific purpose and within specified timeframes. Transactions deobligating existing year's funds to meet an Agency or program metric to reduce yearend uncosted carryover balances should also be well-supported as part of a sound internal control structure.

We maintain that the Centers have not fully addressed our audit concerns and request that management reconsider its position and provide additional comments.

4. Report the documentation deficiencies as a significant area of concern to the Agency Internal Control Council until adequate controls are in place and operating effectively.

Management's Response. Nonconcur. Many of the transactions questioned in the audit sample were minor infractions, such as adjustments to correct routine errors or close completed contracts. Since the issue is simply ensuring that additional documentation is provided and maintained, the issue is not significant, and reporting it would not be appropriate.

Evaluation of Management’s Response. Management's comments are nonresponsive to the recommendation. Although management planned to revise the FMM, which will improve the controls over deobligations, Center management either did not agree that existing documentation was inadequate or did not fully address the issue. We believe management should determine whether documentation deficiencies are more wide spread rather than minimize the results reported at Langley and Marshall. Because the deobligations are reflected in the Agency financial statements, "minor infractions" can have a significant cumulative impact on both reported financial information and compliance with fiscal statutes. We maintain our position that the documentation deficiencies are a significant area of concern and request that management reconsider its position and provide additional comments.

Appendix A. Objectives, Scope, and Methodology

Objectives

The objective was to evaluate internal controls for processing and documenting deobligations of appropriated funds. Specifically, we assessed the support for deobligations and the timeliness of processing related transactions.

Scope and Methodology

We limited the audit universe to all negative obligation transactions (deobligations) exceeding $25,000 for August, September, and October 1999 at Langley and Marshall. The total audit universe for Langley consisted of 170 deobligations totaling $18,556,108. The Marshall population consisted of 63 deobligations totaling $233,825,918. We examined the Centers separately. We separated the audit universe into two subsets for each Center. Subset One contained all deobligations identified for August and September 1999, and Subset Two contained all October 1999 deobligations at each Center.

Subset One at each Center consisted of August and September 1999 deobligations and was divided into three strata:[12]

- Stratum one contained all transactions that were greater than $900,000. We examined all transactions in this stratum.
- Stratum two contained all transactions valued from $240,000 to $900,000. We examined all transactions in this stratum.
- Stratum three contained all transactions valued from $25,000 to $240,000. We selected a sample from this stratum.

Subset Two consisted of all deobligations that occurred during October 1999. We ranked the deobligations in order of value, and we reviewed the largest nine at each Center. The largest nine deobligations at Langley and Marshall represented 72 percent and 96 percent, respectively, of the total October deobligations at each Center. Because we judgmentally selected the October deobligations, we did not perform statistical projections on the findings for this subset.

Appendix C contains a summary of our analysis and statistical projections for subsets one and two.

A summary of the population of deobligations follows:

[12] We excluded from the population any deobligation valued at less than $25,000.

Summary of Audit Population by Center and Strata

	Universe Quantity	Universe Amount	Sample Quantity	Sample Amount
Subset one				
Langley				
Stratum one	2	-$4,895,000	2	-$4,895,000
Stratum two	6	-$2,403,472	6	-$2,403,472
Stratum three	139	-$9,426,190	22	-$1,505,149
Subtotal	147	-$16,724,662	30	-$8,803,621
Marshall				
Stratum one	4	-$218,864,000	4	-$218,864,000
Stratum two	8	-$2,972,523	8	-$2,972,523
Stratum three	35	-$2,971,602	18	-$1,573,548
Subtotal	47	-$224,808,125	30	-$223,410,071
Subset two				
Langley				
Stratum one	9	-$1,319,129	9	-$1,319,129
Stratum two	14	-$512,317		
Subtotal	23	-$1,831,446		
Marshall				
Stratum one	9	-$8,658,968	9	-$8,658,968
Stratum two	7	-$358,825		
Subtotal	16	-$9,017,793		
Totals	233	-$252,382,026	78	-$242,191,789

Management Controls Reviewed

We reviewed procurement, financial, resource, and program management policies, procedures, files, and reports, to determine whether:

- Funds reprogrammed were kept in the same congressional appropriation.
- Deobligations were supported by adequate documentation.
- Deobligations were processed in a timely manner.
- Yearend funds reprogramming resulting in new procurement actions were adequately competed, defined, and negotiated.
- Deobligations were valid.

We considered documentation deficiencies to be a significant area of concern as discussed in the finding and Appendix B.

Appendix A

Audit Field Work

We conducted field work from November 1999 through August 2000 at Langley and Marshall. We performed the audit in accordance with generally accepted government auditing standards.

Prior Audit Coverage

The NASA Office of Inspector General (OIG) issued Audit Report IG-99-021, "Obligations Management – Recording Obligations and Adjustments," dated April 26,1999, based on work performed at the John H. Glenn Research Center at Lewis Field, Goddard Space Flight Center (Goddard), Lyndon B. Johnson Space Center, and Marshall. The report concluded that the Centers accurately recorded obligations and adjustment transactions, but that timeliness and documentation needed improvement. The Centers sometimes took more than 15 working days to record obligations and in some cases, had limited or no documentation to support the posted obligation. Also, the Centers did not always promptly record adjustments to obligations. In cases in which costs and disbursements were reported in excess of obligations, adjustments totaling $42 million remained uncorrected for 6 months or longer. As a result, NASA financial records were not completely current for purposes of preventing overobligation and ensuring fund availability for expenditures. We recommended that the NASA CFO implement and refine processes to ensure obligations and adjustments to obligations are promptly recorded. Management provided an acceptable alternative corrective action and agreed to add specific metrics on timely recording of obligations and correction of errors to their Quality Assurance Evaluation process.

The NASA OIG issued Audit Report IG-99-059, "Matching Disbursements to Obligations," dated September 30, 1999, based on work performed at NASA Headquarters, Goddard, Langley, and the John F. Kennedy Space Center. The report concluded that financial management personnel did not properly match contract disbursements to the originating obligations. In accordance with fiscal law, NASA must ensure that appropriated funds are used for the purposes authorized by Congress and must have effective management control over obligations and disbursements in order to maintain appropriation integrity. Disbursements for contract items and services received should be matched to the obligations citing funds authorized to make the payments. Because disbursements were not properly matched to obligations, appropriated funds may not have been used for their authorized purpose. We recommended that (1) NASA contractors submit accounting information on their invoices, (2) procurement offices provide payment instructions to NASA financial management activities, and (3) require disbursements be properly matched to obligations. NASA management disagreed with the audit recommendations and stated that they believed disbursements were properly matched to obligations through the cost accrual process, which ensures that disbursements are matched to the proper appropriation. NASA General Counsel supported the CFO's conclusion that current processes ensure compliance with applicable law. The recommendations are open and unresolved.

