



**Office of Inspector General**  
Washington, DC 20546-0001

September 28, 2007

**TO:** Director, Marshall Space Flight Center  
Chief Financial Officer  
Assistant Administrator for Procurement

**FROM:** Assistant Inspector General for Auditing

**SUBJECT:** Final Memorandum on Audit of Marshall Space Flight Center's  
Administration of Government Property Held Off-Site by Contractors  
(Report No. IG-07-030; Assignment No. A-07-003-00)

The Office of Inspector General (OIG) has completed an audit of Marshall Space Flight Center's (MSFC's) administration of Government property held off-site by contractors. The OIG received an allegation concerning MSFC's management of Government property held off-site by contractors. The complainant alleged that (1) the MSFC Procurement Office contracting officers (COs) did not ensure property administration delegations had been done for Government-owned property held off-site by contractors, (2) procurement personnel and contracting officer's technical representatives (COTRs) were not properly trained in management of Government property, and (3) contractors had custody of Government-furnished and contractor-acquired<sup>1</sup> property that they were not authorized to have by contract.

To address these allegations, we reviewed the 17 contracts and grants identified by the complainant (Enclosure 2). The value of the Government property assigned to these contracts and grants over the procurement actions' life cycles was more than \$18 million. In consideration of the complainant allegations, our objective was to determine whether the MSFC COs were managing Government property held off-site by contractors in accordance with regulatory guidance. Specifically, we determined whether the MSFC COs properly delegated property administration and obtained formal acceptance letters for administration of Government property under NASA contracts and grants, whether procurement personnel and COTRs received sufficient property-management training, and whether MSFC COs ensured proper authorization and accounting for contractor-held Government property in accordance with contract and procurement regulations. We also reviewed internal controls as appropriate. (See Enclosure 1 for details on the audit's scope and methodology.)

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<sup>1</sup> Contractor-acquired property is property acquired or otherwise provided by the contractor for performing a contract and to which the Government has title.

## *Executive Summary*

We substantiated the complainant's allegation that MSFC COs did not always properly delegate property administration or obtain a letter of acceptance from the contract administration office (CAO) responsible for administering the contractor or grantee award. Specifically, we found that, for Government property valued in excess of \$18 million, MSFC COs could not ensure that the Defense Contract Management Agency (DCMA) or the Office of Naval Research (ONR) CAOs had accepted administration or that the property was properly safeguarded or used in accordance with the contracts' terms and conditions. Our audit also revealed that MSFC COs had not ensured accurate reporting and accounting for contractor-held Government property in accordance with the contract and regulatory guidance. We found that inaccurate reporting by one contractor and one grantee on the fiscal year (FY) 2006 NASA Form (NF) 1018 "NASA Property in the Custody of Contractors," may have resulted in reporting errors totaling an overstatement of \$2.2 million for MSFC contractor-held Government property in the Agency's financial statements. We also found that the grantee had custody of Government property valued at more than \$234,000 that was no longer needed or being used to support the related MSFC contract.

However, we were unable to substantiate the allegation that procurement personnel and COTRs were not properly trained in property management. We found that Government property management training is not a requirement for certification of NASA procurement personnel. Although procurement personnel that we interviewed had very little training specific to property management, we did not find that lack of training to be a significant, negative factor in MSFC COs' understanding of or ability to manage contractor-held Government property in accordance with regulatory guidance. We also found that COTRs are not directly involved with the administration of contractor-held Government property, other than to help prepare shipping documents. Therefore, Government property administration training is not a requirement commensurate with COTR functions. Further, it is Agency policy to have COs delegate property administration to DCMA and ONR for off-site contractors; therefore, functional property management becomes the responsibility of DCMA or ONR.

We also were unable to substantiate that contractors had custody of Government-furnished and contractor-acquired property that was not authorized by contract. All Government-furnished and contractor-acquired property, within the scope of our review, was authorized by contract.

In our August 13, 2007, draft of this memorandum, we recommended that the MSFC Procurement Officer develop internal controls to ensure COs (1) delegate and obtain acceptance from the cognizant CAO for administration of Government property in a timely manner, as required by NASA guidance; (2) delineate and acquire requisite property administration so that contractors are responsible for, account for, and accurately report on Government property, as required by Federal Acquisition Regulation (FAR); and (3) implement sufficient oversight so that contractors promptly disclose excess property and the COs facilitate timely disposition, as required by NASA, Department of Defense (DoD), and FAR guidance. We further recommended (4) that the

MSFC Chief Financial Officer (CFO) review internal controls to ensure that the NF 1018 Validation Checklist is completed for all contractor property valued in excess of \$100,000, as required by NASA guidance.

