

IG-00-010

AUDIT REPORT

NASA CONTRACT AUDIT FOLLOW-UP SYSTEM AT MARSHALL SPACE FLIGHT CENTER

March 6, 2000



National Aeronautics and
Space Administration

OFFICE OF INSPECTOR GENERAL

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Acronyms

ACO	Administrative Contracting Officer
CAS	Cost Accounting Standards
CATS	Corrective Action Tracking System
DCAA	Defense Contract Audit Agency
DoD	Department of Defense
FAR	Federal Acquisition Regulation
FY	Fiscal Year
NPG	NASA Procedures and Guidelines
OIG	Office of Inspector General
OMB	Office of Management and Budget
RCA	Reportable Contract Audit

W

March 6, 2000

TO: A/Administrator

FROM: W/Inspector General

SUBJECT: INFORMATION: NASA Contract Audit Follow-up System at
Marshall Space Flight Center
Report Number IG-00-010

The NASA Office of Inspector General has completed an audit of the NASA Contract Audit Follow-up System at Marshall Space Flight Center (Marshall). We found that NASA policies and procedures for resolution and disposition of contract audit findings and recommendations comply with the Office of Management and Budget (OMB) Circular A-50¹ requirements.² However, the contract audit follow-up system at Marshall can be improved. The system did not include complete records of actions taken on findings and recommendations for 16 of 19 sampled Defense Contract Audit Agency (DCAA) audit reports for which resolution and disposition authority had been delegated to the Department of Defense (DoD).³ We separately determined that the DoD administrative contracting officers (ACO's) had resolved the findings for 8 of the 16 reports; recovered \$195,000 of questioned costs that were allocated to NASA contracts; and negotiated indirect rates that affected the NASA contracts. Further, when NASA retained authority for resolution and disposition of audit findings, we found Marshall contracting officers did not track one reportable contract audit report⁴ that identified questioned costs of

¹ OMB Circular A-50, "Audit Followup," September 29, 1982, replaces and rescinds Circular No. A-50, "Executive branch action on General Accounting Office reports," revised, dated January 15, 1979, and incorporates certain provisions previously set forth in Circular A-73, "Audit of Federal operations and programs," revised, dated November 27, 1979.

² The Circular requires all agencies, including NASA, to establish audit follow-up systems "to assure the prompt and proper resolution and implementation of audit recommendations." It also requires that the follow-up systems provide for a complete record of action taken on both monetary and nonmonetary findings and recommendations.

³ When contractors have both DoD and NASA contracts, NASA may delegate to the DoD contract administration functions, including resolution and disposition authority on DCAA audit findings and recommendations. Disposition is achieved when the contracting officer renders a decision as to the treatment of the audit recommendation and has executed a contractual document with the contractor.

⁴ A detailed definition of a reportable contract audit report is in Appendix B. The Defense Contract Audit Agency provides NASA a monthly list of audits that are identified as reportable contract audits because NASA has the authority to resolve and disposition the audit findings and recommendations. The report in question involved an incurred cost audit for which the reporting threshold is questioned costs of \$100,000 or more.

\$549,000 and did not resolve or disposition 10 of 11 reportable contract audit report findings and recommendations

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within 6 months, as required by the OMB Circular. As a result, NASA could not ensure that audit findings and recommendations were resolved in a timely manner and that the resolutions were in NASA's best interest. In addition, NASA funds that should have been disallowed, withheld, or reduced could not be reallocated to other NASA programs.

Background

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 spent a total of \$32 million (\$16.5 and \$15.6 million, respectively) on contract audit services provided by the DCAA. Of the \$32 million, NASA paid \$6 million for audit services performed for NASA contracts at Marshall.

Policies and procedures concerning NASA contract audit follow-up systems are contained in the NASA Federal Acquisition Regulation (FAR) Supplement and NASA procedures and guidelines. Those policies and procedures require that NASA contract audit follow-up systems track all audits for which NASA has resolution and disposition authority and that audit recommendations be resolved as expeditiously as possible within 6 months of issuance of the final audit report. The NASA FAR Supplement also requires that, when contract administration is delegated, NASA contracting officers should at least semiannually review and document in the contract files the status and disposition of significant audit findings.

