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June 17, 1999

TO: B/Chief Financial Officer  
H/Associate Administrator for Procurement

FROM: W/Assistant Inspector General for Auditing

SUBJECT: Final Report on the Department of Health and Human Services  
Billings for Audit Services  
Assignment Number A9900600  
Report Number IG-99-027

The subject final report is provided for your use. Your comments on a draft of this report were responsive to our recommendations. Our evaluation of your responses has been incorporated into the body of the report. We consider all recommendations closed for reporting purposes.

If you have questions concerning the report, please contact Mr. Lorne A. Dear, Program Director, Procurement Audits, at (818) 354-3360, or Ms. Anh T. Doan, Auditor-in-Charge, at (818) 354-9773. We appreciate the courtesies extended to the audit staff. The report distribution is in Appendix G.

**[Original signed by]**

Russell A. Rau

Enclosure

cc:  
G/General Counsel  
JM/Management Assessment Division

bcc: AIGA, IG, Reading (w/o Encl.) Chrons  
HK/Audit Liaison Representative  
JPL/180-300/L. Dear  
JPL/180-300/A. Doan

**IG-99-027**

**AUDIT  
REPORT**

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**DEPARTMENT OF HEALTH AND  
HUMAN SERVICES  
BILLINGS FOR AUDIT SERVICES**

**JUNE 17, 1999**

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National Aeronautics and  
Space Administration

**OFFICE OF INSPECTOR GENERAL**

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## **Acronyms**

CAS	Cost Accounting Standards
DHHS	Department of Health and Human Services
DCAA	Defense Contract Audit Agency
FY	Fiscal Year
OMB	Office of Management and Budget

# NASA Office of Inspector General

IG-99-027  
A9900600

JUNE 17, 1999

## Department of Health and Human Services Billings for Audit Services

### *Introduction*

NASA uses the services of other Federal agencies to perform audits of contractors, educational institutions, and nonprofit organizations receiving NASA grants and contract awards. In fiscal years (FY's) 1997 and 1998, NASA negotiated to reimburse the Department of Health and Human Services (DHHS) \$307,000 and \$277,000, respectively, for audit services. DHHS has proposed \$319,000 for similar services in FY 1999. Of 73 DHHS audits billed during FY's 1997 and 1998, 23 (32 percent) were NASA-requested audits (including 15 proposal audits)<sup>1</sup> and 50 were DHHS initiated. In FY's 1997 and 1998, \$281,000 (62 percent) of the \$456,000 NASA paid for audit services was for requested audits. The NASA Office of Procurement requested that we perform this audit to include comparing the DHHS billings with the Defense Contract Audit Agency (DCAA) charges to NASA for similar work.

Our overall objective was to evaluate the reasonableness of the DHHS billings to NASA during FY's 1997 and 1998. Details on our scope and methodology are in Appendix A.

### *Finding*

The FY's 1997 and 1998 average proposal audit hours DHHS billed to NASA were 86-percent (190 actual hours as compared to 102 planned hours) higher than the hours planned in DHHS audit programs.<sup>2</sup> The actual average audit hours DHHS billed to NASA for the nine selected proposal audits were almost 100-percent (228 actual hours as compared to 117 planned hours) higher than the hours planned in DHHS audit programs (see Appendix C). The DHHS actual audit hours also exceeded average DCAA audit hours charged to NASA for similar work (see Appendix D). We were unable to determine a specific single cause for the differences in actual and planned audit hours (see Appendix E for the evaluation of sampled audits) or the differences between DHHS and DCAA hours. We also noted that DCAA billing rates exceeded DHHS rates. DHHS auditors generally did not perform risk assessments to limit the amount of audit work necessary. In addition, NASA had limited controls to identify and minimize audit costs. For example, audit results were not always tailored to specific information required by the contracting officer, and NASA did not have a

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<sup>1</sup>A proposal audit is an assessment of both the proposal (offer) and the offeror's ability to successfully accomplish the prospective contract.

<sup>2</sup> DHHS audit guidance planned for the auditors to complete a proposal audit within 10 to 30 staff days (80 to 240 hours).

central system to monitor,<sup>3</sup> coordinate, and evaluate requested and self-initiated audits performed by DHHS for the Agency. Therefore, NASA could reduce the costs of some reimbursable DHHS audit services.