Management concurred with Recommendations 1, 2, and 3. However, management's planned actions are not fully responsive. Management's stated action for Recommendations 1, 2 and 3 is to conduct a training session relevant to the specific regulations addressed in the recommendations, to include emphasizing existing internal controls. During our review, we found the guidance to be adequate; however, we found no indication of internal controls to validate and ensure on-going adherence to established guidance. Our recommendations were focused on developing internal controls to provide recurring follow-up and validation of compliance with relevant regulations. Examples of internal controls that might be employed include periodic compliance validation assessments or receipt of periodic reports from COs certifying compliance, with random management validation checks. Therefore, we consider Recommendations 1, 2, and 3 open and unresolved.

Management concurred with the intent of Recommendation 4. However, management's comments are not fully responsive. Management questioned our specific findings related to one contract and one grant, as related to our interpretation and application of established regulatory guidance, and management requested we close Recommendation 4 based on management's comments. We reviewed our findings and conclusions and believe our initial recommendation remains valid. Therefore, Recommendation 4 remains open and unresolved (see Enclosure 3).

### ***Background***

NASA provides its contractors Government-furnished property to use in helping the Agency accomplish its mission; however, NASA retains overall responsibility for the oversight of contractor-held property. NASA Procurement Information Circular (PIC) 01-19, "Guidance for Delegation of Property Administration," July 27, 2001, states that for all property held by off-site contractors and grantees, NASA COs should delegate property administration to DCMA or ONR since Center property offices are not staffed to perform this work. The 17 contractors and grantees identified by the complainant were off-site. PIC 01-19 states that property administration delegation should be made at time of contract award. NASA's supplement to the Federal Acquisition Regulation (FAR)—the NASA FAR Supplement (NFS) 1842.202, "Assignment of Contract Administration" (as modified through Procurement Notice 04-22, dated April 5, 2007), paragraph (d)(ii), also requires NASA COs to prepare and forward NF 1430, "Letter of Contract Administration Delegation, General," to the CAO at the time of contract award. The primary purpose of property administration is to ensure the contractor meets the contract terms and conditions for acquiring, controlling, using, caring for, reporting on, and disposing of Government property.

Contractors and grantees that have custody of Government-furnished and contractor-acquired property must complete and submit an NF 1018 at the close of each fiscal year. The monetary value of all such property is then added to NASA's annual financial statements. FAR 45.502 states that the contractor is directly responsible and accountable

for all Government property in accordance with the requirements of the contract. Further, NFS 1852.245-73 requires that the contractors validate and ensure the asset values reported on the NF 1018 are accurate and in compliance with NFS. Nevertheless, NASA retains overall responsibility for reporting on, as well as oversight of, contractor-held property and responsibility for ensuring that reporting is accurate. Additionally, the NASA Financial Management Requirements (FMR), issued by the Office of the Chief Financial Officer, in Volume 6, "Accounting," Chapter 4, "Property, Plant and Equipment," November 2006, requires the MSFC CFO to ensure that the NF 1018s submitted by the contractors are materially accurate.

### ***Delegation and Acceptance for Administration of Government Property***

We determined that 7 of the 17 contracts and grants identified by the complainant did not include Government property and, therefore, did not require COs to delegate and obtain CAO acceptances for property administration. For 1 of the 17 contracts and grants reviewed, the CO had properly delegated property administration and obtained acceptance from the CAO at contract award.

We found that 9 of the 17 contracts and grants were not properly delegated by the MSFC CO or accepted by DCMA or ONR CAOs (see Table 1). Of that 9, we found that COs had not properly delegated 2 contracts and had not obtained acceptances from the CAOs for 2 additional contracts. Over the life of these 4 contracts, covering Government property worth more than \$6 million, MSFC COs could not validate administration of the property or ensure that the property was properly safeguarded or used in accordance with the contracts' terms and conditions. We also found 5 contracts for which delegation and acceptance of property administration was established 9 months or more after contract award. This timeframe represents a significant period during which MSFC COs did not have a defined Government property management conduit for assets valued at approximately \$12 million or the ability to ensure that property was properly safeguarded or used in accordance with the contracts' terms and conditions.

