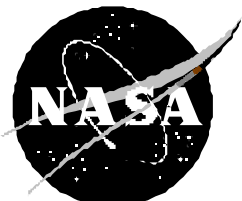


IG-02-019

**AUDIT
REPORT**

**PROPERTY CONTROL SYSTEM ANALYSIS
REPORTING ON SPACE FLIGHT
OPERATIONS CONTRACT
SUBCONTRACTORS**

July 8, 2002



National Aeronautics and
Space Administration

OFFICE OF INSPECTOR GENERAL

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

Acronyms

DOD	Department of Defense
DCMA	Defense Contract Management Agency
FAR	Federal Acquisition Regulation
FY	Fiscal Year
IPO	Industrial Property Officer
OIG	Office of Inspector General
SFOC	Space Flight Operations Contract
USA	United Space Alliance

July 8, 2002

W

TO: JSC/AA/Director, Lyndon B. Johnson Space Center

FROM: W/Assistant Inspector General for Audits

SUBJECT: Final Report on Audit of Property Control System Analysis Reporting on
Space Flight Operations Contract Subcontractors
Assignment Number A-00-007-01
Report Number IG-02-019

Enclosed please find the subject final report. Our evaluation of your response has been incorporated into the body of the report. We consider management's proposed corrective actions responsive for the recommendations, which will remain open for reporting purposes until corrective actions are completed. Please notify us when actions have been completed on these recommendations. The final report distribution is in Appendix F.

We appreciate the courtesies extended to the audit staff. If you have questions concerning the report, please contact Daniel J. Samoviski, at (301) 286-6890, or Larry J. Timmons, at (321) 867-4705.

[Original Signed By]
Alan J. Lamoreaux

Enclosure

cc:

HQ/AI/Associate Deputy Administrator

HQ/AB/Associate Deputy Administrator for Institutions

HQ/B/Deputy Chief Financial Officer

HQ/B/Comptroller

HQ/BF/Director, Financial Management Division

HQ/G/General Counsel

HQ/JM/Director, Management Assessment Division

NASA Office of Inspector General

IG-02-019
A-00-007-01

July 8, 2002

Property Control System Analysis Reporting on Space Flight Operations Contract Subcontractors

Introduction

NASA accomplishes much of its mission through the use of contractors and often provides Government-furnished property to them, or the contractors acquire property using NASA funds. On October 31, 1996, the Johnson Space Center (Johnson) awarded the Space Flight Operations Contract (SFOC) to the United Space Alliance (USA). The SFOC involves processing and maintaining the Space Shuttle, which includes the orbiter, external tank, and solid rocket booster components. As of September 30, 2000, USA held Government property¹ valued at more than \$9.6 billion and 107 SFOC subcontractors held \$1.289 billion of Government property.

Contractors and subcontractors are required to manage and account for NASA property in accordance with Federal and NASA regulations and policies. Accordingly, contractors and subcontractors develop and maintain property management systems to ensure that they comply with those requirements. A prime contractor can either oversee a subcontractor's property management system or request that NASA delegate this responsibility to a supporting Government property administrator, such as the Defense Contract Management Agency (DCMA²).

At USA's request, NASA delegated oversight responsibility to the DCMA for the 107 SFOC subcontractors. This oversight responsibility includes performing a property control system analysis (System Analysis) of the contractor's property management system. The System Analysis is a critical property management tool because it evaluates 15 elements of a contractor's property management system (see Appendix B). The objective of the System Analysis is to identify system weaknesses and ensure compliance with contract terms and conditions. For example, for the acquisition element of the System Analysis, DCMA addresses contract compliance by assessing acquisition controls to ensure that contractors and subcontractors buy or fabricate only contractually approved items. If the DCMA waives the System Analysis, then DCMA should provide a letter to

¹ Government property includes items such as special test equipment, special tooling, agency-peculiar equipment, and raw materials used for Shuttle and International Space Station fabrication and maintenance.

² The DCMA, a Department of Defense agency, provides a variety of delegated services to Federal agencies such as contract administration, quality assurance, and property administration.

NASA stating so and the basis for the waiver.³ DCMA summarizes the results of the System Analysis in a report titled "Summary of Property Control System Analysis," which should be provided to the Johnson Industrial Property Officer (IPO) within 30 days of issuance.⁴

Our audit objective was to determine whether NASA properly managed contractor-held property by obtaining and reviewing DCMA System Analysis reports. A subsequent report will address other issues associated with property that was lost, damaged, or destroyed and identifying excess property. Details on our scope and methodology are in Appendix A.