## ***Background***

In October 1997, NASA made an interagency agreement with the DHHS Office of Inspector General to provide audit services at educational institutions and nonprofit organizations under DHHS cognizance.<sup>4</sup> The interagency agreement was in effect through September 30, 1998, and may be renewed annually by mutual consent of both parties.<sup>5</sup> DHHS performs audits for NASA on a cost-reimbursable basis. In addition to audits requested by NASA users,<sup>6</sup> DHHS initiates audits<sup>7</sup> and bills NASA for audit costs, which DHHS proportionately allocated to all participating Federal awards.

DCAA also provides various types of audit services<sup>8</sup> to NASA on a reimbursable basis<sup>9</sup> at NASA contractor locations. For FY 1998, NASA paid DCAA an estimated \$15 million for audit services. The Economy Act of 1932,<sup>10</sup> Office of Federal Procurement Policy Policy Letter 78-4,<sup>11</sup> and Office of Management and Budget (OMB) Circular A-133<sup>12</sup> provide the authority for DHHS and DCAA to bill for audit services.

Most proposal audits requested by NASA involved cost-reimbursement type contracts.<sup>13</sup> As stated in the DCAA Contract Audit Manual, a price proposal audit for a cost-type contract will generally involve a low risk of overstatement because the contractor will be paid its incurred costs under the contract as long as they are allowable, allocable, and reasonable.

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<sup>3</sup> Audit Report Number IG-99-002, "Department of Health and Human Services Audit Services Provided to NASA," December 16, 1998.

<sup>4</sup> "A cognizant agency" means a Federal awarding agency that provides the predominant amount of direct funding to a recipient unless the Office of Management and Budget designates a specific cognizant agency for an audit assignment. The cognizant agency is also responsible for negotiating and approving facilities and administrative rates for an educational institution for all Federal agencies.

<sup>5</sup> NASA is awaiting our review results before signing the FY 1999 agreement.

<sup>6</sup> NASA-requested audits include proposals and contract closing audits.

<sup>7</sup> Self-initiated DHHS audits are those not specifically requested by NASA and include Cost Accounting Standards disclosure statement reviews and compliance with laws and regulations audits.

<sup>8</sup> Such services include proposal evaluations; incurred cost reviews; reviews of contractor estimating, accounting, and purchasing systems; defective pricing reviews; and reviews for compliance with cost accounting standards.

<sup>9</sup> "Agreement between the National Aeronautics and Space Administration (NASA) and the Department of Defense (DoD) for Reimbursing DoD for Contract Administration, Contract Audit and Related Support Services Provided in Support of NASA Contracts," August 14, 1992.

<sup>10</sup> Economy Act of 1932, 31 USC 1535, "Agency Agreements."

<sup>11</sup> Policy Letter 78-4, "Field Contract Support Cross-Servicing Program," August 8, 1978.

<sup>12</sup> OMB Circular 133, "Audits of States, Local Governments, and Non-Profit Organizations," revised June 24, 1997.

<sup>13</sup> Cost-reimbursement type contracts provide for payment of allowable incurred costs, to the extent prescribed in the contract.

This report is the second on DHHS audit services provided to NASA. A summary of our first report is in Appendix B.

### ***Comparison of Work Performed***

The audit objectives and guidance in the DHHS audit programs for the sampled proposal audits were similar to DCAA's audit objectives and guidance for proposal audits (see Appendix E). The objectives included determining the reasonableness and allowability of proposed costs, reviewing bid estimation procedures, and making a limited assessment of the auditee's internal control structure. The DHHS and DCAA audit guidance for the review of proposed costs included the following steps:

- Verify the salaries and wages of personnel scheduled to work on the proposal with current salary rates.
- Determine that proposed fringe benefits rates are consistent with approved rates or that fringe benefit methodology has been consistently applied.
- Verify proposed, indirect rates against approved rates, and determine the bases for their use.
- Determine the nature and basis of material costs, and verify those costs with catalog prices, vendor quotes, and historical records.

The working papers for the nine sampled DHHS audits identified a total of \$3 million in questioned costs that amounted to an average 4 percent<sup>14</sup> of the \$72 million costs reviewed (see Appendix C).