<b>Table 1. Contracts and Grants that Lacked Proper Delegation and Acceptance</b>			
<b>Contract/Grant Number</b>	<b>Contractor/Grantee</b>	<b>Impropriety</b>	<b>Property Value</b>
NNM04AA11C	SRS Technologies	CO had not delegated property administration to DCMA but contractor held Government property.	\$115,925
NNM04AA40C	Tethers Unlimited, Inc.	CO had not delegated property administration to DCMA but contractor held Government property.	\$12,969
NNM04AB00C	KT Engineering Corp., and subcontractors	CO had not obtained a letter of acceptance from DCMA for property administration.	\$3.9 million
NAS8-38678	Tether Applications, Inc.	CO had not obtained a letter of acceptance from DCMA for property administration.	\$2.3 million
NNM04AB17C	Science Systems and Applications, Inc.	CO obtained acceptance of property administration from DCMA approximately 24 months after contract award.	\$14,945

<b>Table 1. Contracts and Grants that Lacked Proper Delegation and Acceptance (continued)</b>			
<b>Contract/Grant Number</b>	<b>Contractor/Grantee</b>	<b>Impropriety</b>	<b>Property Value</b>
NNM05AA22A	University of Alabama, Huntsville, Board of Trustees	CO obtained acceptance of property administration from ONR approximately 15 months after contract award.	\$863,948
NASW-02008	Southwest Research Institute	CO obtained acceptance of property administration from DCMA approximately 14 months after contract award.	\$553,397
NAG8-1928	BAE Systems Analytical Solutions, Inc.	CO obtained acceptance of property administration from DCMA about 13 months after contract award.	\$153,413
NNM06AB13C	Pratt & Whitney Rocketdyne, Inc.	CO obtained acceptance of property administration from DCMA about 9 months after contract award.	\$10.3 million
<b>Total</b>			<b>\$18.2 million</b>

Effective property administration requires that the COs delegate and obtain acceptance from the CAOs at DCMA or ONR (as applicable) at contract/grant award. Procedural delegation and acceptance are the cornerstones of establishing and confirming acceptance of accountability and administrative responsibility by the CAOs. The noted delegation deficiencies occurred because the COs had not prepared and forwarded the delegation letter and the letter of acceptance, as required, to the cognizant CAO and had not ensured that the CAO accepted the Government property administration. PIC 01-19 states that NASA Form 1430 should be prepared and forwarded to DCMA or to ONR at time of contract/grant award. NASA Form 1431, "Letter of Acceptance of Contract Administration Delegation," should accompany NASA Form 1430 and the COs should use the returned NASA Form 1431 as supporting documentation that the delegation was accepted or rejected by the CAO. As a result of the delegation deficiencies, procurement officials at MSFC had little assurance that approximately \$18.2 million of Government property held by MSFC contractors was properly safeguarded or used in accordance with the contracts' terms and conditions.

### ***Accurate Reporting and Accounting for Contractor-Held Government Property***

We found that MSFC COs had not ensured proper accounting for contractor-held Government property in accordance with the contract and regulatory guidance. Specifically, we found that inaccurate reporting by one contractor of about \$1,937,000 and one grantee of about \$312,000 on the FY 2006 NF 1018s may have resulted in an overstatement of approximately \$2.2 million for MSFC contractor-held Government property for the reporting period ending September 30, 2006 (see Table 2). This occurred because the contractor and the grantee did not adequately validate the information reported on the NF 1018s. NFS 1852.245-73 requires that contractors validate that asset values reported on NF 1018s are accurate and ensure that reporting is in compliance with

NFS. Also, the FMR states that the Center CFO is responsible for ensuring that NF 1018s submitted by contractors and recipients are materially accurate.