Property Administration Oversight Reporting

NASA is not assured that Government property held by SFOC subcontractors was properly managed. Specifically, NASA property officials did not maintain effective communications with DCMA property administrators to keep fully informed about SFOC subcontractor performance and progress related to property control problems. For example, the NASA IPO did not obtain and review fiscal year (FY) 2000 DCMA System Analysis Reports for SFOC subcontractors whose property administration NASA delegated to DCMA at the request of the prime contractor. This occurred because the SFOC IPO did not perform the required property management administration oversight responsibilities. Accordingly, NASA is not assured that the SFOC prime contractor has an established system to assess the adequacy of records control, protection, preservation, and maintenance of \$86 million of Government property in the possession of SFOC subcontractors.

NASA Guidance for Property Administration

Agency Guidance. The NASA Federal Acquisition Regulation (FAR) Supplement, Subpart 1845.7205, describes property administration functional oversight responsibilities. The NASA FAR Supplement states that NASA contracting officers retain functional management responsibility for their contracts. Furthermore, utilization of another contract administration office, such as DCMA, does not relieve contracting officers of their ultimate responsibility for the proper and effective management of contracts. Each NASA installation designates an IPO to manage and coordinate property matters among the various contracting officers, technical officials, contractor officials, delegated property administrators such as DCMA, and plant clearance officers. Generally, the IPO is responsible for the entire contract property management function.

The NASA FAR Supplement 1845.7205 assigns several responsibilities to the IPO including maintaining effective communication with delegated property administrators,

³ The Letter of Contract Administration Delegation, Special Instructions (NASA Form 1430A), requires DCMA to advise NASA on any waivers of the System Analysis.

⁴ Details on the IPO's responsibilities are in this report in the section entitled Property Administration Oversight Reporting.

such as DCMA, to keep fully informed about contractor performance and progress on any property control problems. Furthermore, the IPO is required to obtain and review System Analysis reports for all contracts for which property administration has been delegated in order to keep fully informed of any property control problems.

Procurement Information Circular. On August 13, 1997, the NASA Procurement Office issued Procurement Information Circular 97-5, which contains instructions for contracting officers to use when delegating property administration and plant clearance responsibilities (see Appendix C). The Circular requires the contracting officer to ensure that DCMA regularly provides all the required information and documents, such as the System Analysis reports, to NASA.

Department of Defense (DOD) Guidance. The DOD Manual for the Performance of Contract Property Administration sets forth instructions to property administrators to ensure uniformity and consistency in the administration of contract provisions relating to property held by contractors and subcontractors. The Manual identifies 15 property management system analysis elements, which are briefly described in Appendix B. For one of those elements, subcontract control, the Manual states that if a delegated property administrator, such as DCMA, identifies deficiencies in the subcontractor's property management system, then the NASA property administrator will ascertain whether the prime contractor had knowledge of the deficiencies and whether corrective actions were implemented. The System Analysis reports should identify deficiencies in the subcontractor's property management system.

Submission of System Analysis Reports

System Analysis Reports Not Obtained and Reviewed. The Johnson IPO did not perform required property management oversight responsibilities. Specifically, for FY 2000, the Johnson IPO did not obtain and review 34 of the 107 required System Analysis reports for SFOC subcontractors or obtain waiver justifications from DCMA. The 34 subcontracts, which included \$86 million in Government property, are shown in Appendix D.⁵ The IPO is identified in the contracting officer's Letter of Acceptance of Contract Administration Delegation (NASA Form 1431) as the recipient of the System Analysis reports or waiver justifications. As stated in the NASA FAR Supplement, the IPO is the primary custodian of the System Analysis reports and uses them to manage and account for Government property in the possession of subcontractors. The IPO, therefore, must ensure that the System Analysis reports are obtained and reviewed within 30 days of issuance and should request them directly from the DCMA when they are not received. If the reports are not received after notification to DCMA, the IPO should inform the cognizant contracting officer.

⁵ During our audit work, we found that NASA did not assess SFOC subcontract management in 2001. As a result, we obtained a subcontract listing from USA, which showed that, as of March 4, 2002, USA had not received 25 of 102 required System Analysis reports. The property value related to the 25 reports exceeds \$53 million.