We were unable to determine the specific cause for the differences in actual and planned audit hours. However, we identified one factor that may have contributed to DHHS actual hours exceeding planned hours.

DHHS auditors generally did not perform risk assessments to limit work and review time. In six of the nine sampled proposal audits, the auditors reviewed all line items in the proposal and all supporting information provided by the universities. The DCAA Contract Audit Manual states, "Audit requests which require auditors to spend an inordinate amount of time reporting their findings by line item do not usually result in an economical use of audit resources." The DCAA manual also requires the auditor to document the risk assessment and scope determination for proposals costing under \$5 million. DHHS audit guidance does not have a comparable requirement. Furthermore, in one of the proposal audits, the NASA contracting officer requested only a direct labor rate verification, but the DHHS auditor performed and charged NASA for a full audit, which included direct labor, fringe benefits, and indirect rates. The indirect rates were already provided to the contracting officer by another DHHS office.

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<sup>14</sup> Questioned costs for the nine audits ranged from 0 percent to 13 percent per audit.

In addition, NASA negotiated a total amount for reimbursement of DHHS audit services but did not segregate the funds between requested and self-initiated audits. Consequently, NASA had no funding limit to control amounts expended for those audits. Negotiating separate amounts for NASA-requested and DHHS-initiated audits would provide NASA better control over resources and help ensure that expenditures for audit services more directly benefit Agency programs. While NASA should not unilaterally seek to limit the scope and objectives of self-initiated audits because of the potential effect on audit independence, working with DHHS through the negotiation process and on a routine basis should ensure that limited audit resources are focused on the highest risk audit areas. Additionally, NASA should work with DHHS to provide additional amounts for audit services where appropriate and necessary.

For the nine NASA-requested proposal audits, NASA spent \$61,000 more in DHHS audit services cost than the DHHS planned-for cost (see Appendix C). Further, these audits cost more than the average cost DCAA has charged for similar proposal audits (see Appendix D).

### ***Recommendations for Corrective Action***

1. We recommend that the NASA Associate Administrator for Procurement require NASA contracting officers to tailor future DHHS audit requests to specific areas of interest, and where appropriate, request DHHS auditors to perform and report the results of risk assessments on specific audits.
2. We recommend that the NASA Chief Financial Officer negotiate with DHHS separate reimbursement amounts for requested and self-initiated audits.

### ***Management's Comments***

Concur. Regarding recommendation 1, over the next 6 months, the Office of Procurement Associate Administrator will develop guidance for the Center Procurement Offices to tailor future audit requests to specific areas of interest. As to the areas of risk assessments, guidance will be deferred until negotiations with DHHS take place and the Office of Procurement Associate Administrator can determine whether the performance and reporting of risk assessments are feasible.

Regarding recommendation 2, the Office of Procurement Associate Administrator will include provisions for separate reimbursement amounts for requested and self-initiated audits in the agreement as well as other provisions to allow for complete oversight of DHHS's work, including the Office of Procurement's review and approval of DHHS's billings to NASA. The complete text of the comments is in Appendix F.

### ***Evaluation of Response***

The planned actions are responsive to the recommendations.



## Appendix A. Objective, Scope and Methodology

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### Objective

The overall objective of the audit was to evaluate the reasonableness of the DHHS billings to NASA.

### Scope and Methodology

We performed detailed audit work at a total of four DHHS regional offices in Kansas City, San Francisco, Boston, and Philadelphia.

We judgmentally selected and reviewed nine DHHS proposal audits and one Cost Accounting Standards (CAS) disclosure statement audit.<sup>15</sup> We selected the nine proposal audits based on audit hours that exceeded 100 hours. Also, seven of the proposal audits were selected because of concerns raised by the NASA Office of Procurement. For each audit, we examined the audit programs, scope of work, and related working papers. We compared actual DHHS hours charged with DHHS planned hours. We then interviewed DHHS audit managers and auditors-in-charge at the four DHHS office locations to determine the causes for the differences between actual and planned hours.

To analyze the justifications for the hours charged, we reviewed DCAA audit programs to compare them to DHHS audit programs on similar audits. We interviewed DCAA auditors and obtained DCAA budgeted and actual hours charged for proposal and CAS disclosure statement audits. We also evaluated DCAA FY 1997 proposal audit hours charged to NASA and obtained an average hourly charge per audit. In addition, we reviewed two proposal audits performed by DCAA auditors and compared the actual hours the auditors charged with DCAA budgeted hours.