Appendix B. Requirements for Evaluating and Reporting Management Controls

Title 31, United States Code, Section 3512(b), "Executive Agency Accounting and other Financial Management Reports and Plans," requires that each executive agency establish and maintain a system of accounting and internal controls that provide, in part: (1) effective control over, and accountability for, assets for which the agency is responsible, and (2) reliable accounting results that are the basis for preparing budget requests, controlling budget resources, providing financial information to the President,[13] and integrating the agency accounting with that of the Secretary of the Treasury.

To comply, each agency head must establish internal controls to reasonably assure that:

- obligations and costs comply with applicable law;
- all assets are safeguarded against waste, loss, unauthorized use, or misappropriation; and
- revenues and expenditures are properly recorded and accounted for to ensure reliable financial reporting and accountability of assets.

In consultation with the GAO, the OMB developed guidelines in Circular A-123, "Management Accountability and Control," dated June 21, 1995, for evaluating and reporting on agency systems for accounting and internal controls. Specifically, the head of each executive agency must evaluate internal controls to determine whether financial systems comply with section 3512(b) of the United States Code and must prepare a statement on the agency's compliance. Should an agency fail to comply, the statement shall identify material weaknesses in the systems and plans for corrective actions. The annual statement and related reports are submitted to the President and Congress.

NPD 1200.1A, "Internal Management Controls and Audit Liaison and Followup," dated June 1, 2000, provides NASA guidance for evaluating and reporting on management controls. Specifically, Agency managers must establish controls to provide reasonable assurance that:

- Activities achieve their intended purpose.
- Activities are protected from waste, fraud, unauthorized use, misappropriation, and mismanagement.
- Resources are used consistent with NASA's mission.
- Laws and regulations are followed.
- Reliable and timely information is obtained, maintained, reported, and used for decisionmaking.

[13]Section 1104(e) of the code provides that the President has access to, and may inspect, records of an agency to obtain information.

All NASA managers must continually evaluate and improve the effectiveness of the management controls over existing operations and processes. Management's ongoing evaluations should provide the basis for Agency assessment of accounting and internal controls.

Although Agency managers have primary responsibility for assessing controls, they may rely on other sources to supplement their assessment. Other sources include results of internal and external reviews (such as International Organization for Standardization[14] reviews, GAO and OIG audits, evaluations, inspections, and assessments), functional self-assessments, and financial reviews.

The Administrator must (1) submit the Annual Letter of Assurance to the President and Congress, pursuant to section 3512 of the United States Code and OMB Circular A-123, and (2) appoint the Agency Chair of the Internal Control Council and the Management Control Manager. The Internal Control Council is responsible for recommending issues identified by the committee for inclusion into the Administrator's Annual Letter of Assurance.

Deficiencies must be identified when managers are unable to provide reasonable assurance for any of the NPD requirements discussed earlier. The Internal Control Council must make a determination as to the relative risk and significance of a deficiency. If the deficiency is determined to be significant enough to be included in the Administrator's annual statement, it must be considered a material weakness.

Due to the extent of inadequate documentation, we could not attest to the validity of deobligations reviewed during our audit. Therefore, we could not provide reasonable assurance that Agency obligations were used in accordance with applicable law or that those obligations were safeguarded from misappropriation. Therefore, we consider the inadequate documentation to be a significant area of concern reportable to the Agency's Internal Control Council, in accordance with the NPD.

[14]The International Organization for Standardization (ISO) is a worldwide federation of national standards bodies from about 130 countries. The mission of the ISO is to promote the development of standardization and related activities in the world with a view to facilitating the international exchange of goods and services and to developing cooperation in the spheres of intellectual, scientific, technological and economic activity.

Appendix C. Summary of Statistical Methodology

Subset One Population Statistics

The total population of Subset One consisted of 194 deobligations, from August and September 1999, with a total value of $241.5 million. We audited a total of 60 deobligations in this population. We found that for 17 (28 percent) of our sample items, we could not determine whether the transaction was valid. Further, we found inadequate documentation for 33 (55 percent) of the items audited.

Only 20 deobligations in this population had a value greater than $240,000. We audited all 20 deobligations. For the remaining 174 deobligations, we took a random sample of 40 items using the EZQuant random number generator.[15] The results of our sample are summarized in the table below.

Results of Audit by Strata

Stratum	N[1]	n[2]	Mean	s[3]	Wt.[4]	r * (validity)[5]	r (documentation)[5]
One	6	6	37,293,167	83,274,867	0.031	0.167	0.333
Two	14	14	384,000	108,057	0.072	0.357	0.571
Three	174	40	71,252	49,907	0.897	0.275	0.575

[1]N is the population size of the stratum.
[2]n is the sample size of the stratum.
[3]σ is the standard deviation (or variability) of deobligation values in the stratum.
[4]Weight (Wt.) is the size of the stratum in relation to the total population size expressed as a percentage.
[5]ρ is the number of failures in the sample expressed as a percentage. ρ is also the percent of sampled items that were found to be invalid or inadequately documented.

We determined the standard error of our estimate for stratum three of Subset One by using Equation One. Because we sampled all of strata one and two, the standard error for the first two strata was zero.

$$\sigma_\rho = \sqrt{\frac{p(1-p)(1-f)}{n-1}} \quad \text{Equation One*}$$

*ρ equals the percent of sample items that failed, and "f" equals the sample size as a percent of the population size.

Our results are summarized in the table that follows.

[15]The EZQuant random number generator is a statistical audit tool developed by the Defense Contract Audit Agency for use by auditors.

Sample Stratum Three	Standard Error (s_r)
Validity	0.063
Documentation	0.070
Population	**Standard Error (s_r)**
Validity	0.0562
Documentation	0.0623

To obtain a 95-percent interval for ρ, we multiplied the standard error, σ_ρ, by the Z-value[16] of 1.96 (Equation Two). For projections to the population, we used the minimum of the confidence interval obtained with Equation Two.

$$\rho \pm (1.96)(\sigma_\rho) \qquad \text{Equation Two}$$

Using the minimum percentage established by the interval, we multiplied that percentage by the total number of transactions in the population of stratum three to estimate the number of transactions in stratum three that were not adequately documented and the number of transactions we could not verify as valid. We then multiplied the number of transactions thus obtained by the average cost of transactions for stratum three. Because we audited 100 percent of strata one and two, we did not need to estimate the value of those transactions that were invalid or inadequately documented, but used the actual value.

Documentation Results for Subset One. We estimated, with a 95-percent confidence level, that at least 86 deobligations, valued at about $13.2 million, are not adequately documented.

Validity Results for Subset One. We estimated, with a 95-percent confidence level, that at least 32 deobligations, valued at about $4.7 million, may not be valid.