Need for System Analysis Reports. We judgmentally selected 20 of the 34 subcontracts for review to determine the reasons the System Analysis reports were not obtained and reviewed. The 20 subcontracts accounted for \$65 million of the \$86 million of contractor-held property. We contacted the DCMA property administrators for the selected subcontracts and obtained System Analysis reports for all 20 subcontracts. (The 20 subcontracts are identified in Appendix D with a yes in the Reports Obtained column.) The Johnson IPO stated that she did not obtain and review all the System Analysis reports during FY 2000 because of a heavy workload and insufficient staff resources. Further, the IPO did not notify the SFOC contracting officer that all the required System Analysis reports (or waiver justifications) for SFOC subcontractors were not received.

Because the IPO did not obtain and review the 34 System Analysis reports, NASA could not determine whether \$86 million in Government property held by 34 (of 107) SFOC subcontractors was properly managed and accounted for. The NASA IPO and property administrators should use the System Analysis reports to assess the contractor's performance of property administration. The analysis of a contractor's property control system is a critical part of the property oversight process. Through reviewing the System Analysis report, the property administrator determines whether the contractor is effectively and efficiently complying with the terms and conditions of the contract.

If the System Analysis report identifies unsatisfactory conditions, NASA may disapprove the contractor's property control system. When this happens, the contractor's liability for lost, damaged, or destroyed property could increase. The status of the property control system determines where the burden of proof rests whenever Government property is lost, damaged, or destroyed. Under an approved property control system, the burden of proof rests with the Government to prove that the property loss, damage, or destruction resulted from willful misconduct or lack of good faith on the part of the contractor. However, under a property management system in which approval has been withheld or withdrawn, the burden of proof shifts to the contractor, who must prove that the property loss, damage, or destruction was not connected with any deficiency that caused withdrawal of system approval.

Conclusion

System Analysis reports serve an important function in ensuring that contractors comply with contract terms and conditions while managing Government property in their custody. Approval of a contractor's property management system also affects the contractor's liability for property that is lost, damaged, or destroyed. Accordingly, it is critical that NASA annually obtain and review the reports for each of the USA subcontractors to ensure that Government property valued at more than a billion dollars in their possession is being properly managed and accounted for. NASA should contact DCMA and determine the status of the System Analysis reports for the 14 contracts noted in Appendix D.

Recommendations, Management's Response, and Evaluation of Response

The Director, Johnson Space Center, should direct:

- 1. The SFOC contracting officer to immediately initiate follow-up actions with DCMA to ensure that it submits the remaining 14 System Analysis reports.**
- 2. The IPO to annually obtain and review the System Analysis reports for all SFOC subcontractors, for which NASA delegated property administration responsibilities to DCMA (at USA's request), in accordance with the requirements of the NASA FAR Supplement.**

Management's Response. NASA concurred with the recommendations and is in the process of completing corrective actions. However, NASA did not agree with the report findings and conclusions regarding oversight adequacy. NASA stated that actual oversight responsibility, which is the prime contractor's responsibility; the adequacy of the subcontractors' property control; and the performance of system analysis by DCMA were never in question. NASA stated that the only issue in question is the Johnson IPO maintenance of a complete file of DCMA subcontractor system analysis reports, which is not required.

For recommendation 1, NASA stated that the delegations, which created the requirement for DCMA to send the System Analysis reports to NASA, were in error and were not a FAR requirement. Further, all existing support requests will be reissued to reflect supporting property administration special instructions and to require that copies of System Analysis reports be submitted to the prime contractor. The Johnson property administrator obtained the outstanding 14 System Analysis reports to ensure that all issues discussed in the audit report were properly reviewed.

Regarding recommendation 2, although NASA did not agree with the report findings, management is taking appropriate actions to establish a better delineation of the appropriate property administration responsibilities for all parties involved. NASA management stated that the report findings are based on the auditor's interpretation of the extent of the Government's responsibilities regarding subcontractor oversight and that prime contractors are responsible for all Government property under their contracts, including property in the possession or control of a subcontractor. There is no requirement for the IPO to obtain, review, and maintain a file of the systems analyses for the prime contractor's subcontractors. The NASA property administrator is to review the prime contractors' management and control of their subcontractors during the performance of the Subcontract Control function. NASA has no privity of contract with a prime contractor's subcontractors. Subcontracts are commercial agreements, not Government contracts. NASA has privity of contract with prime contractors only;

therefore, NASA requires them to ensure that their subcontractors manage any NASA-owned property in accordance with the prime's standards that have been approved by the Government. Only the prime contractor is required to provide property management and data to NASA, regardless of where the property is located. NASA may request supporting property administration at an alternate or subcontractor location when requested by the prime contractor. This does not relieve the prime contractor of responsibility.