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<sup>15</sup> Certain NASA contractors are required to disclose their cost accounting practices to the Agency in a Cost Accounting Standards Board (CASB) statement. During the period audited, DHHS charged NASA for four CAS disclosure statement reviews. The time charges for the reviews ranged from 109 to 222 hours. We selected one of the four reviews with an average time charge of 152 hours. DHHS did not estimate planned hours for the review.

## **Appendix A**

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### **Management Controls**

We reviewed the FY 1998 interagency agreement and FY 1999 proposed agreement between NASA and the DHHS, applicable NASA procedures and guidance, and applicable OMB Circulars to identify applicable management controls and to verify that the controls were working as described. The results of the review are presented in our prior audit report (see Appendix B).

### **Audit Field Work**

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

## **Appendix B. Audit Report on Department of Health and Human Services Audit Services Provided to NASA**

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Audit Report Number IG-99-002, "Department of Health and Human Services Audit Services Provided to NASA," December 16, 1998, states that NASA can improve monitoring and evaluating of DHHS audits by incorporating references to current regulations and an access to records clause in the DHHS proposed interagency agreement for FY 1999. Further, NASA should ensure that DHHS submits copies of audit reports to NASA in order for the Agency to adequately perform oversight responsibilities over educational institutions and non-profit organizations. Agency management concurred in the report, and planned corrective actions will be completed if NASA elects to obtain future audit services from DHHS.<sup>16</sup>

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<sup>16</sup> NASA is awaiting the results of this current audit before signing a future agreement.

**Appendix C. Comparison of DHHS Actual Audit Hours and Costs  
to DHHS Planned Hours and Costs**

No.	DHHS Assignment Number	Type of Audit	Dollars Reviewed	Dollars Questioned	Percent of DHHS Cost Questioned	(a)	(b)	(c)	(d)	(e)
						DHHS Actual Hours Charged	Cost Charged	DHHS Planned Hours	Cost Estimated @ \$60.74/hr <sup>1</sup>	Difference (b) – (d)
1	A-01-97-04003	Proposal	\$5,113,755	\$630,636	12%	402	\$24,377	240	\$14,578	\$9,800
2	A-01-97-04006	Proposal	\$596,269	\$30,160	5%	223	\$13,523	96	\$5,831	\$7,692
3	A-03-97-04007	Proposal	\$1,630,938	\$173,217	11%	268	\$16,252	240	\$14,578	\$1,674
4	A-07-97-04292	Proposal	\$6,416,672	\$842,114	13%	176	\$10,673	80	\$4,859	\$5,813
5	A-07-97-04293	Proposal	\$28,466,801	\$186,660	1%	233	\$14,129	80	\$4,859	\$9,270
6	A-07-97-04306	Proposal	\$1,554,273	\$12,044	1%	151	\$9,157	80	\$4,859	\$4,297
7	A-07-98-04311	Proposal	\$24,163,024	\$1,159,814	5%	176	\$10,882	80	\$4,859	\$6,023
8	A-09-97-04009	Proposal	\$3,037,175	0	0%	278	\$16,858	80	\$4,859	\$11,999
9	A-09-97-04012	Proposal	\$974,675	0	0%	149	\$9,035	80	\$4,859	\$4,176
	<b>Subtotal</b>		\$71,953,582	\$3,034,645	4%	2,056	\$124,885	1,056	\$64,141	<b>\$60,744</b>
	Average Proposal	Hours/Cost				<b>228</b>	<b>\$13,876</b>	<b>117</b>	<b>\$7,127</b>	
10	A-08-98-00931	CAS Disclosure Statement Audit				152 <sup>2</sup>	\$9,213	No Estimate <sup>3</sup>		
	<b>Total Audit Hours</b>					<b>2,208</b>	<b>\$134,098</b>			

<sup>1</sup>Column (b) divided by column (a) to obtain the hourly rate of \$60.74.

<sup>2</sup>NASA's 6-percent share of 2,533 total hours charged by DHHS auditors for this audit. The remaining hours were allocated to other Federal agencies.

<sup>3</sup>The audit guide or assignment sheet did not provide estimated hours for completion of this audit.