[16]The Z-value is a random variable that has a standard normal distribution. It identifies the cumulative area (probability) distribution for an interval (range of values) and is expressed in standard deviations from the mean.

Appendix C

Subset Two Population

Langley. We did not perform a statistical sample of October 1999 deobligations. Rather, we audited the nine largest deobligations at Langley, totaling about $1.3 million. The nine transactions represented 72 percent of the total 23 deobligations that occurred in October 1999.

At Langley, four (44 percent) of the nine October 1999 deobligations, valued at about $.3 million, were not adequately documented. All nine October 1999 deobligations were valid.

Marshall. We did not perform a statistical sample of October 1999 deobligations. Rather, we audited the nine largest deobligations at Marshall, totaling about $8.7 million. The nine transactions represented 96 percent of the total 16 deobligations that occurred in October 1999.

At Marshall, four (44 percent) of the nine October 1999 deobligations, valued at about $5.6 million, were not adequately documented. We were unable to attest to the validity of two (22 percent) of the nine October 1999 deobligations, valued at $4 million.

Appendix D. Langley CFO Report

CFO Internal Review Report On Memo's From PRD Requesting Changes in the Financial System by FMD Personnel

- Based on EOY FY 97 OIG collection of all memo's, and ongoing audit by OIG auditors, a selection of memos were requested for internal review.

- Noted below are findings which include memo's that do not conform to the CFO requirement for memo requests (All memo's should have explanation, signature and date), or provide opportunities for OIG conclusions and questions:
  - There were memo move requests completed by personnel in the field without explanation or concurrence from PRD. Some PRD memo's did not have an **Explanation**, other memo's without **Explanations** were completed by non-PRD analysts, but required PRD concurrence (those memos completed by non-PRD personnel should include explanation, or PRD analyst should add explanation, or not concur).
  - There were examples of **"Good Memo Explanations".** Reviewed memos with the following good explanations: "To Reflect Correct Charges"; "Correction of Transaction"; "Charge Mistakenly Shown Against Program"; "Please move Circled Amount, ... Charge was Erroneous"; " To Assign Charges to the Correct RTA"; and "Redistribution" or "Realignment of Funds" (good, but should go a little further with explanation). See recommendations below.
  - Following are **Memo Explanations that Run Good Risks for Erroneous Conclusions, Questions, and Time Consuming Explanations and Justifications**. Explanations such as: "To Obligate PY 97 Funds" (between different program codes); "Move Cost in Order to Get PY 97 $ Costed" (between different program codes); "RTA's Overspent" (and terms such as over-committed, over-obligated, over-costed etc. provide basis for OIG selection for complete and detail review of entire program's funding activity). It is understood that cryptic, or brief explanations are used due to time constraints, and it is also understood that PRD analysts do not violate funding integrity constraints, nor is there an incentive or requirement to do so; however, from the strictly financial accounting perspective, these memo explanations raise a red flag. OIG Auditors are trained financial accountants, and may launch unnecessary reviews based on memo explanations when moving between programs.

- Following are **Suggested Memo Explanations**; These can be additions to the good explanations noted above
  - To Reflect Correct Charges
  - Realignment of Funds to Reflect Accuracy
  - Redistribution of Funds to Reflect Accuracy
  - To Cost Program's Old Year Funds First (same program codes)
  - To Redistribute cost on Shared Contracts (or Services) to Reflect Accuracy (Program codes may be different)
  - To Correct Charges due to Coding Structure Changes from Prior Year

RFC

Appendix E. Management's Response

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

Reply to Attn of: BF

SEP 21 2000

TO: W/Assistant Inspector for Auditing

FROM: BF/Director, Financial Management Division

SUBJECT: Draft Report on Audit of Internal Controls over Processing Deobligations (Assignment Number A0000900)

This memorandum provides our comments on the subject draft report. While we agree with the general thrust of the report and recommendations, we disagree with some of the findings and conclusions. Our responses to the recommendations appear below. Enclosed are additional specific comments, including those submitted by the Langley Research Center and the Marshall Space Flight Center. We hope you will review these comments carefully and make appropriate revisions in the final report.

Recommendation 1:

The NASA Headquarters Chief Financial Officer should establish criteria in the NASA FMM for processing and documenting deobligations.

We concur. Appropriate FMM guidance will be published by November 30, 2000.

Recommendation 2:

The Center Directors at Langley and Marshall should: establish written policies requiring adequate documentation for all deobligation transactions.

Partially concur. We believe the FMM guidance published in response to Recommendation 1 will be sufficient. It is not necessary for each Center to establish separate policies for processing and documenting deobligation transactions. Each Center will be required to follow the Agency policy established in the FMM; if, however, LaRC or MSFC management believes it needs to publish additional Center-unique guidance after reviewing the FMM coverage, it will do so.

Recommendation 3:

The Center Directors at Langley and Marshall should: review the unsupported transactions identified in this report to ensure that they are valid and adequately documented.

We concur. The transactions identified in the report as "unsupported" have been reviewed to ensure they are valid and adequately documented. The enclosed responses from the Centers support the validity of the transactions and provide ample documentation. The action for this recommendation is completed.

Recommendation 4:

The Center Directors at Langley and Marshall should: report the documentation deficiencies as significant areas of concern to the Agency Internal Control Council until adequate controls are in place and operating effectively.

We do not concur. Many of the transactions questioned in the review were simple adjustments to correct routine errors or close completed contracts. As stated in response to Recommendation 3, above, all of the questioned transactions have been validated. The issue is a simple matter of ensuring additional documentation is provided and retained to ensure transactions are adequately supported; there is not a significant area of concern and reporting these minor infractions would be inappropriate.

If you have any questions regarding these comments, please call Melvin DenWiddie on (202) 358-0983.

Stephen J. Varholy

Enclosures

Additional Comments on Draft Report on Audit of Internal Controls over Processing Deobligations (Assignment Number A0000900)

In addition to the comments from LaRC and MSFC enclosed, we offer the following specific comments:

See Appendix F, OIG Comment 1

1. Page 1, paragraph 2 - Since the draft mentions the other two reports and the OIG's conclusions, it would be appropriate to also mention management's responses to those reports. It would also be appropriate to add a sentence in the third paragraph on page 10 (Appendix A) stating that NASA management disagrees with the OIG's recommendations regarding audit report IG-99-059 and, since considerable space is devoted to the rationale for the OIG's conclusions, management's position should also be summarized. The discussion on page 66 of the 1999 NASA Accountability Report would suffice.