The complete text of management's response is in Appendix E.

Evaluation of Management's Response. Management's proposed actions are responsive to our recommendations. The recommendations are considered resolved but will remain open until proposed actions are completed.

In reference to recommendation 1, NASA is reissuing those delegations, which will require DCMA to send the System Analysis reports to the prime contractor instead of to the IPO. The delegation re-issuance eliminates the requirement for the IPO to obtain and review the System Analysis reports. Although NASA stated that the 14 outstanding System Analysis reports were obtained and reviewed, NASA did not state whether DCMA identified any system deficiencies for those contractors. We will address this question during our verification of NASA's corrective actions.

Regarding recommendation 2, we do not agree with NASA's position that the report findings are based on our interpretation of the extent of the Government's responsibilities regarding subcontractor oversight. Rather, our position is the result of the property administration delegations, which created the requirement for DCMA to send System Analysis reports or waiver justifications to NASA. As a result, the Johnson IPO should have obtained and reviewed the reports or waiver justifications as required by the NASA FAR Supplement. We discussed our concerns with former NASA contracting officers who concurred with our observations and conclusions. As noted earlier, NASA management is reissuing the delegations to require DCMA to issue the System Analysis reports to the prime contractor instead of the IPO.

We also do not agree with NASA's position that the only issue in question was the maintenance of a complete file of DCMA reports by the Johnson IPO. Those reports serve a valuable purpose in that they alert both the prime contractor and NASA management of potential property management system deficiencies. When the reports are not obtained and reviewed by NASA, then NASA loses assurance that the contractor is complying with contract terms and conditions while managing Government property in its custody.

Appendix A. Objectives, Scope, and Methodology

Objective

Our overall objective, which will be addressed in future audits, was to determine whether NASA and its delegated agencies appropriately managed Government property held by contractors. This report addresses whether the Johnson Space Center (Johnson) obtained and reviewed required reports from the Defense Contract Management Agency (DCMA).

Scope and Methodology

The audit scope focused on property administration and Property Control System Analysis (System Analysis) reports received for fiscal year 2000 under the Space Flight Operations Contract (NAS 9-20000). We reviewed contract documentation for 107 contracts with more than \$1.2 billion in contractor-held property to determine whether the Johnson Industrial Property Officer (IPO) followed property administration requirements and guidance. We identified 34 SFOC subcontracts with \$86 million in contractor-held property for which the Johnson IPO did not obtain and review System Analysis reports or waivers from DCMA. We reviewed pertinent System Analysis reports and Department of Defense (DOD) and NASA guidance. We interviewed NASA and contractor personnel to clarify property administration issues. We did not use computer-processed data in the audit.

Management Controls Reviewed

We reviewed the following management controls:

- Federal Acquisition Regulation (FAR) Part 42, "Contract Administration and Audit Services," Subpart 42.2, "Contract Administration Services," states that contracting officers can delegate contract administration or specialized support services to another agency such as the DCMA.
- FAR Part 42, "Contract Administration and Audit Services," Subpart 42.3, "Contract Administration Office Functions," lists those services, which include property administration, that can be delegated by a contracting officer.
- FAR Part 45, "Government Property," Subpart 45.3, "Providing Government Property to Contractors," describes policies and procedures for providing Government property to contractors.
- FAR Part 45, "Government Property," Subpart 45.5, "Management of Government Property in the Possession of Contractors," prescribes the minimum requirements contractors must meet in establishing and maintaining control over Government property.

Appendix A

- NASA FAR Supplement Part 1845, "Government Property," Subpart 1845.1, "General," states that NASA will use DOD Manual 4161.2-M, "Manual for the Performance of Contract Property Administration," when reviewing a contractor's property administration system.
- NASA FAR Supplement Part 1845, "Government Property," Subpart 1845.72, "Contract Property Management," Section 1845.7203, "Delegations of Property Administration and Plant Clearance," states that when property administration is delegated to DOD, property administration will be performed in accordance with DOD regulations and procedures.
- NASA FAR Supplement Part 1845, "Government Property," Subpart 1845.72, "Contract Property Management," Section 7204, "Retention of property administration and plant clearance," states that NASA may occasionally retain the property administration and plant clearance functions.
- DOD Manual 4161.2-M, "DOD Manual for the Performance of Contract Property Administration," sets forth instructions to ensure uniformity and consistency in the administration of contract provisions relating to Government property in the possession of contractors.