Recommendations

We recommended that the NASA Associate Administrator for Procurement reemphasize Agency and Federal requirements to ensure that NASA contracting officers maintain a dialogue with DoD ACO's who have been delegated activities on NASA contracts and to resolve contract audit report recommendations within 6 months of issuance of the final audit report. Also, the Director, Marshall Space Flight Center, should provide the definition of reportable audit reports to Marshall contracting officers and establish performance standards for Marshall contracting officers to provide effective contract audit follow-up.

Management Response and OIG Evaluation

Management concurred with three recommendations and concurred with the intent of a fourth recommendation. The Associate Administrator for Procurement plans to reemphasize to all procurement personnel the importance of maintaining a dialogue with DoD ACO's and resolving contract audit report findings and recommendations within the required 6 months. Further, NASA

procurement officers will be required to include in the letter of delegation⁵ a specific requirement that DoD ACO's provide NASA detailed information on the resolution and disposition status of DCAA audit findings and recommendations. Also, Marshall management provided to department managers and team leads the definition of reportable contract audit

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reports and applicable regulations, policies, and procedures and emphasized to all procurement personnel the importance of effectively implementing the audit recommendations.

Management actions are responsive to all the recommendations. We consider two of the four recommendations dispositioned and closed for reporting purposes. We are monitoring the two remaining recommendations concerning the requirements to coordinate with DoD ACO's and the resolution of contract audits within 6 months from issuance of the final audit report.

[original signed by]

Roberta L. Gross

Enclosure

Final Report on Audit of NASA Contract Audit Follow-up System at
Marshall Space Flight Center

⁵ NASA uses NASA Form 1430, "Letter of Contract Administration Delegation, General," to delegate contract administration functions to other Government agencies.

FINAL REPORT
AUDIT OF NASA CONTRACT AUDIT FOLLOW-UP SYSTEM AT
MARSHALL SPACE FLIGHT CENTER

W

March 6, 2000

TO: H/Associate Administrator for Procurement
DA/Director, Marshall Space Flight Center

FROM: W/Assistant Inspector General for Auditing

SUBJECT: Final Report on the Audit of the NASA Contract Audit Follow-up System at
Marshall Space Flight Center
Assignment Number A9901800
Report Number IG-00-010

The subject final report is provided for your use and comment. Please refer to the Executive Summary for the overall audit results. Our evaluation of your response is incorporated into the body of the report. Your comments on a draft of this report were responsive to the recommendations. Recommendations 1 and 2 will remain open for reporting purposes until corrective action is completed. Please notify us when agreed-to action has been completed on these recommendations, including the extent of testing performed to ensure corrective actions are effective. The corrective actions completed for recommendations 3 and 4 were responsive. Management's actions are sufficient to close those recommendations 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 Doan, Audit Manager, Contract Audit Oversight, at (818) 354-9773. We appreciate the courtesies extended to the audit staff. The final report distribution is in Appendix G.

[original signed by]

Russell A. Rau

Enclosure

cc:

AO/Chief Information Officer

B/Chief Financial Officer

B/Comptroller
BF/Director, Financial Management Division

2

G/General Counsel
M/Associate Administrator, Office of Space Flight
R/Associate Administrator for Aero-Space Technology
JM/Director, Management Assessment Division

bcc:

AIGA, IG, Reading (w/o Enclosures) Chrons

MSFC/GP/Director, Procurement Office

/Audit Liaison Representative

W/JPL/180-300/L. Dear

/A. Doan

/JSC/L. Lin

E. Lee

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NASA Office of Inspector General

IG-00-010
A9901800

March 6, 2000

NASA Contract Audit Follow-up System at Marshall Space Flight Center

Executive Summary

Background. 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 spent \$32 million (\$16.5 and \$15.6 million, respectively) on contract audit services provided by the Defense Contract Audit Agency (DCAA). Of the \$32 million, NASA paid \$6 million for audit services performed for NASA contracts at the Marshall Space Flight Center (Marshall).