<b>Table 2. Contractor and Grantee Inaccuracies Reported on FY 2006 NASA Form 1018</b>			
<b>Contract Number</b>	<b>Contractor</b>	<b>Impropriety</b>	<b>Amount Reported</b>
NNM04AB00C	KT Engineering Corp., and subcontractors	• The contractor incorrectly reported an amount as work-in-process that was actually purchase orders for property that had not been acquired.	\$1,920,000
		• The contractor also reported values for seven items of Special Tooling that had been transferred back to MSFC during a previous reporting period.	\$16,000
		• The contractor reported value for three items of Special Tooling; however, the purchase order was voided and the items never acquired.	\$1,000
NNM05AA22A	University of Alabama, Huntsville, Board of Trustees	• The grantee had transferred five items of Government property back to MSFC during January 2002 but reported the value for these items on the September 30, 2006, NF 1018.	\$312,000
<b>Total</b>			<b>\$2,249,000</b>

Information contained on NF 1018s is sent to the cognizant NASA Center Deputy CFO, entered into the NASA accounting system, and included in the Agency's financial statements. Consequently, the MSFC contractor's and grantee's reporting errors on the NF 1018s may have resulted in a \$2.2 million overstatement on NASA's FY 2006 financial statements. For FY 2004–FY 2006, the independent public auditors reported that NASA lacked adequate controls to assure that it fairly presented property, plant, and equipment and materials in the financial statements. For the last 4 fiscal years, NASA has received a disclaimer of opinion on its financial statements from the independent public auditors because NASA has been unable to provide auditable financial statements and sufficient evidence to support statements throughout the fiscal year. Thus, any inaccuracies in the Agency's financial reporting can have significant effects.

### ***Government Property to Support the Contract***

We also found that the grantee mentioned above had custody of Government property valued at approximately \$234,423 (see Table 3) that was no longer needed or being used to support the related MSFC grant. Specifically, the grantee held equipment worth about \$215,000 that was inoperable and had not been needed for more than 3 years. The grantee had sent a letter to the CO requesting disposition instructions in July 2003 and a follow-up letter in June 2007; however, NASA had not provided instructions as of August 2007 and the grantee still held the Government property. The grantee also had equipment worth \$19,423 that was no longer needed because the associated research

project had been canceled in January 2004. After our January 2007 and May 2007 discussions with the grantee, the grantee requested disposition instructions from the MSFC CO in July 2007; however, NASA had not provided instructions as of September 2007 and the grantee still had custody of the Government property.

<b>Table 3. Unnecessary Equipment Held by Grantee</b>			
<b>Grant Number</b>	<b>Grantee</b>	<b>Equipment Condition</b>	<b>Property Value</b>
NNM05AA22A	University of Alabama, Huntsville, Board of Trustees	• Inoperable and unneeded for more than 3 years.	\$215,000
		• Unneeded because the research project was canceled.	\$19,423
<b>Total</b>			<b>\$234,423</b>

Section 1260 of NASA's "Grant and Cooperative Agreement Handbook" states that when the property is no longer needed, it shall be declared excess and reported accordingly. Excess Government property should be made available to other Government programs that have a valid need, or should be identified for sale or property disposal. Further, FMR references property management requirements of DoD 4161.2-M, "DoD Manual for the Performance of Contract Property Administration," December 1991, that ensure the contractor has a system for disclosing excess property and effecting its timely disposition.

### ***Property-Specific Training for Procurement Personnel and COTRs***

We were unable to substantiate the complainant's allegation that procurement personnel and COTRs were not properly trained in Government property management. Procurement personnel that we interviewed had very little property-specific training. However, we did not find that a lack of such training was a significant, negative factor in MSFC COs understanding of or ability to manage contractor-held Government property in accordance with regulatory guidance. We also found that COTRs are not directly involved with the administration of contractor-held Government property, other than to help prepare shipping documents. Therefore, Government property administration training is not a requirement commensurate with COTR functions.

### ***Contract Authorization for Contractor-Held Government Property***

We were also unable to substantiate that contractors and grantees had custody of Government-furnished and contractor-acquired property that was not authorized by contract. For those contractors in possession of Government-furnished or contractor-acquired property, such property in inventory was authorized by contract.

### ***Recommendations, Management's Response, and Evaluation of Management's Response***

**Recommendation 1.** The MSFC Procurement Officer should develop internal controls that ensure COs delegate and obtain acceptance from the cognizant CAO for administration of Government property in a timely manner, as required by NFS 1842.202 and PIC 01-19.

**Management's Response.** The MSFC Associate Director concurred and stated that they would conduct a training session to reemphasize the internal controls that are in place and the requirements of NFS 1842.202 and PIC 01-19 for timely delegation and acceptance of Government property, and the need for property management files to contain evidence of delegation and acceptance of Government property.