Audit Field Work

We performed the audit field work at Johnson and Kennedy Space Centers from October 2000 through November 2001. We conducted the audit in accordance with generally accepted government auditing standards.

Appendix B. Property Management System Analysis Elements

The objective of a property management system analysis is to assess the contractor's ability to comply with the approved property control system and contractual obligations as they pertain to property. The analysis, based on criteria in DOD Manual 4161.2-M, includes 15 elements, which are described below:

- 1. Property Management.** Ensures that the contractor establishes and maintains an approved property control system.
- 2. Acquisition.** Ensures that only contractually approved items are bought or fabricated.
- 3. Receiving.** Ensures that damaged or missing items are resolved and that accepted items are properly recorded.
- 4. Identification.** Ensures that property is properly identified, marked, and recorded.
- 5. Records.** Ensure proper accountability of property.
- 6. Movement.** Ensures that property is moved under the proper authority with appropriate documentation and adequate protection.
- 7. Storage.** Ensures that stored property is controlled, protected, and preserved.
- 8. Physical Inventories.** Ensure that the contractor schedules and performs inventories in accordance with the contractor's approved property control system.
- 9. Reports Preparation.** Ensures that contractor's property reports are timely, accurate, and complete.
- 10. Materials Consumption.** Ensures that materials are consumed in accordance with contract requirements and are not diverted to other work.
- 11. Utilization.** Ensures that the contractor used property in accordance with the contract terms and conditions.
- 12. Maintenance.** Ensures that the contractor established and follows an appropriate method of maintaining property.
- 13. Subcontract Control.** Ensures that the contractor established adequate subcontract control.
- 14. Disposition.** Ensures that the contractor has a system for disclosing excess property and for effecting its timely disposition.
- 15. Contract Close-Out.** Ensures that the contractor has a method to ensure completion of all contract close-out actions related to property.

Appendix C. Procurement Information Circular 97-5



National Aeronautics and
Space Administration
Washington, DC 20546

Procurement Information Circular

PIC 97-5

August 13, 1997

PROPERTY DELEGATION INSTRUCTIONS

PURPOSE: Distribution of contract property delegation instructions.

BACKGROUND: NFS 1845.7203 authorizes the Headquarters Logistics Management Office (Code JLG) to develop Contract Administration Delegation Special Instructions on Property Administration and Plant Clearance.

GUIDANCE: NASA contracting offices should use the latest version of the standard property delegation special instructions. Enclosed are the most recent versions, dated June 1997. Any modification of the standard property delegation special instructions must be approved in advance by Code JLG. These instructions have been distributed by separate means to center Supply and Equipment Management offices, the Defense Contract Management Command (DCMC) Headquarters, and the Office of Naval Research Headquarters. Contracting officers should ensure that: these instructions are included when contracts are awarded; receipt of the instructions is acknowledged by DCMC; a copy of the DCMC acknowledgment is provided to the center Industrial Property Officer; and DCMC regularly provides all the required information and documents. Changes to property delegation special instructions for grants will be provided separately in a Grants Notice or revision to the Grants and Cooperative Agreement Handbook

EFFECTIVE DATE: This PIC is effective as dated and shall remain in effect until canceled or superseded. Although recommended, delegation instructions under existing contracts need not be changed solely to incorporate the June 1997 version of the standard property delegation special instructions. However, if delegation instructions are being changed for any other reason, the new standard property delegation special instructions should also be included.

HEADQUARTERS CONTACTS: Tom O'Toole, Code H, (202) 358-0478; Billie E. Wilchek, (202) 358-2301.