**Appendix D. Comparison of DHHS Actual Audit Hours and Costs  
to DCAA Actual Audit Hours and Costs**

No.	DHHS Assignment Number	Type of Audit	(a)	(b)	(c)	(d)	(e)
			DHHS Hours Charged to NASA	NASA Cost	DCAA FY 97 Average Hours <sup>1</sup> Charged to NASA	DCAA Cost \$69.19 <sup>2</sup> x (c)	Difference (b) - (d)
1	A-01-97-04003	Proposal	402	\$24,377	61	\$4,221	\$20,157
2	A-01-97-04006	Proposal	223	\$13,523	61	\$4,221	\$9,302
3	A-03-97-04007	Proposal	268	\$16,252	61	\$4,221	\$12,031
4	A-07-97-04292	Proposal	176	\$10,673	61	\$4,221	\$6,452
5	A-07-97-04293	Proposal	233	\$14,129	61	\$4,221	\$9,909
6	A-07-97-04306	Proposal	151	\$9,157	61	\$4,221	\$4,936
7	A-07-98-04311	Proposal	176	\$10,882	61	\$4,221	\$6,661
8	A-09-97-04009	Proposal	278	\$16,858	61	\$4,221	\$12,637
9	A-09-97-04012	Proposal	149	\$9,035	61	\$4,221	\$4,815
	<b>Subtotal</b>		<b>2,056</b>	<b>\$124,885</b>	<b>549</b>	<b>\$37,985</b>	<b>\$86,900</b>
	Average Proposal	Hours/Cost	<b>228</b>	<b>\$13,876</b>	<b>61</b>	<b>\$4,221</b>	
10	A-08-98-00931	CAS Disclosure Statement audit	152	\$9,213	50 <sup>3</sup>	\$3,460	\$5,753
	<b>Total Audit Hours</b>		<b>2,208</b>	<b>\$134,098</b>	<b>599</b>	<b>\$41,445</b>	<b>\$92,653</b>

<sup>1</sup>Source: DCAA FY 1997 (October 1996 through March 1997) proposal audits charged to NASA.

<sup>2</sup>As of September 19, 1997, NASA negotiated with DCAA a \$69.19 hourly rate for audit services.

<sup>3</sup>DCAA actual hours charged to NASA for an FY 1997 CAS disclosure statement audit.

**Appendix E. Comparison of DHHS and DCAA Audit Objectives and Hours**

<b>DHHS Assignment Number</b>	<b>Grantee or Contractor Audited</b>	<b>Number of DHHS Assigned Auditors</b>	<b>DHHS Hours Planned</b>	<b>DHHS Actual Hours Billed to NASA</b>	<b>Objective Per DHHS Audit Report</b>	<b>Comments On the Audit Objective and Hours</b>
A-01-97-04003	University of Massachusetts Lowell - Subcontract under Contract NAS5-96020 Proposal Cost : 1 <sup>st</sup> Phase \$3,633,207 2 <sup>nd</sup> Phase <u>1,480,548</u> Total <u>\$5,113,755</u>	2	240	402	(1) Determine reasonableness and allowability of proposed direct costs, fringe benefit costs, overhead costs, and escalation factors. (2) Review bid estimate procedures. (3) Determine whether the proposed costs were supported by current, complete, and accurate cost and pricing data.	This is a cost-reimbursement proposal. The same audit objective was used for the two phases of the proposal.  The DCAA audit objective is similar to DHHS's objective in the evaluation of the estimates to determine whether the proposal is acceptable for negotiation of a fair and reasonable price. According to the DCAA FY 1998 program plan, for proposals costing from \$5 to \$50 million, the DCAA standard audit hours would be 64 hours. For FY 1997 proposal audits, DCAA charged NASA an average 61 hours.
A-01-97-04006	University of New Hampshire – Pre-Award Audit NAS5-96063 Proposal Cost: <u>\$1,385,845</u>	1	96	223	Determine reasonableness and allowability of the \$596,269 proposed direct labor costs. Compare proposed direct labor rates to current approved rates.	The contracting officer requested only direct labor rate verification on this cost-reimbursable proposal. The auditor did not have prior experience auditing a proposal.  The DCAA audit objective is similar to DHHS's objective in the verification of the labor rates estimates. According to the