**Evaluation of Management's Response.** Although management concurred with our recommendation, their planned action is not fully responsive. The conduct of a training session to reemphasize NFS 1842.202 and PIC 01-19 procedural requirements is a valued step in resolving and preventing deficiencies on a short-term basis. However, NFS 1842.202 and PIC 01-09 address only the requirements and procedures for timely delegation and acceptance of Government property. Those guidance documents do not establish internal controls to measure or ensure compliance with the requirements.

During our review, we found no indication that internal controls had been established to routinely validate and ensure continuing compliance with existing regulations and directives. Therefore, we question management's reference to inclusion of existing internal controls within the planned training session. We believe that management should formally establish and implement internal controls to ensure and validate continuing compliance with regulatory guidance. An example of an internal control that might be employed would be a periodic review of CO records to ensure the proper documentation of delegation and receipt of property administration.

We consider the recommendation unresolved and it will remain open pending receipt and verification that controls to ensure continuing compliance with applicable regulations and directives have been established and implemented.

**Recommendation 2.** The MSFC Procurement Officer should develop internal controls that ensure COs delineate and acquire requisite property administration so that contractors are responsible for, account for, and accurately report on Government property, as required by FAR 45.5 and NFS 1852.245-73.

**Management's Response.** The MSFC Associate Director concurred and stated that they would conduct a training session to reemphasize the internal controls that are in place and the requirements of FAR 45.5 and NFS 1852.245-73 for delineating and acquiring requisite property administration to ensure that contractors are responsible for, account for, and accurately report on Government property.



**Evaluation of Management's Response.** Although management concurred with our recommendation, their planned action is not fully responsive. The conduct of a training session to reemphasize FAR 45.5 and NFS 1852.245-73 requirements is a valued step in resolving and preventing deficiencies on a short-term basis. However, FAR 45.5 and NFS 1852.245-73 address only the requirement for the contractors to be responsible for, account for, and accurately report on Government property. Those guidance documents do not establish internal controls to measure or ensure compliance with the requirements.

During our review, we found no indication that internal controls had been established to routinely validate and ensure continuing compliance with applicable regulations and directives. Therefore, we question management's reference to the inclusion of existing internal controls within the planned training session. We believe that management should formally establish internal controls to validate and ensure continuing compliance with regulatory guidance. An example of an internal control that might be employed would be a requirement that the CO periodically require that an inventory of contractor-held property and the contractor's property inventory records be conducted and compared with the NF 1018 submitted.

We consider the recommendation unresolved and it will remain open pending receipt and verification that internal controls to ensure continuing compliance with applicable regulations and directives have been established and implemented.

**Recommendation 3.** The MSFC Procurement Officer should develop internal controls that ensure COs implement sufficient oversight so that contractors and grantees promptly disclose excess property as required by NFS 1845.104 and DoD 4161.2-M and COs facilitate timely disposition in accordance with FAR 45.6.

**Management's Response.** Management concurred and stated that they will conduct a training session to reemphasize the internal controls that are in place and the requirements of NFS 1845.104 and DoD 4161.2-M for implementing sufficient oversight to ensure that contractors and grantees promptly disclose excess property and of FAR 45.6 for facilitating timely disposition of Government property and the need for files to contain evidence of disclosure and disposition of Government property.

**Evaluation of Management's Response.** Although management concurred with our recommendation, their planned action is not fully responsive. The conduct of a training session to reemphasize NFS 1845.104, DoD 4161.2-M, and FAR 45.6 is a valued step in resolving and preventing deficiencies on a short-term basis. However, NFS 1845.104 and DoD 4161.2-M address only the requirements to implement sufficient oversight so that contractors and grantees promptly disclose excess property. Those guidance documents do not establish internal controls to measure or ensure compliance with the requirements established.

During our review, we found no indication that internal controls had been established, in addition to the applicable guidance, to routinely validate and ensure continuing

compliance with applicable regulations and directives. Therefore, we question management's reference to inclusion of existing internal controls within the planned training session. We believe that management should formally establish and implement internal controls to ensure and validate continuing compliance with regulatory guidance. An example of an internal control that might be employed would be a requirement for COs to periodically contact contractors to validate that all property disposition requirements have been identified and addressed.

We consider the recommendation unresolved and it will remain open pending receipt and verification that internal controls to ensure continuing compliance with applicable regulations and directives have been established and implemented.