Laura Layton

Director, Contract Management Division

Enclosures

Distribution:
NFSD List

**Appendix D. SFOC Subcontracts Without FY 2000
System Analysis Reports**

Subcontract Number	Subcontractor	Report Date ¹	Amount	Reports Obtained ²
42736	Abex Parker Hannifin	12/28/99	\$ 270,512	Yes
RR96K0171	AIL Systems	09/23/99	3,826,513	No
43060	Allied Signal	09/29/99	6,531,189	No
RR97K0229	Arrowhead	06/99	985,741	No
DT97K0045	Arrowhead Products	06/09/98	520,876	No
PP98K04284	Ball Aerospace	07/01/99	452,182	Yes
RR98K0303	Ball Aerospace	07/01/99	3,948,772	Yes
P00032830	Ball Aerospace	11/01/99	2,061,307	Yes
40756	Cincinnati Electronics	08/26/99	1,304,588	Yes
RR96K0166	Corning, Inc.	09/99	4,427,404	Yes
PP96K1988	Eaton	12/14/98	989,505	No
DT97K0047	Hamilton Sundstrand	09/10/98	4,374,735	Yes
P000024504	Hamilton Sundstrand	09/10/98	510,118	Yes
RR96K0183	Hamilton Sundstrand	09/10/98	3,424,249	Yes
40467	Hi Shear	11/18/98	130,863	No
77492	Honeywell	02/09/99	7,850,670	Yes
DT97K0040	Honeywell	02/09/99	4,165,418	Yes
P000040406	Honeywell	02/09/99	168,640	Yes
RR98K0336	Honeywell	02/09/99	2,940,480	Yes
DT97K0052	Kearfott	11/05/96	1,435,676	No
RR97K0222	Kearfott	11/05/96	1,325,426	No
RR97K0294	L-3 Communication	03/25/97	121,821	No
43878	Lebargé, Joplin	08/19/97	395,417	No
P000020662	Lockheed Martin	06/10/99	12,278,901	Yes
RR98K0306	Lockheed Martin	06/10/99	5,583,971	Yes
42628	Metrum-Datape	01/19/95	364,994	No
40754	Moog	04/22/99	7,861,225	Yes
300552	Moog	04/22/99	131,062	Yes
DT97K0051	Moog	04/22/99	1,498,305	Yes
RR97K0249	Moog	04/22/99	1,295,106	Yes
RR96K0164	Northrup Grumman	09/29/97	3,964,823	No
DT97K0048	Odetics	08/29/96	1,186,562	Yes
45882	Primex Aeospace	11/23/98	176,244	No
PP97K3386	Primex Aeospace	11/23/99	<u>162,453</u>	No
		Total	\$86,665,748	

¹ The report date is the most current report in the property administrator's file. The Defense Contract Management Agency (DCMA) rated the subcontractor's property management system as of the report date.

² Yes means that we obtained the DCMA System Analysis reports and that the subcontractor's property management system is rated satisfactory. No indicates that we did not obtain System Analysis reports from the DCMA for these subcontractors. Accordingly, the Johnson Industrial Property Officer should obtain and review these reports.

Appendix E. Management's Response

National Aeronautics and
Space Administration
Lyndon B. Johnson Space Center
2101 NASA Road 1
Houston, Texas 77058-3696



May 8, 2002

Reply to Airm of:

BD5

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

FROM: AA/Director

SUBJECT: Management's Response to OIG's Draft Report on Property Control
System Analysis Reporting on Space Flight Operations Contract
Subcontractors, A-00-007-01

The subject draft report discusses the Johnson Space Center's Space Flight Operations Contract (SFOC) with United Space Alliance (USA). To clarify the report findings, we provide the following background and contextual information concerning the various property administration responsibilities under this contract.

NASA, under the Federal Acquisition Regulation (FAR), can either retain its property administration responsibilities under prime contracts or delegate that function to a Department of Defense (DOD) activity (the Defense Contract Management Agency (DCMA) for commercial firms and the Office of Naval Research (ONR) for universities and nonprofits). One of these DOD offices often is already performing this function for other DOD and NASA contracts with a particular contractor. For the SFOC, NASA-JSC retained property administration responsibilities; therefore, the Industrial Property Officer (IPO) at JSC is also the Property Administrator (PA) for the prime contract. Since a major portion of contract performance is at or near the Kennedy Space Center (KSC) in Florida, the JSC PA is assisted by a KSC PA in performing a portion of the property control system analysis and other activities for that location.