To improve the effectiveness and efficiency of Government operations, the Office of Management Budget (OMB) Circular A-50⁶ requires all agencies, including NASA, to establish audit follow-up systems "to assure the prompt and proper resolution⁷ and implementation of audit recommendations." Resolution should occur within a maximum of 6 months after issuance of a final report, and corrective action should proceed as rapidly as possible. The Circular also requires that the follow-up systems provide for a complete record of action taken on both monetary and nonmonetary findings and recommendations. Furthermore, the Circular establishes 11 standards that follow-up systems must meet, including assuring that "performance appraisals of appropriate officials reflect effectiveness in resolving and implementing audit recommendations."

As part of its oversight duties, the NASA Headquarters Office of Procurement conducts surveys at NASA installations that address, in part, contract audit follow-up of reportable contract audit (RCA)⁸

⁶ OMB Circular A-50, "Audit Followup," September 29, 1982, replaces and rescinds Circular No. A-50, "Executive branch action on General Accounting Office reports," revised, dated January 15, 1979, and incorporates certain provisions previously set forth in Circular A-73, "Audit of Federal operations and programs," revised, dated November 27, 1979.

⁷ Resolution is the point at which the audit organization and agency management or contracting officials agree on action to be taken on reported findings and recommendations; or in the event of disagreement, resolution is the point at which the audit follow-up official determines the matter to be resolved.

⁸ A detailed definition of a reportable contract audit report is in Appendix B. The Defense Contract Audit Agency provides NASA a monthly list of audits that are identified as reportable contract audits because NASA has the authority to resolve and disposition the audit findings and recommendations. Disposition is achieved when the contracting officer renders a decision as to the treatment of the audit recommendation and has executed a contractual document with the contractor.

reports.

Objective. The overall audit objective was to evaluate the adequacy of NASA's contract audit follow-up system at Marshall. Additional details on the objective, scope, and methodology are in Appendix A.

Results of Audit. NASA policies and procedures for resolution and disposition of contract audit findings and recommendations comply with the OMB Circular A-50 requirements. However, the contract audit follow-up system at Marshall can be improved. The system did not include complete records of action taken on findings and recommendations for 16 of 19 sampled DCAA audit reports⁹ for which the resolution and disposition authority had been delegated to the Department of Defense (DoD).¹⁰ As a result, Marshall could not ensure that audit findings and recommendations were resolved in a timely manner and that the resolutions were in NASA's best interest (Finding A).

Marshall contracting officers also did not track 1 RCA report that identified \$549,000 in questioned costs and did not resolve or disposition¹¹ 10 of 11 RCA report findings and recommendations within the 6 months after report issuance pursuant to OMB Circular A-50. Consequently, audit findings were not resolved in a timely fashion and NASA funds that should have been disallowed, withheld, or reduced could not be reallocated to other NASA programs (Finding B).

Recommendations. We recommend that NASA management reemphasize Agency and Federal requirements to ensure that NASA contracting officers maintain a dialogue with DoD administrative contracting officers who have been delegated activities on NASA contracts and resolve contract audit report recommendations within 6 months of issuance of the report. Also, NASA management should provide the definition of RCA reports to Marshall contracting officers and establish performance standards that address Marshall contracting officers' effectiveness in resolving and implementing audit recommendations.

Management's Response. Management concurred with three recommendations and concurred with the intent of the recommendation concerning the establishment of performance standards for Marshall contracting officers to provide effective contract audit follow-up. The complete text of the response is in Appendix F.

Evaluation of Management's Response. Management's planned actions are responsive to all the recommendations.

⁹ Of the three remaining reports, one cost accounting standards noncompliance report will be issued in the near future, and the findings in the two other reports did not meet reportable criteria.

¹⁰ When contractors have both DoD and NASA contracts, NASA may delegate to the DoD contract administration functions, including resolution and disposition authority on DCAA audit findings and recommendations.

¹¹ Contract audit report disposition is achieved when the contracting officer renders a decision as to the treatment of the audit recommendation and has executed a contractual document with the contractor.