**Appendix E**

<b>DHHS Assignment Number</b>	<b>Grantee or Contractor Audited</b>	<b>Number of DHHS Assigned Auditors</b>	<b>DHHS Hours Planned</b>	<b>DHHS Actual Hours Billed to NASA</b>	<b>Objective Per DHHS Audit Report</b>	<b>Comments On the Audit Objective and Hours</b>
						DCAA FY 1998 program plan, for proposals costing from \$.5 million to \$1 million, DCAA standard audit hours would be 29 hours.
A-03-97-04007	University of Maryland Bid and Proposal Audit NAS5-96020 Proposal Cost: <u>\$1,630,938</u>	2	240	268	Determine whether the proposed costs are reasonable and allowable under the terms of the proposal and in accordance with OMB Circulars A-21 and A-110.	This is a cost-reimbursement proposal. The DCAA audit objective is similar to DHHS's objective in the evaluation of the estimates to determine whether the proposal is acceptable for negotiation of a fair and reasonable price. According to the DCAA FY1998 program plan, for proposals costing from \$1million to \$5 million, the DCAA standard audit hours would be 42 hours.
A-07-97-04292	University of Colorado NAS5-3246B Proposal Cost: <u>\$6,416,672</u>	3	80	176	Analysis of proposed costs and supporting documentation to determine whether the costs were supported and allocable and allowable in accordance with applicable regulations.	This is a cost-reimbursement proposal. The DCAA audit objective is similar to DHHS's objective in the evaluation of the estimates to determine whether the proposal is acceptable for negotiation of a fair and reasonable price. According to the DCAA FY 1998 program plan, for proposals costing from \$5 million to \$50 million, the DCAA standard audit hours would be 64 hours.

**Appendix E**

<b>DHHS Assignment Number</b>	<b>Grantee or Contractor Audited</b>	<b>Number of DHHS Assigned Auditors</b>	<b>DHHS Hours Planned</b>	<b>DHHS Actual Hours Billed to NASA</b>	<b>Objective Per DHHS Audit Report</b>	<b>Comments On the Audit Objective and Hours</b>
A-07-97-04293	University of Colorado NAS5-02803-30A Proposal Cost: <u>\$118,538,007</u>	5	80	233	<p>Analysis of proposed costs and supporting documentation to determine whether the costs were supported and allocable and allowable in accordance with applicable regulations.</p> <p>The auditor did not review proposed subcontract costs of \$87,976,431 and other costs of \$2,094,775. The total amount reviewed was: \$28,466,801</p>	<p>This is a cost-reimbursement proposal. Although the cost proposed was \$118,538,007, DHHS audited only \$28,466,801 because the proposed subcontract cost did not fall under DHHS audit cognizance.</p> <p>The DCAA audit objective is similar to DHHS's objective in the evaluation of the estimates to determine whether the proposal is acceptable for negotiation of a fair and reasonable price. According to the DCAA FY 1998 program plan, for proposals costing from \$5 million to \$50 million, the DCAA standard audit hours would be about 64 hours.</p>
A-07-97-04306	University of Colorado NAS5-97145 Proposal Cost: <u>\$1,554,273</u>	2	80	151	<p>Analysis of proposed costs and supporting documentation to determine whether the costs were supported and allocable and allowable in accordance with applicable regulations.</p>	<p>This is a cost-reimbursement proposal. The DCAA audit objective is similar to DHHS's objective in the evaluation of the estimates to determine whether the proposal is acceptable for negotiation of a fair and reasonable price. According to the DCAA FY 1998 program plan, for proposals costing from \$1million to \$5 million, the DCAA standard audit hours would be 42 hours.</p>