**Recommendation 4.** The MSFC CFO should review internal controls to ensure that the FMR NF 1018 Validation Checklist is completed for all contractor property valued in excess of \$100,000.

**Management's Response.** MSFC management concurred with the intent of the recommendation. Management stated that it currently has controls in place to ensure the NF 1018 information reported by the contractor is validated. However, management stated that the improprieties noted in the draft report were beyond the scope of the CFO review required by the NASA FMR and requested that we close this recommendation upon issuance of the final memorandum. Specifically, management stated that there is no requirement to validate the NF 1018 unless it has individual items valued at \$100,000 or more. Also, management stated that with regard to Contract Number NNM04ABC00C there was no need to validate work-in-progress because the change in value between fiscal years was less than 10 percent. Management also indicated that Grant Number NNM05AA22A did not have any capital property, plant and equipment, materials or work-in-progress, therefore there was no requirement to validate those amounts.

**Evaluation of Management's Response.** Although management concurred with the intent of our recommendation, management's comments are not fully responsive. The contractor and grantee inaccuracies reported on the FY 2006 NASA Form 1018 that we cited in the draft memorandum are not beyond the scope of CFO review, according to NASA FMR Volume 6, Chapter 4, Appendix B (last paragraph), which states that the Deputy Chief Financial Officer-Financial (DCFO-F) shall validate the NF 1018 report, to include values under \$100,000. Additionally, the FMR provides a checklist for validating NF 1018s reflecting property valued at \$100,000 or more and states the DCFO-F should determine whether variances are reasonable when ending balances change by at least 10 percent or \$10 million.

Accordingly, the DCFO-F should have validated Contract Number NNM04AB00C's work-in-progress variance (approximately 18 percent) between the FY 2005 ending balance (\$2,330,060) and the FY 2006 ending balance (\$1,920,310), since the variance exceeded 10 percent. Further, Grant Number NNM05AA22A had capital Government property that was reported on the NF 1018. Although the grantee's NF 1018 dated September 30, 2006, listed total Government property valued at

\$863,946 as “Special Test Equipment: under \$100,000,” the grantee’s detailed inventory property records disclosed that at least two individual items of Government property had values greater than \$100,000. We physically inspected an “X-ray Machine, Micro Focus Controller” (item no. 3009100001, valued at \$177,340) and an “Electronic Equipment Cabinet” (item no. 3002060000, valued at \$208,352) that were in the custody of the grantee.

As a result, we question the effectiveness of management’s existing internal controls and reiterate our recommendation for management to review their internal control procedures as related to NF 1018 data verification protocol. This recommendation remains open and unresolved pending receipt and verification of internal controls for data verification.

We request that MSFC management provide additional comments on Recommendations 1 through 4 in response to this final memorandum. The additional comments should address the specific corrective action and documentation of internal controls to be implemented to ensure compliance with applicable regulations. We request that MSFC management provide the additional comments by October 26, 2007.

We appreciate the courtesies extended the audit staff during the review. If you have any questions, or need additional information, please contact Mr. Vincent M. Scott, Procurement Director, Office of Audits, at 202-358-0546, or me at 202-358-2572.



Evelyn R. Klemstine

3 Enclosures

## **Scope and Methodology**

We performed this audit from November 2006 through August 2007, in accordance with generally accepted government auditing standards. We conducted fieldwork at MSFC and visited contractor sites in Huntsville, Alabama. Our audit focused on a review of the 17 contracts/grants that the complainant alleged did not have property administration acceptance (Enclosure 2).

We interviewed procurement personnel and reviewed the 17 contract/grant files to determine whether the COs had properly delegated property administration as required by NFS 1842.202 and PIC 01-19. Further, we interviewed personnel from MSFC Procurement and MSFC Industrial Property Offices to identify any specific property-related training received by procurement personnel and to determine whether there was a requirement for procurement personnel to obtain property-specific training. Also, we contacted DCMA and ONR property administrators to determine whether property administration was accepted and conducted. We met with three contractors/grantees, reviewed their individual Government property records, and selected and physically inspected Government property being held by the contractors/grantees to determine whether the contractors and grantees had custody of Government property not authorized by contract and were responsible for, accounted for, and accurately reported Government property as required by FAR 45.502.