Introduction

Policies and procedures concerning NASA contract audit follow-up systems are contained in the NASA Federal Acquisition Regulation (FAR) Supplement 1842.7301¹² and NASA Procedures and Guidelines (NPG) 1200.1.¹³ The policies and procedures require that NASA contract audit follow-up systems track all contract and OMB Circular A-133¹⁴ audits for which NASA has resolution and disposition authority and that audit recommendations be resolved as expeditiously as possible within 6 months of the date of the audit report. NASA FAR Supplement 1842.7301 also requires that, when contract administration is delegated, NASA contracting officers should at least semiannually review and document in the contract files the status and disposition of significant audit findings.

Because DCAA performs contract audits for NASA, the Agency relies on the DCAA to identify the RCA reports and provide the Agency monthly lists of those reports (defined in Appendix B). The NASA Office of Procurement provides the Centers the RCA reports lists for their use in contract audit follow-up. NASA Centers submit to Headquarters quarterly status reports on actions taken on the RCA reports findings and the targeted dates for resolution and disposition. Records of action taken on findings in the RCA reports are subsequently input in a NASA procurement tracking system. For FY's 1997 and 1998, Marshall submitted status reports on a total of 11 RCA reports.

The NASA Office of Inspector General (OIG) is responsible¹⁵ (1) to review NASA's policy for obtaining contract administration and audit services, including those from the DCAA and (2) to evaluate NASA's follow-up systems and specific categories of contract audit work performed in connection with NASA programs.

¹² NFS 1842.7301, "NASA External Audit Follow-up System," January 26, 1998.

¹³ NPG 1200.1, "Management Accountability and Control, Audit Liaison, and Audit Follow-up," October 8, 1997.

¹⁴ OMB Circular 133, "Audits of States, Local Governments, and Non-Profit Organizations," revised June 24, 1997.

¹⁵ Responsibility is assigned in the Inspector General Act of 1978.

Findings and Recommendations

Finding A. Completeness of Follow-up System Records When NASA Delegated Resolution Authority

The Marshall contract audit follow-up system did not include complete records of action on contract audit findings and recommendations for 16 of 19 sampled DCAA audit reports for which resolution and disposition authority had been delegated to DoD. This occurred because Marshall procurement personnel did not maintain a dialogue with the DoD administrative contracting officers (ACO's) who have been delegated activities on NASA contracts. In addition, Marshall procurement personnel did not conduct semiannual reviews and document the status and disposition of significant audit findings and recommendations in the contract files as required by NASA FAR Supplement 1842. As a result, Marshall could not ensure that audit findings and recommendations were resolved in a timely manner and that the resolutions equitably protected NASA's interests. Specifically, NASA could not ensure that negotiated outcomes to questioned costs were appropriately distributed to NASA contracts.

OMB and NASA Guidance

OMB Circular A-50 requires that agencies establish contract audit follow-up systems "to assure the prompt and proper resolution and implementation of audit recommendations." The systems "must maintain complete records of action taken on both monetary and non-monetary findings and recommendations."

To fulfill the requirements of the Circular, NASA FAR Supplement 1842 requires NASA contracting officers to maintain a dialogue with DoD ACO's who have been delegated activities on NASA contracts. The NASA contracting officers are required to conduct a review of the DoD ACO's contract files, no less frequently than semiannually, and to document in their contract files the status and disposition of significant DCAA audit findings.

NASA Delegation of Resolution and Disposition Authority

NASA delegated to DoD the authority for resolution and disposition of the findings in the 16 reports reviewed (Appendix C lists the reports). However, Marshall contracting officers did not maintain complete documentation for or review DoD contract files on the status of the delegated report findings. Accordingly, Marshall's contract audit follow-up system did not have complete records of resolution and disposition of the audit findings. Our conclusions are illustrated below.