2. Page 3, paragraph 2 ("Finding"), second sentence - The conclusion that adequate documentation was not present "...because neither the NASA Financial Management Manual (FMM) nor the Center-specific financial procedures provide guidance for processing and documenting deobligations." is not supported. This conclusion appears to be an assumption by the auditor; we do not see evidence of a link between the lack of guidance and a lack of documentation. The statement is also incorrect since LaRC does have written guidance, which is reproduced in Appendix D of the draft. If the statement in the report was revised to read "Neither the NASA Financial Management Manual (FMM) or Center-specific procedures provide adequate guidance for processing and documenting deobligations.", it would still be the auditor's opinion, but would be a more accurate statement of the circumstances.

3. Pages 4 and 5 ("Documentation for Deobligations" - Perhaps because two separate issues are discussed together, i.e., the adequacy of documentation and the validity of the deobligations, the various numbers presented and conclusions regarding these groups of transactions are confusing and difficult to reconcile. For example, on page 5, in paragraph 2, it is stated that "...we considered 10 of the obligations (should this be "deobligations"? - ed.) to be valid. We could not determine the validity of the remaining 12 transactions." It is difficult to reconcile these statements back to the data shown in the chart regarding "Validity." It is also not clear how the 19 transactions shown to be invalid in the chart on page 4 relate to the statement in paragraph 2 on page 3 that "...we could not attest to the validity of 16...of the 60 deobligations." It would be helpful if this entire discussion were rewritten to provide more clarity.

MSFC RESPONSE TO THE OIG DRAFT REPORT ON INTERNAL CONTROLS OVER PROCESSING DEOBLIGATIONS ASSIGNMENT NO. A0000900

GENERAL COMMENTS:

The Marshall Space Flight Center (MSFC) has reviewed the subject report. We appreciate the opportunity to comment on the report before it is finalized. However, we are concerned that the scope and approach for this review was too restrictive, resulting in misleading information. The scope and approach outlined in Appendix A states that the sample was limited to "all negative obligation transactions." While the items selected involved negative or credit entries, they are not necessarily deobligations (i.e., a reduction in contract value). Analysis of the items questioned at MSFC, for example, shows that nine were to correct entry, account code, or other routine errors and had no effect on obligation amounts. The remaining items were to close out completed contracts (two contracts) or to change the program providing the funding for activities (one contract).

See Appendix F, OIG Comment 2

Limiting the audit scope to selected credit entries does not provide a representative picture of the obligation adjustments. In some cases, the items selected had related entries that offset the selected transactions. Most of the other items were administrative in nature having no impact on obligation amounts. As a result, the audit report discusses deobligations that, in fact, did not occur. We believe that had the scope been broadened to include related entries, a more representative assessment of deobligation transactions would have been possible.

It should be noted that MSFC's policy for changing obligation amounts requires a contract or contract modification for support. One exception to this policy is when contracts are closed out and the contractor submits a final voucher. In these cases, the final voucher is provided to the Procurement Office with a notation of the amount of funds, if any, that would be deobligated as a result of closing the contract. With procurement's concurrence, the final voucher is used to deobligate any unused funds. This process provides the same information that would be available through a formal contract modification, but with less time and effort. This policy will be documented in MSFC's procedures as recommended in the report.

SPECIFIC COMMENTS TO THE CONTENT OF THE REPORT:

Page 4, **Documentation for Deobligations, Summary of Results:** The following are detailed comments on the items shown as "Inadequate/None" in this chart. The contract number, contractor, and entry amount are included for reference purposes.

1

NAS8-98001 Computer Systems Tech - $34,000

This deobligation, which is supported by a contract modification, was made to reflect a decrease in funding provided by the International Space Station (ISS) Project for the referenced contract. ISS was to fund the contract from October through December of 1999, at which time funding was to be provided by the Microgravity Project. The $34,000 adjustment represents the ISS funds that were not needed for the period October-December 1999. These funds were deobligated so that they could be used for other purposes as provided for in the appropriations. While program personnel may have mentioned metrics as a consideration, this was not a driving factor in making the adjustment.

NAS8-35968 OAO Corporation - $69,491

This entry was made to correct a General Ledger (GL) coding error. When the obligation was originally canceled, which is documented in year-end files and reports sent to NASA Headquarters, it was recorded with the wrong GL code. This entry was made to remove the erroneous information and enter the corrected information. The documentation maintained in the accounting system is considered adequate to support such transactions.

NAS8-34025 Ball Aerospace - $120,751

This contract was closed on January 14, 1999, with an unliquidated balance of $120,751. In closing the contract, the unliquidated balance was overlooked but was found during the year-end closing process in September 1999. The transaction identified in the report was to adjust the unliquidated amounts that should have been adjusted in January. This situation happens occasionally and by checking unliquidated amounts against contract close out dates, we can determine whether a deobligation adjustment is necessary.

NAS8-30490 Thiokol - $367,846

This transaction was made to correct an entry error. In recording the original obligation, which is supported by a contract modification, the wrong supplement number was entered. This error was subsequently detected and corrected. To change the supplement number, the original obligation must be removed from the system and re-entered with the correct information. Therefore, this was simply a transaction to correct a keystroke error made on the original transaction.

NAS8-97326 EG&G - $2,000,000
NAS8-97326 EG&G - $2,000,000

These entries were made as a part of the year-end closing and they shifted funds between accounting codes within the contract. There are corresponding debit entries to these transactions that negate these entries. The net effect of all the transactions is zero and there were no deobligations on this contract.

2

NAS8-99080 Biospace International - $271,299

This was an entry for a Phase II Small Business Innovation Research (SBIR) contract. Phase I SBIR contracts are recorded with a General Ledger Code "SB" while Phase II SBIR contracts are not. When the original entry was made, the SB code was entered in error. This transaction was made to correct that error. As mentioned previously, the erroneous information must be removed from the system and the corrected information entered to ensure proper tracking.

NAS8-37470 Aerojet - $33,634

This transaction corrected a keystroke error. When entering the original transaction, the amount entered was in error. In checking the entries, which is a part of normal operations, the individual noticed the error and made the correcting entry. No funds were deobligated as a result of these entries.

NAS8-37470 Teledyne Brown Engineering - $53,241

This entry was a duplication of an administrative (accounting code) change that had been processed by Accounting Operations. The required code change had already been entered, but was entered a second time when the final contract modification was processed. The individual making the second entry noticed the error and entered a correction. Errors of this type occur occasionally and are a normal part of operational processes.

NAS8-99102 Mission Air Support - $365,400

This entry was made to correct an object class coding error. MSFC purchased an engine for its airplane and the business office that prepared the original Procurement Request cited the wrong object class code. When the contract was being closed, the coding error was noticed and corrected. The entry had no impact on the obligation amount and was only an administrative change.

NAS8-97336 Bionetics - $837,935
NAS8-97336 Bionetics - $756,781

These entries were administrative in nature and were made to change function codes for the aircraft contract with Bionetics. At the end of Program Year 1999, NASA Headquarters changed the function codes for aircraft operations. The entries questioned are to change the accounting codes from the old function codes to the new codes in accordance with NASA Headquarters guidance. These entries had no impact on the funds obligated for this contract and were administrative in nature.