A prime contractor is ultimately responsible for oversight of all NASA property under its contract, including property it provides to its subcontractors, and must perform periodic property control system analyses to evaluate the efficacy of property control by those subcontractors. In lieu of performing system analyses themselves, however, prime contractors may request that NASA obtain support for them from DOD. For many of the SFOC subcontracts issued by both the USA West (Texas) and the USA East (Florida) contractor sites, USA requested NASA to obtain DOD property administration support to supplement their own oversight. The support requests issued from KSC included, as an attachment, NASA's Agencywide standard Special Delegation Instructions for Property Administration that are developed by NASA Headquarters for use with prime contracts.

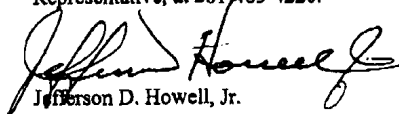
These instructions contain requirements that are inappropriate for subcontractors because subcontracts are commercial instruments with no privity of contract between NASA and the company. One of these requirements is financial reporting and another is the direction to DOD to submit system analysis reports to the cognizant NASA IPO.

As a part of its property control system, the prime contractor is required to maintain a copy of the DOD property control system analysis for each subcontractor including those for which DOD support has been requested. These are normally obtained by the prime directly from the subcontractors. NASA may be requested to assist in obtaining reports from DOD if the prime is unable to do so. Subcontract control is one of the elements evaluated by the prime PA during the periodic property control system analysis. The June 10, 2000, analysis performed by KSC found USA East to be performing their responsibilities satisfactorily under subcontract control.

Your draft report findings assert that the JSC IPO did not have on file copies of all subcontractor system analysis reports and alleges that this is evidence of a lack of accountability on the part of the IPO for property oversight. We stress that actual oversight responsibility, which is the prime contractor's, was never in question, nor was the adequacy of the subcontractors' property control or the performance of system analysis by DOD – only the maintenance of a complete file of DOD reports of subcontractor system analysis by the JSC IPO, something that is not required. These reports are required to be kept on file only by the prime contractor USA, not NASA, as discussed more thoroughly in the enclosure. Your draft report further acknowledges that for the system analysis reports, both those on file and those obtained during the audit and analyzed by your office, no evidence of property being improperly accounted for was found.

While we cannot agree with the report findings as they are stated, since they are in conflict with the appropriate relationship among NASA, its primes and their subcontractors, we have taken the action discussed in recommendation 1. We are in the process of revising all DOD subcontract property administration support requests to remove language that is appropriate only for prime contract delegations.

If you have any questions, please contact Ms. Pat Ritterhouse, Audit Liaison Representative, at 281-483-4220.


Jefferson D. Howell, Jr.

Enclosure

Appendix E

cc:
BA/R. K. Gish
BV/H. Baker
JA/J. B. Walker
JB3/M. E. Davis
JB3/S. J. Hawsey
HQ/HK/L. Becker
HQ/J/J. E. Sutton
HQ/JG/J. Parker
HQ/JG/B. Wilchek
HQ/JM/J. D. Werner
HQ/MX/G. A. Gabourel
HQ/W/D. J. Samoviski

**Management's Response to OIG's Draft Report on Property Control System
Analysis Reporting on Space Flight Operations Contract Subcontractors,
A-00-007-01**

Auditor's Findings

"At USA's request, NASA delegated oversight responsibility to the DCMA for the 107 SFOC subcontractors. This oversight responsibility includes performing a property control system analysis (System Analysis) of the contractor's property management system. The System Analysis is a critical property management tool because it evaluates 15 elements of a contractor's property management system.

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"NASA is not assured that Government property held by SFOC subcontractors was properly managed. Specifically, NASA property officials did not maintain effective communications with DCMA property administrators to keep fully informed about SFOC subcontractor performance and progress related to property control problems. For example, the NASA IPO did not obtain and review fiscal year (FY) 2000 DCMA System Analysis Reports for SFOC subcontractors whose property administration NASA delegated to DCMA, at the request of the prime contractor. . . . NASA is not assured that the SFOC prime contractor has an established system to assess the adequacy of records control, protection, preservation, and maintenance of \$86 million of Government property in the possession of SFOC subcontractors."

Recommendations for Corrective Action

"The Director, Johnson Space Center, should direct:

1. The SFOC contracting officer to immediately initiate follow-up actions with DCMA to ensure that it submits the remaining 14 Systems Analysis reports.
2. The IPO to annually obtain and review the Systems Analysis reports for all SFOC subcontractors, for which NASA delegated property administration responsibilities to DCMA (at USA's request), in accordance with the requirements of the NASA FAR Supplement.

