

IG-97-037

**AUDIT
REPORT**

RAPID ACTION

**CONTRACTOR FACILITY LEASES
LOCKHEED CREDIT UNION OCCUPANCY
COSTS**

SEPTEMBER 10, 1997

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National Aeronautics and
Space Administration

OFFICE OF INSPECTOR GENERAL

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



Reply to Attn of. **W**

SEP 10 1997

TO: John F. Kennedy Space Center
Attn: CD/Center Director

FROM: W/Acting Assistant Inspector General for Auditing

SUBJECT: Final Rapid Action Report
Lockheed Credit Union Occupancy Costs
Assignment Number A-HA-97-052
Report Number IG-97-037

The NASA Office of Inspector General is currently reviewing contractor facility leases at several NASA Centers, including the Kennedy Space Center (KSC). During the audit, a condition came to our attention which we believe warrants management's immediate attention. We are, therefore, issuing the enclosed subject report. We limited the scope of work for this report. We determined that NASA is currently paying occupancy costs for the Lockheed Credit Union at KSC and such costs are questionable. We asked the DCAA to evaluate the credit union's legal status, and they confirmed the credit union is a separate, legal entity.

We issued a draft rapid action report on July 21, 1997, and received your written response on August 11, 1997. You concurred with the recommendation and stated that DCAA intends to question the allowability of such costs. The DCAA rough order of magnitude estimate of questionable charges is \$112,938. Your response is summarized in the recommendation section of this report and is included in its entirety as Appendix A. We consider the recommendation closed with the issuance of this final report.

The NASA Office of Inspector General staff members associated with this audit express their appreciation to KSC civil service and contractor personnel for their courtesy, assistance, and cooperation. If you have any questions or need additional information, please call Mr. Lorne A. Dear, Program Director, Infrastructure and Support at (818) 354-3360; or Mr. Daniel J. Samoviski, Acting Director, Division A, or me at (202) 358-1232.


Robert J. Wesolowski

Enclosure

cc:

H/D. Lee

HC/J. Horvath

KSC/DA/A. Parrish

KSC/HM/J. Jennings

KSC/HM-CIC/J. Nary

OBJECTIVE, SCOPE, AND METHODOLOGY

OBJECTIVE

Our overall audit objective is to determine whether NASA is adequately managing facility leasing. Specifically, we will answer the following questions:

Are contractor facility leases correctly classified?

Are contractor facilities effectively utilized?

Do contractors accurately bill costs to the government?

SCOPE

For the purposes of this rapid action report, our scope was limited to occupancy costs charged to the Shuttle Processing Contract. Specifically, we reviewed Lockheed credit union occupancy costs.

METHODOLOGY

The audit included interviews with Defense Contract Audit Agency, NASA, credit union and contractor personnel. We reviewed applicable Federal Acquisition Regulation provisions. We also examined contractor financial records and toured credit union facilities.

AUDIT FIELD WORK

The audit field work related to the observations in this report was conducted from October 1996 to March 1997. All of the field work was conducted at Kennedy Space Center, Florida. The audit was performed in accordance with generally accepted government auditing standards.

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OBSERVATION AND RECOMMENDATION

BACKGROUND

Lockheed was the shuttle processing contractor at KSC prior to the recent novation of the shuttle processing contract and the orbiter logistics contract into the space flight operations contract. Lockheed owns two buildings located near KSC, and the Lockheed credit union has been located in the smaller of these two buildings since 1986. NASA pays over 90 percent of the occupancy costs for these two buildings. The credit union, however, does not pay for space or space-related costs, such as depreciation, utilities or building improvements. Those costs are charged to an occupancy pool which is then allocated to NASA and Air Force contracts.

QUESTIONED COSTS AROUND \$150,000

Occupancy cost charges for the Lockheed Space Operations Company (Lockheed) credit union are questionable. NASA could recover approximately \$150,000. The Defense Contract Audit Agency (DCAA) informed us that they plan to issue supplemental audit reports on Lockheed's final indirect rate submissions for fiscal years (FYs) 1986 through 1994 and will question credit union occupancy costs. As a result, the DCAA will also review credit union occupancy cost charges in the indirect rate review for FY 1995 and subsequent fiscal years.