3

RESPONSES TO THE RECOMMENDATIONS:

OIG Recommendation 1: The NASA Headquarters Chief Financial Officer should establish criteria in the NASA FMM for processing and documenting deobligations.

MSFC Response: Defer to Code B at Headquarters.

OIG Recommendation 2: The Center Directors at Langley and Marshall should establish written policies requiring adequate documentation for all deobligation transactions.

MSFC Response: Concur. MSFC will reference the NASA FMM as our policy guidance.

OIG Recommendation 3: The Center Directors at Langley and Marshall should review the unsupported transactions identified in this report to ensure that they are valid and adequately documented.

See Appendix F, OIG Comment 3

MSFC Response: Concur. We have reviewed the transactions identified in this report and found them to be valid. Therefore, we do not feel that any further action is required and this item should be closed upon issuance of the final report.

OIG Recommendation 4: The Center Directors at Langley and Marshall should Report the documentation deficiencies as significant areas of concern to the Agency Internal Control Council until adequate controls are in place and operating effectively.

MSFC Response: Nonconcur. Our review of the transactions report does not reveal any weaknesses that should be considered significant areas of concern.

4

To: NASA Chief Financial Officer

From : 109/Acting Chief Financial Officer, Langley Research Center

Subject: Office of Inspector General (OIG) Draft Report on Audit of Internal Controls over Processing Deobligations (A0000900)

The above referenced audit report is the third in a series of reports designed to characterize NASA's financial accounting for obligations as lacking internal controls, policies and procedures. The OIG, in its introduction, notes that this is the third in a series of reports on obligations' management reporting findings with recommendations for corrective action. However, the report is lacking in balance as it fails to note NASA management's disagreement with their findings, and resulting nonconcurrence on the majority of the recommendations. The auditor's initial approach to the audit of the controls over processing obligations was a sound approach. However, the draft report represents one side of accounting transactions (negative side/deobligation) which does not give a complete picture of why the transaction was processed. This can lead to inaccurate conclusions. Accordingly, our review of all transactions cited as having questionable validity and documentation has resulted in finding all to be valid and properly supported.

See Appendix F, OIG Comment 2

It should be noted that we take exception to the OIG usage of the word "deobligation" to identify accounting transaction adjustments, although the clarification is a footnote to the report. Would prefer the term "accounting transaction adjustments" in the report because that is what the term "deobligation" is referencing.

See Appendix F, OIG Comment 4

Langley Office of Chief Financial Officer (OCFO) met with the Auditor In Charge (AIC) on July 6, 2000, to discuss the initial findings relating to the referenced audit. The AIC explained that the work was composed of two samples (40 positive obligations and 40 negative obligations) and that work was completed on the negative obligations. AIC indicated that lack of documentation supporting some of the negative transactions was the sample evaluation results. Also, advised that most cases appeared to be valid, but validity could not be determined for others. We discussed findings and requested additional information to understand the criteria used to make the determination. We requested a copy of the sample items spreadsheet so that we could validate the findings or provide additional information for consideration before the written report was issued. AIC advised that an "audit management decision" was needed to release the spreadsheet. We were provided a copy of the spreadsheet on August 23 after the draft report was released for comment.

We had a follow-up meeting with the AIC and Deputy Assistant IG for Auditing (DAIGA) on September 6 to have them explain the spreadsheet and provide the documentation supporting their conclusions. During discussion the AIC acknowledged that there was documentation to support the transactions, however, the AIC did not feel that it was adequate. AIC and DAIGA were unwilling to address additional information for consideration during this discussion, or support a request for an extension to the due date to provide time for management to thoroughly analyze the cited transactions. They agreed that we did not have adequate time to appropriately evaluate the findings, but noted that a response was required by the due date so the audit results could be included in the OIG Semi-annual report. If these data had been provided in a timely manner this report could have been avoided.

See Appendix F, OIG Comment 5

Comments on Specifics in the Report

Page 2 – Footnote 3 – Is not correct. The Agency does not have an 83% obligation metric. Code R has an 83% costing metric. Additionally, the Agency does not have an obligation metric. The Agency CFO has established a metric to cost 70% of new obligation authority (NOA) in the first year of the appropriation.

Page 4 – Summary of Results – This chart is misleading. During our September 6 meeting it was found that only 1 transaction was considered invalid (at MSFC) and the remaining 18 were considered questionable. The chart should be changed because it is misleading in its present form.

The report uses the term "financial management official" – it would make the report clearer if it stated which areas within the OCFO these "financial management officials" represent. The OCFO has two functions – accounting (Financial Management) and resources (Resources Management). It would help the reader identify which area provided the information to support management's evaluation of OIG findings.

See Appendix F, OIG Comment 6

Page 6 – Agency Guidance for Documentation. "Langley financial management personnel stated that the Center has an oral policy requiring written requests for processing deobligations." Needs to be changed – We have a written policy (on page 16 of the audit report) as well as CFO oral guidance.

Recommendations for Corrective Action to Langley Center Director

2. Establish written policies requiring adequate documentation for all deobligation transactions.

Partially Concur – We will update obligation management policy by end of the first quarter FY 2001 to provide expanded explanations/documentation for the accounting transaction adjustments to ensure a third party review results in understanding the basis for the adjustment.

3. Review the unsupported transactions identified in this report to ensure that they are valid and adequately documented.

Partially Concur – We have reviewed the questioned transactions and have determined that all transactions cited in the OIG report are documented and valid. We have provided a spreadsheet of our analysis of the data provided by the auditor as an enclosure. All accounting transaction adjustment memos included a brief narrative explanation of why the transactions were requested along with the approved date and approval signature from appropriate OCFO resources/financial management personnel. All changes made among R&D programs and/or fiscal years were consistent with Appropriation Law and reflect sound program and resources management decisions.

For example, one questioned transaction has clear documentation requesting that the obligation be moved from PY 99 to PY 98 funds to use the oldest money first on the same program/appropriation code. The program funds cited in the "deobligation" transaction are R&D funds under the Science Aeronautics and Technology (SAT) appropriation. R&D funds are appropriated for 2 years by Congress at the Budget Line Item (BLI) level. Based on Appropriation Law, the PY 98 funds are available for obligation in FY 98 and FY 99. The memo request to use the oldest money first is consistent with that law and is a valid transaction. In fact, based on Appropriation Law any transaction simply moving an obligation on the same R&D program to the oldest year money is a valid transaction. This was explained to the AIC in numerous conversations.