- Eleven reports related to incurred cost audits¹⁶ in which DCAA questioned specific costs charged by the contractor to the Government, including NASA, or questioned the rates used by the contractor. One DCAA report, for example, questioned \$656,000 in costs charged, and the ACO recovered \$346,000 of the questioned costs. NASA's share of the questioned costs was \$102,000. The Marshall contract audit follow-up system did not include any record of the recovery.
- Four of the 16 reports related to operation audits¹⁷ that identified significant, potential cost avoidances;¹⁸ deficiencies in internal controls; or noncompliance with OMB Circular A-110.¹⁹ One DCAA report, for example, identified a potential \$217 million cost avoidance if the contractor replaced its current legacy-based information technology systems with a fully integrated and upgradable information technology system. Another DCAA report noted that the contractor could realize savings of \$3.4 million if it established a "government common parts inventory." The Marshall contract audit follow-up system did not include any record of the cost savings realized.
- The one remaining report related to a Cost Accounting Standards (CAS) disclosure statement²⁰ in which two accounting changes required cost impact proposals. The Marshall contract audit follow-up system did not include any record of the noncompliance issue or its resolution and disposition.

We separately determined that the DoD ACO's had resolved the findings for 8 of the 16 reports. For the eight reports, the DoD ACO's had recovered \$195,000 of questioned costs that were allocated to NASA contracts, and negotiated indirect rates that affected the NASA contracts. Because Marshall contracting officers did not obtain updates from the DoD ACO's, the Marshall contract audit follow-up system lacked the resolution and disposition documentation on the eight report findings and recommendations.

During discussions with NASA management regarding our audit results, the Office of Procurement representative requested that we direct our recommendation to the Associate Administrator for Procurement to allow corrective action NASA-wide.

¹⁶ Incurred cost audits involve an examination of the contractor's cost representations so the auditor may express an opinion as to whether such incurred costs are reasonable, applicable to the contract, and not prohibited by the contract, by statute or regulation, or by previous agreement with, or decision of, the contracting officer.

¹⁷ Operation audits are audits of a contractor's business operation. For example, the primary audit objective in reviewing a contractor's budgetary systems and data is to establish that a sound budgetary system is operating for company planning and cost control purposes. A secondary objective is to obtain a comprehensive overview of the contractor's financial planning process.

¹⁸ The savings could result from improved operations.

¹⁹ OMB Circular A-110, "Uniform Administrative Requirements for Grants and Other Agreements with Institutions of Higher Education, Hospitals and Other Non-Profit Organizations" dated November 19, 1993, further amended August 29, 1997.

²⁰ The audit was to ascertain whether a disclosure statement adequately described the cost accounting practices to be used by a contractor for estimating, accumulating, and reporting contract costs.

Recommendation for Corrective Action

1. The Associate Administrator for Procurement should reemphasize to all procurement personnel the NASA FAR Supplement 1842.7301(3) requirements to coordinate with DoD ACO's who have been delegated resolution authority on NASA contracts and to review and fully document the status and disposition of significant audit findings. The Associate Administrator should consider including in the DoD ACO delegation a requirement to provide NASA Centers the detailed resolution and disposition information on audit findings and recommendations.

Management's Response

Concur. Management plans to reemphasize to all procurement personnel the importance of maintaining a dialogue with DoD ACO's. Further, procurement officers will be required to include in the letter of delegation a specific requirement that DoD ACO's provide NASA detailed information on the resolution and disposition status of DCAA audit findings and recommendations.

Evaluation of Management's Response

The actions planned by management are responsive to the recommendation. The recommendation is resolved but will remain undispositioned and open until the agreed-to corrective actions are completed.

Finding B. Timeliness of NASA's Audit Resolution

Marshall contracting officers did not track one reportable contract audit report that identified questioned costs of \$549,000 and did not resolve or disposition 10 of 11 RCA findings and recommendations within 6 months as prescribed by OMB Circular A-50 (see Appendix D). One report was not tracked because a Marshall contracting officer was not aware of the reportable contract audit (RCA) reporting requirement. Also, Marshall did not monitor contracting officers' timeliness in resolving the RCA findings and recommendations or establish performance standards for contracting officers to provide effective contract audit follow-up. As a result, funds related to the audit findings (see Appendix D) that had not been resolved in a timely manner could not be reallocated to benefit other NASA programs.²¹ Both the General Accounting Office (GAO) and the NASA OIG have previously reported on the NASA contract audit follow-up system, which has since improved significantly (see Appendix E).