We used the NF 1018s for FY 2006 to identify the value of contractor-held Government property reported for the 17 contracts/grants as of September 30, 2006. To evaluate the reliability of the NF 1018 data, we compared the property values on the NF 1018s to supporting contractor property control records, interviewed cognizant MSFC and contractor/grantee personnel, and selected some Government property items for physical inspection. The records comparison, personnel interviews, and physical inspection of selected Government property revealed the discrepancies that have been mentioned in this memorandum. Of the 17 contracts/grants reviewed, 7 reflected no custody of Government property as of September 30, 2006, but the contract/grant contained the Government property clause and, therefore, the contractors/grantees filed NF 1018s, as required by NFS 1852.245-73. For each of the 7 contracts/grants, we interviewed the COs and the contractors/grantees and reviewed the contracts' statement of work to verify that the zero property values were correct. Other than the exceptions noted in this memorandum, we consider the NF 1018s that we reviewed as reliable for our audit objectives.

### ***Computer-Processed Data***

We did not use computer-processed data to perform this audit.

### ***Review of Internal Controls***

We reviewed and evaluated internal controls associated with property oversight and administration. Also, we examined policies and regulations for developing internal control techniques. Further, we reviewed the NASA Self-Assessment Guide and any MSFC self-assessments performed at that Center. We did not identify any internal control weaknesses that had been reported as the result of MSFC self-assessments. However, the NASA

independent public auditor's (IPA's) financial statement report on internal control for FYs 2004–2006 identified a weakness in NASA's control for assuring that property, plant, and equipment and materials are presented fairly in the financial statements. Our reportable findings appear to be the result of MSFC's lack of management controls to ensure the COs properly delegate and obtain acceptance from the CAOs at the time of contract/grant award and COs delineate and acquire requisite property administration so that contractors are responsible for, account for, and report on Government property as required by Federal and Agency regulations.

### ***Prior Coverage***

During the last 5 years, NASA issued six reports of particular relevance to the subject of this report. Unrestricted NASA OIG reports can be accessed over the Internet at <http://www.hq.nasa.gov/office/oig/hq/audits/reports/FY06/index.html>. Details relative to these reports follow:

“Property Control System Analysis Reporting on Space Flight Operations Contract Subcontractors” (IG-02-019, July 8, 2002)

Ernst & Young, issued three Reports on Internal Control, which are included in:

“Fiscal Year 2006 NASA Performance and Accountability Report”

“Fiscal Year 2005 NASA Performance and Accountability Report”

“Fiscal Year 2004 NASA Performance and Accountability Report”

PricewaterhouseCoopers, issued two Reports on Internal Control, which are included in:

“Fiscal Year 2003 NASA Performance and Accountability Report”

“Fiscal Year 2002 NASA Performance and Accountability Report”

**Contracts/Grants the Complainant Alleged  
Were Without Property Administration Acceptance**

<b>Contracts/Grants</b>	<b>Contractors/Grantees</b>
1. NAS8-02130	Ball Aerospace & Technologies Corp.
2. NAS8-38678	Tether Applications Inc.
3. NAS8-97306	PRT Systems Inc.
4. NAG8-1928	BAE Systems Analytical Solutions Inc.
5. NNM04AA11C	SRS Technologies
6. NNM04AA18C	Space Micro Inc.
7. NNM04AA18G	University of Iowa
8. NNM04AA40C	Tethers Unlimited Inc.
9. NNM04AB00C	KT Engineering Corp., and subcontractors
10. NNM04AB17C	Science Systems and Applications Inc.
11. NNM04AB47C	Busek Inc.
12. NNM04AB57C	Northrop Grumman Space & Mission Systems Corp.
13. NNM05AA22A	University of Alabama, Huntsville, Board of Trustees
14. NNM05AB16C	Northrop Grumman Space & Mission Systems Corp.
15. NNM06AB12C	Combustion Research & Flow Technology, Inc.
16. NNM06AB13C	Pratt & Whitney Rocketdyne Inc.
17. NASW-02008	Southwest Research Institute

## Management's Comments

National Aeronautics and Space Administration  
George C. Marshall Space Flight Center  
Marshall Space Flight Center, AL 35812



September 10, 2007

Re: DE01

TO: NASA Office of Inspector General  
ATTN: Ms. Evelyn Klemstine,  
Assistant Inspector General for Auditing

FROM: Associate Director

SUBJECT: Comments to the OIG Draft Memorandum, "Audit of Marshall Space  
Flight Center's Administration of Government Property Held Off-Site by  
Contractors" (Assignment No. A-07-003-00)

As requested in the subject draft memorandum dated August 13, 2007, our comments are enclosed. If you have any questions or need additional information regarding our comments, please contact our Audit Liaison Representative, Ms. Keri Roberts at (256) 544-2953 or [keri.h.roberts@nasa.gov](mailto:keri.h.roberts@nasa.gov).