Other OIG examples in the report cited changes between program codes within the same 3-digit program within NASA. Program codes below that level (5/7/9-digits) are only internal work breakdown structures associated with the overall R&D program appropriated by Congress. All obligation transfers within the same 3-digit program code are consistent with Appropriation Law and valid transactions. Changes between 3-digit R&D programs and/or appropriations are also allowable within appropriation and fiscal law where multiple programs have bona fide need for the procurement. Langley has numerous contracts/procurements, which are shared by multiple benefiting programs. Program Management decisions requesting redistribution of funds among these benefiting programs are valid transactions. This was also explained to the AIC in numerous conversations.

See Appendix F, OIG Comment 7

In the report, the AIC also states that some deobligations are done just to meet metrics. Within NASA, metrics are used as performance indicators to determine if the Agency has expended taxpayers' dollars as effectively and efficiently as possible within Appropriation Law. Metrics provide a basis for reviewing financial performance and support sound program management decisions.

4. Report the documentation deficiencies as significant areas of concern to the Agency Internal Control Council until adequate controls are in place and operating effectively.

   Nonconur – We are not reporting these findings as significant areas of concern to the Agency Internal Control Council. We have partially concurred with recommendation 2 above and have found all transactions to be valid. Additionally, we have adequate controls in place for processing obligations.

Note: See explanation below that addresses the invalid transaction cited at MSFC
On page 4, under Documentation of Deobligations, the report cites a $34,000 transaction (at MSFC) that was determined to be invalid. The report states that "in our opinion, deobligating funds to reduce uncosted obligations is not a valid deobligation." We strongly disagree with this conclusion. For the past several years, there have been reports from GAO and Congress citing NASA for excessive uncosted carryover. This is a result of excessive forward funding on contracts, which results in inefficient use of limited resources. Budget/program analysts should perform periodic reviews of contracts based on cost reports and projections from contractors to determine the need for funds on contracts. If excessive forward funding is identified, these funds should be deobligated. These funds can then be spent more effectively on other items within the appropriation which are needed and can be performed (costed) that fiscal year.

Questions and requests for additional information should be addressed to DCFO for Finance or DCFO for Resources.

Debra E. Watson
Acting Chief Financial Officer

See Appendix F, OIG Comment 3

NEGATIVE OBLIGATIONS SUMMARY

LaRC

SAMPLE #	Valid?	Docu Adequate?	Document	PY	FS	MA	Negative Oblig Amt	LaRC Comments
Cost Accounting								
1	Y	N	NAS 1 20048 845	99	9	00	-3,920,000.00	A copy of the funding memo was provided to the auditor. The re-distribution of funds on this memo were all within the same appropriation. The reason obligations were affected is because the line that was cited on the memo was level (O=C=D). Due to the design of our accounting system, when an accounting line is level, obligations in total are not reduced; only re-established, in order to redistribute costs and disbursements. Our daily transaction register documents this series of transactions, and was available to the auditor. The obligation was re-established and the costs and disbursements were redistributed per the memo. It is a LaRC policy that resource and/or budget analysts that are aware of the work performed by the contractor initiate memos such as the one used in this case to redistribute costs to the programs that received the benefit of the contractors work. The NF-533 does not provide the level of detail for this assessment to be made within Financial Management. We do not agree with the auditor's finding that the supporting documentation for this transaction is inadequate.
15	Y	N	NAS 1 20342 119	99	29	00	-63,000.00	A copy of the NF-533 (which cited a cost reduction reported by the contractor), cost accrual worksheet and screen prints (which document the sequence of transactions) were provided to the auditor. The reason obligations were affected is because the line that needed to be reduced was level (O=C=D) Due to the design of our accounting system, when an accounting line is level, obligations in total are not reduced; they are only re-established in order to reduce cost and re-distribute disbursements. Our daily transactions register documents this series of transactions, and was available to the auditor. We do not agree with the auditor's finding that the supporting documentation for this transaction is inadequate.
29	Y	N	NASW 5067168M001	99	29	51	-189,512.00	Our daily transaction register documents a series of transactions that indicate the user was simply correcting a data entry error. As such, obligations in total were not reduced.
30	Y	N	NASW 5067170M001	99	29	00	-83,870.00	Our daily transaction register documents a series of transactions that indicate the user was simply correcting a data entry error. As such, obligations in total were not reduced.

NEGATIVE OBLIGATIONS SUMMARY

LaRC

SAMPLE #	Valid?	Docu Adequate?	Document	PY	FS	MA	Negative Oblig Amt	LaRC Comments
35	Y	N	NAS 1 20307 041	98	43	00	-71,910.00	A copy of the NF-533 (which cited a cost reduction reported by the contractor) and screen prints (which document the sequence of transactions) were provided to the auditor. The reason obligations were affected is because the line that needed to be reduced was level (O=C=D). Due to the design of our accounting system, when an accounting line is level, obligations in total are not reduced; they are only re-established in order to reduce cost and re-distribute disbursements. Our daily transactions register documents this series of transactions, and was available to the auditor. We do not agree with the auditor's finding that the supporting documentation for this transaction is inadequate.
36	Y	N	NAS 1 20307 132	98	29	00	-71,910.00	The user was attempting to process a cost reduction reported on the NF-533, but realized that the 533 was incorrect. The user then reversed the transactions so there was no reduction to obligations in total.
38	Y	N	NAS 1 97027 111	99	29	93	-64,129.00	A copy of the NF-533 indicating an increase in cost of $1 was provided to the auditor. At the time the 533 was received, the task that cited a $1 increase in cost was level (O=C=D). Due to the design of our accounting system, when an accounting line is level, obligations in total are not reduced; they are only re established in order to reduce cost and re-distribute disbursements. Our daily transactions register documents this series of transactions, and was available to the auditor. We do not agree with the auditor's finding that the supporting documentation for this transaction is inadequate.
"Cost Oldest Year First or Funds Expiring or METRICS								
2	Can't Determine	N	NAS 1 98108 005	99	29	00	-975,000.00	The funding change document indicated FY98 funds were to replace FY99 funds on a purchase request with the same program. The transaction was valid in that the FY98 funds were R&D funds with a 2-year appropriation. The program was using its oldest available funding first.