OMB and NASA Guidance

OMB Circular A-50 requires agencies to assign a high priority to the resolution of audit recommendations and to implementation of corrective actions. The Circular states that "Resolution²² shall be made within a maximum of six months after issuance of a final report or, in the case of audits performed by non-Federal auditors, 6 months after receipt of the report by the Federal Government. Corrective action should proceed as rapidly as possible." The Circular also requires that "performance appraisals of appropriate officials reflect effectiveness in resolving and implementing audit recommendations."

Additionally, NASA FAR Supplement 1842.7301 states that audit recommendations should be resolved as expeditiously as possible, within 6 months of the date of the audit report.

Tracking RCA Report

A DCAA incurred cost audit report²³ identified questioned costs of \$549,000 related to a contractor's FY 1995 indirect rates. DCAA included this audit report in its monthly report to NASA. However, Marshall did not include this audit report as an action item in its RCA reports list submitted to NASA Headquarters because the responsible Marshall contracting officer was not aware of the RCA reporting requirement.

²¹ To illustrate, the total of \$12.5 million under question in DCAA audit reports, 1311-95U10150032, dated September 29, 1995, and 6151-96H17900001, dated May 7, 1996, could benefit other NASA programs, if resolved within the required 6 months (see Appendix D for more details on these and other audit reports).

²² Resolution occurs when the audit resolution official—either the procurement contracting officer or the administrative contracting officer—in consultation with the auditor, decides on the appropriate action to take. Disposition occurs when the contractor implements the audit recommendation or the contracting officer's decision.

²³ DCAA audit report number 1311-97U10150017, dated July 11, 1997.

Resolution and Disposition of Audit Findings and Recommendations

Of the 11 reportable audit reports Marshall reported to NASA Headquarters for FY's 1997 and 1998, only 1 had been resolved 5 months after issuance of the final report and was dispositioned 7 months after the resolution. Two²⁴ of the remaining 10 audits were not resolved or dispositioned even though the audit reports had been issued 4 years earlier. Marshall indicated that for one of the two reports, the contractor submitted a revised indirect rate proposal in January 1999, and DCAA would have to audit the proposal before the contracting officer could proceed with the final rate agreement letter. Marshall documentation indicated that resolution and disposition of the audit findings could take place in January or

February 1999. As of September 1999, Marshall had not resolved the indirect rate issue. For the other audit report, Marshall reported that the contractor appealed²⁵ the contracting officer's decision and Marshall filed a counter motion²⁶ on December 15, 1997. Marshall anticipated that resolution and disposition would take place in September and December 1999, respectively. For the remaining eight audits, Marshall's resolution of the audit findings took as long as 34 months (see Appendix D). We recognize that, due to certain external circumstances out of Marshall's control (such as DCAA delay in completing the review of a contractor's proposal, or a contractor's appeal of a contracting officer's decision), resolution of audit findings may take more than 6 months. However, NASA management should emphasize to Marshall contracting officers the importance of resolving audit findings within the required 6 months. The timely resolution of questioned costs could release needed funds to benefit other NASA programs.

Timeliness and Performance Standards to Provide Effective Contract Audit Follow-up

Marshall has not established performance standards for contracting officers to provide effective contract audit follow-up. Marshall procurement personnel indicated that the performance evaluation plan for Marshall Department Managers included an element related to timely resolution of all audit findings and compliance with International Organization for Standardization 9000.²⁷ Also, Marshall procurement personnel stated that the Center indirectly monitored administrative contracting officials' timeliness in resolving audit report findings through the quarterly RCA reports submitted to the NASA Headquarters Office of Procurement and the NASA Procurement Management Surveys. The surveys, conducted by the NASA Headquarters Office of Procurement, address, in part, contract audit follow-up of reportable contract audit. The review teams obtained the RCA reports list from the NASA Headquarters Office of Procurement as part of their overall contract reviews and

²⁴ DCAA audit report numbers 1311-95U10150032 and 6151-96H17900001, dated September 29, 1995, and May 7, 1996, respectively.