JSC Comments

Recommendation 1. While the requirement via delegation letter was to submit these reports to the KSC Support PA, that delegation was in error and not a requirement of the Federal Acquisition Regulation (FAR) or NASA FAR Supplement (NFS). However, to ensure that all issues discussed in your report findings were properly reviewed, the JSC Program PA did obtain copies of the outstanding systems analysis reports; which are

Enclosure

currently on file with the JSC Program PA. This action is responsive to the recommendation, and we consider it closed.

Recommendation 2. Again, while we do not agree with the report findings and conclusions regarding adequacy of oversight as stated, we are taking appropriate actions to establish a better delineation of the appropriate property administration responsibilities of all parties involved. The report findings are based on the auditor's interpretation of the extent of the Government's responsibilities regarding subcontractor oversight. Prime contractors are responsible for all government property under their contracts, including property in the possession or control of a subcontractor. There is no requirement for the IPO (or NASA PA) to obtain, review and maintain a file of the systems analyses for prime contractor's subcontractors. The NASA PA is to review the prime contractors' management and control of their subcontractors during the performance of the Subcontract Control function during the property control system analysis of the prime. NASA has no privity of contract with a prime's subcontractors. Subcontracts are commercial agreements, not Government contracts. Prime contractors are the only ones NASA has privity of contract with, therefore, we require the primes to ensure that their subcontractors manage any NASA owned property in accordance with the prime's standards that have been approved by the Government. Only the prime is required to provide property management and data to NASA, regardless of where the property is located. NASA may request supporting property administration at an alternate or subcontractor location when requested by the prime contractor. This does not relieve the prime contractor of responsibility.

The draft report discusses DOD Guidelines for the performance of contract property administration. As shown in your draft report, this document references "contract provisions." It further states that under the system analysis element of subcontract control, if information from a support property administrator, such as DCMA, reveals deficiencies in the subcontractor's property management system, then the property administrator for the prime will ascertain whether the prime contractor had knowledge of the deficiencies and whether appropriate corrective actions were implemented. None of the USA subcontract system analysis reports describe such deficiencies.

We are, however, taking additional measures to strengthen our process whereby the JSC Program Property Administrator will coordinate all requests for DOD property administration support for USA subcontractors, whether the subcontract is issued by USA-East or USA-West. All existing support requests will be reissued to reflect supporting property administration special instructions appropriate for subcontracts and to require copies of reports be submitted to the prime contractor. We expect this re-issuance effort to be completed by May 31, 2002.

We reiterate that while the audit objective was to determine whether delegated DOD activities are providing copies of system analyses to NASA IPOs in accordance with delegation instructions, the draft report only addresses subcontractor systems analyses and only under one contract (the Shuttle contract with USA). Responsibility for overall Agency policy regarding property administration resides with the Assistant Administrator

Appendix F. Report Distribution

National Aeronautics and Space Administration (NASA) Headquarters

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

NASA Centers

JSC/AA/Director, Lyndon B. Johnson Space Center
KSC/AA/Director, John F. Kennedy Space Center
KSC/CC/Chief Counsel, John F. Kennedy Space 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
Managing Director, Acquisition and Sourcing Management Team, General Accounting Office
Senior Professional Staff Member, 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 Efficiency, Financial Management, and Intergovernmental Relations

House Subcommittee on Technology and Procurement Policy

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 Audits
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 Audits; NASA Headquarters, Code W, Washington, DC 20546-0001.

Report Title: Property Control System Analysis Reporting on Space Flight Operations Contract Subcontractors

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

CIRCLE THE APPROPRIATE RATING FOR THE FOLLOWING STATEMENTS.

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

Overall, how would you rate the report?

- Excellent Fair
 Very Good Poor
 Good

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

How did you use the report? _____

How could we improve our report? _____

How would you identify yourself? (Select one)

- | | |
|---|--|
| <input type="checkbox"/> Congressional Staff | <input type="checkbox"/> Media |
| <input type="checkbox"/> NASA Employee | <input type="checkbox"/> Public Interest |
| <input type="checkbox"/> Private Citizen | <input type="checkbox"/> Other: _____ |
| <input type="checkbox"/> Government: _____ Federal: _____ State: _____ Local: _____ | |

May we contact you about your comments?

Yes: _____ **No:** _____

Name: _____

Telephone: _____

Thank you for your cooperation in completing this survey.

Major Contributors to the Report

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