NEGATIVE OBLIGATIONS SUMMARY

LaRC

SAMPLE #	Valid?	Docu Adequate?	Document	PY	FS	MA	Negative Oblig Amt	LaRC Comments
8	Can't Determine	N	NAS 8 97111 019	99	29	00	-344,000.00	The funding change document realigned funds within the same appropriation, the same year, and the same program. This transaction enabled different elements within the program to pay for Technology Application Group (TAG)/Commercialization costs, which was valid since TAG helped identify commercial applications of all of the program's research.
12	Can't Determine	N	NAS 1 20243 A2M	99	29	00	-29,780.00	The funding change document realigned funds from direct to reimbursable funding to accurately reflect the Navy expenditures on the F-18 drop model.
18	Can't determine	N	NAS 1 96014 E12	99	29	91	-33,752.00	The funding change was requested by the U.S. Army tenant organization at LaRC to accurately reflect the exploratory development work that is being performed with this Army funding.
5	Cannot determine	N	NAS 1 20048 S81	99	9	00	-567,000.00	The funding change document enabled the High Speed Research program (that benefited from supercomputing under the CSC contract) to contribute to the contract directly, rather than through the carrier account.
23	Can't Determine	N	NAS 1 99097 001	99	29	00	-31,308.00	The funding change document moved a portion of an obligation from direct to reimbursable funding to reflect accuracy. LaRC received the funds to support a joint program with the FAA in accordance with Agreement # DTIA 01-90-Z-02021.
21	Can't Determine	N	NAS 1 98157 002	98	29	00	-114,990.60	The funding change document realigned funds from FY98 to FY99 on an ongoing contract to accurately reflect the period of performance. The transaction was within the same appropriation and the same program.
14	Can't Determine	N	NAS 1 20341 019	99	29	00	-85,000.00	The funding change document redistributes charges to accurately reflect actual performance. There was a coding restructure directed by NASA HQ mid-year. Both funding codes are for the Aviation Safety Control Upset Management activity.
27	Y	N	NAS 2 14361 003	99	29	00	-100,000.00	The funding change document realigns funds within the same appropriation, the same year, and the same program to properly distribute systems evaluation obligations to the benefiting elements of that program.
No documentation								
19	Can't work	N	NAS 1 97046 130	99	29	93	-110,000.00	The object class code on this contract was changed as a result of a data call from HQ to review transactions in the 251X series. A copy of the memo directing this change is on file in Financial Management.

NEGATIVE OBLIGATIONS SUMMARY

LaRC

SAMPLE #	Valid?	Docu Adequate?	Document	PY	FS	MA	Negative Oblig Amt	LaRC Comments
20	Y	N	NAS 1 98090 001	94	5	00	-120,000.00	Our daily transaction register indicates that a user initially entered the document number without the delivery order number (modification #1 indicates that the $120,000 should have been recorded against DO 1008, but was recorded against the "basic" contract number instead). Another user reversed the incorrect transaction and re-entered the document number correctly.
22	Can't Determine	N	NAS 1 99000 001	99	9	00	-75,000.00	Our daily transaction register indicates that the user processed a contract modification with an incorrect transaction code. The transaction was reversed and then re-entered correctly. We disagree with the auditor's finding that the supporting documentation for this transaction is inadequate.
24	Can't determine	N	NAS 1 99109 002	99	29	00	-42,224.00	Copy of funding memo was provided to the auditor. We have verified that the transaction is valid and agree with the auditor that the documentation cound be strengthen.
Correction of Errors								
26	Y	N	NAS 1 99127 001	99	29	00	-34,600.00	A copy of the funding memo requesting the movement of obligations from one program to another is on file in Financial Management. The movement was within the same PYFSMA. Our daily transaction register also shows this sequence of transactions.
39	Y	N	NAS 1 18900 101	99	29	00	-59,000.00	Per the accountant's notes on modification # 102, the action on the mod was not to deobligate. Per accountant's testimony, the PR number cited on the modification should not have been entered on the document by the contracting officer. Since a PR # was cited, the accountant obligated the amount of the PR ($59,000). When subsequent modifications were received, the intent of modification #102 not to deobligate funds from the contract was noted. Therefore, on 10/13/99, the user reversed the obligation from the contract, thereby correcting a data entry error. Management has reviewed with the accounting staff the need to make clearer notes when adjustments and corrections are made.
Program Analyst/Researcher Moved								

NEGATIVE OBLIGATIONS SUMMARY

LaRC

SAMPLE #	Valid?	Docu Adequate?	Document	PY	FS	MA	Negative Oblig Amt	LaRC Comments
3	Can't determine	N	NAS 1 19039	99	29	51	-264,000.00	The funding change document simply corrects an error. The wrong Job Order was used originally. The realignments occurred between funding Codes 288 and 226. Code 288 is for the CERES Instrument (AM) and Code 226 is for the CERES Instrument (PM).
4	Can't determine	N	NAS 1 19039	99	29	51	-328,472.00	The funding change document simply corrects an error. The wrong Job Order was used originally. The realignments occurred between funding Codes 288 and 226. Code 288 is for the CERES Instrument (AM) and Code 226 is for the CERES Instrument (PM).
10	Can't determine	N	NAS 1 20048	99	29	00	-29,700.00	The funding change document redistributes funding on the CSC contract benefiting elements all within the Airframe Systems Program. The realigned funds are all within the same appropriation and the same year. This transaction is valid in that the CSC contract provides systems administration support to the Center, and is funded by many benefiting programs at LaRC
13	Y	N	NAS 1 20267	99	29	00	-57,000.00	The funding change document realigned funds within the same appropriation and the same year to pay for a multi-funded task on the Boeing contract Airframe Systems owed 57K on the task.
16	Y	N	NAS 1 96013	99	29	00	-37,312.00	The funding change document realigned funds within the same appropriation and the same year on a task on the NEMA contract. The funds on the task were transferred between the related programs of Hyper X and Space Transportation. The task was for Hypersonic Air Breathing Research. The task belongs to the Space Transportation Program but Hyper-X has a vested interest in the task since it directly relates to Hyper-X research.
17	Can't determine	N	NAS 1 96014	99	29	00	-30,000.00	The funding change document realigned funds within the same appropriation and the same year to reflect accuracy. The same researchers worked on both Capacity's Civil Tilt Rotor (under the focused program) and Rotorcraft (under the R&T Base). Both programs are for rotorcraft development technology.
28	Y	N	NAS 8 97111	99	29	00	-57,000.00	The funding change document realigned funds within the same appropriation and the same year. The funding change was to realign Technology Application Group (TAG)/Commercialization costs to the benefiting programs. TAG benefits all Code R programs at the Center to help identify commercial applications of LaRC research.

Appendix F. OIG Comments on Management's Response

NASA management provided the following general comments in its response to our draft report. Our responses to the comments are also provided. In response to management's comments, we made minor changes to the report, and those changes are not addressed in this appendix.

Management's Comments. It would be appropriate to add management's responses to the previous reports referenced on page 1 of this report and to add in Appendix A of this report management's position on audit report IG-99-059 (as described on page 66 of the 1999 NASA Accountability Report).

1. OIG Comments. We did not add management's position to page 1 of the report because page 1 refers the reader to Appendix A for details. We added management's position as stated in the 1999 NASA Accountability Report (page 66) to Appendix A as requested by management.

Management's Comments. Both Langley and Marshall were concerned that the audit scope and approach was too restrictive, resulting in misleading information. Transactions reviewed at both Centers included entries that were adjustments or corrections, resulting in no net effect to obligation amounts. Limiting the audit scope to select credit entries does not provide a representative picture of obligations adjustments and can lead to inaccurate conclusions. A more representative assessment would have been possible if the scope had been broadened to include related entries.