A handwritten signature in black ink that reads "Robin N. Henderson".

Robin N. Henderson

Enclosure

ENCLOSURE

**Comments to the OIG DRAFT Memorandum, "Audit of Marshall Space Flight Center's Administration of Government Property Held Off-Site by Contractors" (Assignment No. A-07-003-00)**

**Specific Comments**

*Page 5, Table 2, "Contractor and Grantee Inaccuracies Reported on FY 2006 NASA Form 1018."* The finding and recommendation 2 related to this table infers that the OIG believes we are required to validate any NF 1018 with a total value over \$100K. However, it is not a requirement and we only validate the NF 1018 when it has individual items valued at \$100K or more. We also review materials and work-in-process (WIP) regardless of values and validate the changes in WIP, not the entire balance. Below is our response to the items listed in Table 2 of the draft memorandum.

- Contract Number NNM04AB00C – Specific validation for WIP is only required on the changes between fiscal years that amount to 10 percent or \$10M; therefore, the entire ending balance would not be validated. The other two items for this contract fall below the level requiring Office of the Chief Financial Officer validation.
- Grant Number NNM05AA22A - This contract did not have any capital property, plant, and equipment, materials, or WIP; therefore, we did not validate the amounts.

**Recommendations**

1. **The MSFC Procurement Officer should develop internal controls that ensure COs delegate and obtain acceptance from the cognizant CAO for administration of Government property in a timely manner, as required by NFS 1842.202 and PIC 01-19.**

**MSFC Response:** Concur. We will conduct a training session to reemphasize the internal controls we have in place and the requirements of NFS 1842.202 and PIC 01-19 for timely delegation, acceptance of government property, and the need for files to contain evidence of delegation and acceptance of Government property.

Corrective Action Official: Marshall Director, Office of Procurement  
Corrective Action Closure Official: Marshall Associate Director  
Projected Closure Date: March 10, 2008

2. **The MSFC Procurement Officer should develop internal controls that ensure COs delineate and acquire requisite property administration so that contractors are responsible for, account for, and accurately report on Government property, as required by FAR 45.5 and NFS 1852.245-73.**



## ENCLOSURE

**MSFC Response:** Concur. We will conduct a training session to reemphasize the internal controls we have in place and the requirements of FAR 45.5 and NFS 1852.245-73 for delineating and acquiring requisite property administration so that contractors are responsible for, account for, and accurately report on Government property.

Corrective Action Official: Marshall Director, Office of Procurement  
Corrective Action Closure Official: Marshall Associate Director  
Projected Closure Date: March 10, 2008

3. **The MSFC Procurement Officer should develop internal controls that ensure COs implement sufficient oversight that contractors and grantees promptly disclose excess property as required by NFS 1845.104 and DoD 4161.2-M and COs facilitate timely disposition in accordance with FAR 45.6.**

**MSFC Response:** Concur. We will conduct a training session to reemphasize the internal controls we have in place and the requirements of NFS 1845.104 and DoD 4161.2-M for implementing sufficient oversight that contractors and grantees promptly disclose excess property and of FAR 45.6 for facilitating timely disposition of Government property and the need for files to contain evidence of disclosure and disposition of Government property.

Corrective Action Official: Marshall Director, Office of Procurement  
Corrective Action Closure Official: Marshall Associate Director  
Projected Closure Date: March 10, 2008

4. **The MSFC CFO should review internal controls to ensure that the FMR NF 1018 Validation Checklist is completed for all contractor property valued in excess of \$100,000.**

**MSFC Response:** We concur with the intent of the recommendation. However, we currently have controls in place to ensure that the NF 1018 information reported by the contractor is validated as required. As referenced in our specific comments above, the improprieties noted in the report are not applicable as they are beyond the scope required by NASA FMR Volume 6, Chapter 4, Appendix B, Subsection H. Therefore, we request you close this recommendation upon issuance of the final memorandum.