**Appendix E**

<b>DHHS Assignment Number</b>	<b>Grantee or Contractor Audited</b>	<b>Number of DHHS Assigned Auditors</b>	<b>DHHS Hours Planned</b>	<b>DHHS Actual Hours Billed to NASA</b>	<b>Objective Per DHHS Audit Report</b>	<b>Comments On the Audit Objective and Hours</b>
A-07-98-04311	University of Colorado Request for Proposal No. RFP5-977242 Proposal Cost: <u>\$24,163,024</u>	2	80	176	Analysis of proposed costs and supporting documentation to determine whether the costs were supported and allocable and allowable in accordance with applicable regulations.	This is a cost-reimbursement proposal. The DCAA audit objective is similar to DHHS's objective in the evaluation of the estimates to determine whether the proposal is acceptable for negotiation of a fair and reasonable price. According to the DCAA FY1998 program plan, for proposals costing from \$5 million to \$50 million, the DCAA standard audit hours would be 64 hours.
A-08-98-00931	Colorado State University Cost Accounting Standards Board Disclosure Statement Review	4	50	152	Determine the adequacy and compliance of the University's DS-2 with CAS and the requirements of OMB Circular A-21.	<p>The audit, required by a May 1996 revision to the Code of Federal Regulations, was thorough. The total hours charged by the senior auditor and three staff auditors totaled about 2,500 hours. DHHS allocated 6 percent of those hours to NASA.</p> <p>The DCAA audit objective is similar to DHHS's in the review of the contractor's initial and revised disclosure statement for adequacy and compliance with Cost Accounting Standards and the Federal Acquisition Regulation.</p>

**Appendix E**

<b>DHHS Assignment Number</b>	<b>Grantee or Contractor Audited</b>	<b>Number of DHHS Assigned Auditors</b>	<b>DHHS Hours Planned</b>	<b>DHHS Actual Hours Billed to NASA</b>	<b>Objective Per DHHS Audit Report</b>	<b>Comments On the Audit Objective and Hours</b>
						According to the DCAA FY1998 program plan, the DCAA standard audit hours would be 58 hours. In FY 1997, DCAA charged NASA 50 hours for a similar audit.
A-09-97-04009	University of California at Berkeley Space Science Laboratory Subcontract Proposal Cost: <u>\$3,037,175</u>	3	80	278	The period of performance for this contract is from June 1997 to January 2000.	This is a cost-reimbursement proposal. The contracting officer agreed to an audit of the expenses for only the first year of contract performance. The audit consisted of reviewing the supporting documentation for salary rates, related fringe benefits rates, supplies and equipment and travel costs, and indirect rates. A junior auditor (trainee) was assigned to perform this audit. The DCAA audit objective is similar to DHHS's objective in the evaluation of the estimates to determine whether the proposal is acceptable for negotiation of a fair and reasonable price. According to the DCAA FY 1998 program plan, for proposals costing from \$1 million to \$5 million, the DCAA standard audit hours would be 42 hours.

**Appendix E**

DHHS Assignment Number	Grantee or Contractor Audited	Number of DHHS Assigned Auditors	DHHS Hours Planned	DHHS Actual Hours Billed to NASA	Objective Per DHHS Audit Report	Comments On the Audit Objective and Hours
A-09-97-04012	University of California at Berkeley Space Science Laboratory Subcontract  Proposal Cost: <u>\$2,708,726</u>	3	80	149	Analysis of proposed costs and supporting documentation to determine whether the costs were supported and allocable and allowable in accordance with applicable regulations. The period of performance for this contract is from February 2000 to January 2003.  Cost reviewed by the auditors: \$974,675. The auditor did not evaluate \$180,948 of subcontract costs.	This is a cost-reimbursement proposal. The contracting officer agreed to an audit of the expenses for only the base year of contract performance. The supporting documentation for salary rates, related fringe benefits rates, supplies and equipment and travel costs, and indirect rates were mostly identical to the documentation provided in audit number A-09-97-04009 above. The majority of working papers consisted of copies of the same supporting documentation in audit number A-09-97-04009 above. The junior auditor (trainee) assigned to this review was the same one assigned to audit number A-09-97-04009 above.  The DCAA audit objective is similar to DHHS's objective in the evaluation of the estimates to determine whether the proposal is acceptable for negotiation of a fair and reasonable price. According to the DCAA FY 1998 program plan, for proposals costing from \$1 million to \$5 million, the DCAA standard audit hours would be 42 hours.

## Appendix F. Management Response

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National Aeronautics and  
Space Administration

Headquarters  
Washington, DC 20546-0001



APR 15 1999

Reply to Attn of: HK

TO: W/Assistant Inspector General for Auditing

FROM: HK/Director, Contract Management Division

SUBJECT: Code H Response to OIG Draft Audit Report on the Department of  
Health and Human Services Billings for Audit Services, A9900600

Enclosed is our response to the subject report dated March 26, 1999.