2. OIG Comments. The scope of our review was not restricted and purposefully included all negative transactions, including those that reduced obligations or corrected entries that may have had no net effect on obligation amounts. When the supporting documentation for the entries in the accounting system clearly referenced an "off-setting" positive transaction, we concluded that the transaction was adequately documented and valid. We questioned the validity of a transaction when sufficient documentation was unavailable to determine why the transaction was recorded, whether the transaction actually reduced an obligation, or had no net effect on recorded obligations. If the credit adjustments had been properly documented, we would have been able to attest to the transaction's validity. Therefore, we do not agree that limiting the scope to credit transactions misrepresented the overall picture of obligations adjustments, but maintain that the report conclusions are based on a sound auditing approach.

Management's Comments. Both Marshall and Langley reviewed the transactions identified in the report and consider them adequately documented and valid. Auditors should rely on the Centers' system-generated daily register to support the deobligations. It is not necessary to provide additional documentation for cost accounting changes or data entry errors. Further, if total obligations are not reduced, those transactions do not need to be documented. Sometimes funds are distributed to charge benefiting activities. As long as funds are used within the same appropriation and program year, the transaction is valid. No further action is required, and this recommendation should be closed.

3. OIG Comments. We did use the daily transaction register to research transactions. However, system-generated printouts were not adequate to document transactions because there was no explanation of why the transaction was processed and approved. In many cases, the auditor used information from the accounting system and traced the sample transactions back to several NASA accounting and resources personnel to locate the originator of the transaction. In some cases, the auditor interviewed as many as five people for a single transaction. Even though personnel were able to explain many of the transactions processed, they did not prepare documentation to support the transactions until the auditor's request during the review. In each of those cases, there should have been clear documentation readily available for support and examination of the transaction, as mandated by GAO requirements.

When changes were made because of the Contractor's Cost Report, cost accountants explained why the transactions were processed. However, there was no documentation available to support the transaction. Based on the GAO criteria, a third party should be able to review the transaction with readily available documentation.

In other cases, when transactions were processed to correct errors and transfer funds, personnel who originated the transactions no longer worked in the same position, and in one case, the employee no longer worked for NASA. In those cases, neither adequate documentation nor testimony to support the transaction was available.

We also found explanations for the transactions such as "to reflect accuracy," "to use expiring reimbursable funding first," or "to distribute costs to benefiting programs." Those explanations did not provide sufficient detail to support the transactions. For example, if costs are redistributed to benefiting programs, there should be a method to distribute the costs on an allocable basis; instead, the costs were distributed based on the amount of unobligated funds available in each activity. In this example, the transaction was not clearly and accurately documented, and without knowing the actual cost allocations, we still cannot attest to the transaction validity.

Management's Comments. The word "deobligations" should be replaced with "accounting transaction adjustments."

4. OIG Comments. We did not change the report. The suggested term, "accounting transaction adjustments," does not apply to all of the transactions reviewed. We maintain that the best approach was to use the term "deobligations" and define it in a footnote.

Management's Comments. Auditors did not provide Langley officials a list of unsupported transactions until August 23, and the draft report was issued on August 22. The report could have been avoided if data had been provided in a timely manner.

5. OIG Comments. Auditors provided information to financial management personnel throughout the review. For example, we provided a list of 21 unsupported transactions to accounting officials at Langley on May 8, 2000, in an effort to locate supporting documentation. The report would not have been avoided, because adequate documentation was either not prepared or not readily available to support the transactions processed during audit fieldwork.

Management's Comments. The term "financial management official" should not be used. The audit report should indicate whether officials were accounting (financial management) or resources (resources management) personnel.

6. OIG Comments. Financial management personnel include any NASA employee within the NASA Headquarters or Center Office of the CFO, including accounting/finance or resources management. We did not change the terminology in the audit report, but added a footnote to define financial management personnel.

Management's Comments. Langley officials stated that it is good management to use oldest funds first. Centers are allowed to change funds within a 3-digit program code. Additionally, when multiple appropriations are used for a single contract, it is allowable to move funds between appropriations and years where there is a bona fide need for the procurement. Additionally, moving funds to reflect metrics is appropriate and reflects sound program management decisions. All of the Langley transactions are valid and in accordance with Appropriations Law.

7. OIG Comments. We maintain that obligations should be accurately recorded and in response to a bona fide need for the procurement of goods and services. When funds movements are not adequately documented, it is not possible to determine whether the transaction is valid, accurate, or meets a bona fide need. We do not believe that using the oldest funds first because they are available and pending expiration meets the intent of Appropriations Law. Nor do we believe that moving funds to increase metrics and reduce uncosted, carryover balances accurately reflects the results of Agency operations. We believe that Centers should not move funds between appropriations and years without proper analysis and approval to ensure that the obligation is accurately recorded. Recording obligations under any other approach does not reflect sound obligations management.

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
R/Associate Administrator for Aerospace Technology
S/Associate Administrator for Space Science
U/Associate Administrator for Life and Microgravity Sciences and Applications

NASA Centers

Chief Counsel, John F. Kennedy Space Center
Chief Financial Officer, Langley Research Center
Chief Financial Officer, 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 Acquisitions Issues, General Accounting Office
Professional Assistant, Senate Subcommittee on Science, Technology, and Space

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, Committee on Science

Congressional Member

Honorable Pete Sessions, U.S. House of Representatives

NASA Assistant Inspector General for Auditing
Reader Survey

The NASA Office of Inspector General has a continuing interest in improving the usefulness of our reports. We wish to make our reports responsive to our customers' interests, consistent with our statutory responsibility. Could you help us by completing our reader survey? For your convenience, the questionnaire can be completed electronically through our homepage at http://www.hq.nasa.gov/office/oig/hq/audits.html or can be mailed to the Assistant Inspector General for Auditing; NASA Headquarters, Code W, Washington, DC 20546-0001.

Report Title: Internal Controls Over Processing Deobligations

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
Very Good
Good
Fair
Poor

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? ____

____
____
____
____
____
____

How could we improve our report? ____
____
____
____
____
____
____

How would you identify yourself? (Select one)

Congressional Staff
NASA Employee
Private Citizen
Government: _________ Federal: __________ State: _________ Local: _________
Media
Public Interest
Other: ___________________________

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

Chester A. Sipsock, Program Director, Environmental and Financial Management Audits

Sandra A. Massey, Program Manager

Linda Wagner Anderson, Auditor-in-Charge

William R. Lester, Auditor

Nancy C. Cipolla, Report Process Manager

Betty G. Weber, Operations Research Manager

Annette Huffman, Program Assistant