The DCAA initially classified the credit union occupancy costs as allowable based on information provided by the contractor and credit union personnel. The DCAA assumed the credit union was part of Lockheed based on the information and, as a result, took no exception to the occupancy cost charges. At our request, DCAA reviewed the credit union's legal status and determined that the credit union is a separate legal entity and is not part of Lockheed. The DCAA is questioning the allowability of the occupancy costs because the cost represent unallowable donations and are not allocable to the government. The DCAA plans to use market values in determining the questioned costs, which DCAA estimates to be approximately \$100,000 for the prior fiscal years. The \$100,000 amount will increase when FY 1995 and subsequent fiscal year occupancy costs are determined. We estimate the amount could increase another \$50,000 over the remaining life of the novated contract.

RECOMMENDATION

The KSC Center Director should direct the Chief of Procurement to obtain a refund for all occupancy costs inappropriately charged to NASA.

MANAGEMENT'S RESPONSE

Concur. The Defense Contract Audit Agency (DCAA) has already questioned the appropriateness of Lockheed occupancy costs. The DCAA submitted this opinion to the Administrative Contracting Officer (ACO) in a letter dated May 16, 1997 (DCAA Audit Report # 1131-87014010032-S2). Lockheed Martin, which is now a part of United Space Alliance (USA), has submitted indirect cost submissions for Contract Fiscal Years (CFY) 1987-1996 to the ACO. These submittals have been forwarded to DCAA/Titusville for audit to determine the allowability of direct and indirect costs rates. DCAA intends to question the allowability of the occupancy cost charges for the Credit Union in each subsequent report. DCAA's rough order of magnitude (ROM) estimate for the period 1986-1996 is \$112,938. This figure is based on current market rates during those periods for office space including utilities in the Titusville, Florida area. The date of completion for this action is contingent upon release of the DCAA Audit Report for each CFY and negotiations of final indirect rates.

The Office of Procurement, Mission Support Office (OP-MSO), at Kennedy Space Center will be responsible for implementing the recommendation. Recovery of the \$112,938 estimate for cost savings is subject to the final indirect cost reports from DCAA for each subsequent year.

EVALUATION OF MANAGEMENT'S RESPONSE

Management's action is responsive to the recommendation.

Management's Response to the Audit Recommendation

National Aeronautics and
Space Administration
John F. Kennedy Space Center
Kennedy Space Center, FL 32809



copy to Attn: HM

AUG 11 1997

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

FROM: AA/Director

SUBJECT: OIG Draft Rapid Action Report on Lockheed Credit Union
Occupancy Costs, Assignment Number A-HA-97-042

Regarding your letter dated July 21, 1997, subject as above, we have considered the recommendation made in your draft report.

We are concurring in the recommendation.

Our specific comments are enclosed.

A handwritten signature in black ink, appearing to read "Roy D. Bridges, Jr." with a stylized flourish at the end.

Roy D. Bridges, Jr.

Enclosure

cc:
AA-A-1/Ms. L. N. Gosper
AA-A-2/Ms. B. McCoy
GG-B/Mr. S. Lenck
GG-C3/Mr. H. Q. McKinney
HM-CIC/Mr. J. Nary
OP/Mr. J. Hattaway, Jr.
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/Ms. N. P. Kohine
N-1/Mr. A. J. Misiewicz
N-7/Mr. B. Oswald
MX/Ms. C. A. Cabourel

Management's Response to the Audit Recommendation

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RECOMMENDATION 1

The KSC Center Director should direct the Chief of Procurement to obtain a refund for all occupancy costs inappropriately charged to NASA.

KSC RESPONSE

Concur. The Defense Contract Audit Agency (DCAA) has already questioned the appropriateness of Lockheed occupancy costs. The DCAA submitted this opinion to the Administrative Contracting Officer (ACO) in a letter dated May 16, 1997 (DCAA Audit Report # 1131-B7L14010032-S2). Lockheed Martin, which is now a part of United Space Alliance (USA), has submitted indirect cost submissions for Contract Fiscal Years (CFY) 1987-1996 to the ACO. These submittals have been forwarded to DCAA/Titusville for audit to determine the allowability of direct and indirect costs rates. DCAA intends to question the allowability of the occupancy cost charges for the Credit Union in each subsequent report. DCAA's rough order of magnitude (ROM) estimate for the period 1986-1996 is \$112,938. This figure is based on current market rates during those periods for office space including utilities in the Titusville, Florida area. The date of completion for this action is contingent upon release of the DCAA Audit Report for each CFY and negotiations of final indirect rates.

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House Committee on Government Reform and Oversight

House Committee on Science

House Subcommittee on Space and Aeronautics, Committee on Science

Other Congressional Members

The Honorable Pete Sessions, U.S. House of Representatives

MAJOR CONTRIBUTORS TO THIS REPORT

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and Support

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