Please call Jack Horvath at 358-0456 if you have any questions or need further  
coordination or assistance on this response.

  
R. Scott Thompson

Enclosure: asa

**HEADQUARTERS OFFICE OF PROCUREMENT  
RESPONSE TO  
OFFICE OF INSPECTOR GENERAL (OIG)  
DRAFT REPORT NO. A9900600  
DATED MARCH 26, 1999  
AUDIT OF DEPARTMENT OF HEALTH AND HUMAN  
SERVICES BILLINGS FOR AUDIT SERVICES**

**DATE:** APR. 15 1999

Code H Response to OIG 3/26/99  
Draft Report, No. A9900600  
Page 2

Code H's narrative response is provided as follows:

**OIG Recommendation No. 1:**

We recommend that the NASA Acting Associate Administrator for Procurement require NASA contracting officers to tailor future DHHS audit requests to specific areas of interest, and where appropriate, request DHHS auditors to perform and report the results of risk assessments on specific audits.

**Code H Response to Recommendation No. 1:    CONCUR**

Code H will provide guidance to the Center Procurement Offices to tailor future DHHS audit requests to specific areas of interest. As to the area on risk assessments, we will defer any guidance in this area until we have negotiations with DHHS and determine whether the performance and reporting of risk assessments are feasible.

**OIG Recommendation No. 2:**

We recommend that the NASA Chief Financial Officer negotiate with DHHS separate reimbursement amounts for requested and self-initiated audits.

**Code B Response to Recommendation No. 2:    CONCUR**

We appreciate the efforts on the part of the OIG in developing this audit report and the above findings. The content of the audit report regarding the methods used by the DHHS in providing services to NASA will be very helpful in our developing a new agreement with DHHS for audit services. Of course, the agreement will include the recommendation No. 2 listed above as well other provisions to allow for complete oversight of DHHS's work, including Code H's review and approval of their billings to NASA. Over the next six months we expect to develop the guidance for Recommendation No. 1, and a negotiation plan and proposed agreement to present to DHHS for the upcoming fiscal year.

CORRECTIVE ACTION OFFICIAL: HK/J. Horvath  
CORRECTIVE ACTION CLOSURE OFFICIAL: HK/S. Thompson

## **Appendix G. Report Distribution**

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### **National Aeronautics and Space Administration (NASA) Headquarters**

Code A/Administrator  
Code AI/Associate Deputy Administrator  
Code AO/Chief Information Officer  
Code B/Chief Financial Officer  
Code B/Comptroller  
Code C/Associate Administrator for Headquarters Operations  
Code G/General Counsel  
Code H/Associate Administrator for Procurement  
Code J/Associate Administrator for Management Systems  
Code JM/Director, Management Assessment Division  
Code L/Associate Administrator for Legislative Affairs  
Code M/Associate Administrator for Space Flight  
Code P/Associate Administrator for Public Affairs  
Code Q/Associate Administrator for Safety and Mission Assurance  
Code R/Associate Administrator for Aero-Space Technology  
Code S/Associate Administrator for Space Science  
Code U/Associate Administrator for Life and Microgravity Sciences and Applications  
Code Y/Associate Administrator for Earth Science  
Code Z/Associate Administrator for Policy and Plans

### **NASA Center**

Chief Counsel, Kennedy Space Center

### **NASA Offices of Inspector General**

Ames Research Center  
Dryden Flight Research Center  
John H. Glenn Research Center at Lewis Field  
Goddard Space Flight Center  
Jet Propulsion Laboratory  
Lyndon B. Johnson Space Center  
John F. Kennedy Space Center  
Langley Research Center  
George C. Marshall Space Flight Center  
John C. Stennis Space Center

## **Appendix G**

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### **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  
Budget Examiner, Energy Science Division, Office of Management and Budget  
Associate Director, National Security and International Affairs Division, General Accounting  
Office  
Professional Assistant, Senate Subcommittee on Science, Technology, and Space

### **Chairman and Ranking Minority Member -- Congressional Committees and Subcommittees**

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

### **Congressional Member**

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



## **Major Contributors to the Report**

Lorne A. Dear, Program Director, Procurement Audits

Anh Doan, Auditor-in-Charge

Van Tran, Auditor

Nancy C. Cipolla, Report Process Manager