²⁵ An appeal is a legal proceeding that allows the contractor to object to the contracting officer's decision.

²⁶ An application made to a court or judge to obtain an order, ruling, or direction.

²⁷ Quality Management System Standards to identify and control processes to assure the quality of hardware, software, and services provided.

determined how the audits were used in the negotiation or development of the contracts. Those efforts addressed only the timely resolution of audit findings but did not address the effectiveness in resolving and implementing audit recommendations by Marshall contracting officers. Therefore, Marshall should establish performance standards that address the timeliness and effectiveness in resolving and implementing audit recommendations.

During our discussions with NASA management regarding the need for 6-month resolution of contract audit report recommendations pursuant to Circular A-50, the Office of Procurement representative requested that our recommendation be directed to the Associate Administrator for Procurement to allow corrective action NASA-wide.

Recommendations for Corrective Action

2. The Associate Administrator for Procurement should reemphasize to all Center procurement personnel the requirement to resolve contract audit report recommendations within the 6 months from issuance of the final audit report, as required by OMB Circular A-50 and NASA FAR Supplement 1842.7301.
3. The Director, Marshall Space Flight Center, should provide the definition of reportable contract audit reports to Marshall contracting officers.
4. The Director, Marshall Space Flight Center, should establish performance standards for Marshall contracting officers to provide effective contract audit follow-up.

Management's Response

Concur with recommendations 2 and 3, and concur with the intent of recommendation 4. The Associate Administrator for Procurement will reemphasize with all Centers the requirement to actively pursue the resolution of contract audit recommendations within the required 6 months from issuance of the final audit report. Also Marshall management provided to all department managers and team leads within the Marshall Procurement Office the definition of reportable audit reports and applicable regulations, policies, and procedures. Furthermore, Marshall management emphasized with all procurement personnel the importance of effectively implementing the audit recommendations.

Evaluation of Management's Response

The actions taken and planned by management are responsive to the recommendations. Recommendation 2 is resolved but will remain undispositioned and open until the agreed-to corrective action is completed. Recommendations 3 and 4 are considered dispositioned and closed for reporting purposes.

Appendix A. Objective, Scope, and Methodology

Objective

The overall objective of the audit was to evaluate the adequacy of NASA's contract audit follow-up system at Marshall Space Flight Center. Specifically, we determined whether:

- Policies and procedures for resolution and disposition of contract audit findings and recommendations are in compliance with OMB Circular A-50 requirements.
- Follow-up activities ensure the prompt and effective resolution and disposition of contract audit recommendations, including the recording of action taken on all findings and recommendations.

We did not assess the adequacy of the ACOs' resolution of audit findings.

Scope and Methodology

We performed the detailed audit work at Marshall Space Flight Center, Huntsville, Alabama. We reviewed OMB Circular A-50 requirements; NASA's policies, including NASA FAR Supplement 1842.73, Procurement Notice 97-2, and NASA Procedures and Guidelines 1200.1; and other agencies' policies referenced in NASA guidelines such as Department of Defense Directive 7640.2²⁸ and the DCAA Contract Audit Manual. We interviewed Marshall and DoD contracting officers to determine whether audit findings and recommendations were resolved and dispositioned promptly and effectively. We also interviewed the Marshall representative in charge of the contract audit follow-up system at the Center and NASA headquarters officials in the Offices of the Chief Financial Officer and Procurement.

To determine whether NASA's follow-up activities ensure the prompt and effective resolution and disposition of contract audit recommendations, we selected the DCAA audit reports containing findings and reviewed the audit recommendations with the applicable Marshall contracting officers. We randomly selected 95 DCAA audit reports from Marshall billing data for FY's 1997 and 1998, with the exception of October and November 1996 and May and June 1998. We identified and reviewed 30 DCAA audit reports containing findings, including 8 forward pricing audit reports.²⁹ We also reviewed 11 audits reported by Marshall for FY's 1997 and 1998 (see Appendix D).

²⁸ DoD Directive 7640.2, "Policy for Follow-up on Contract Audit Reports," August 16, 1995.

²⁹ Forward Pricing audit reports are not subject to Circular A-50 time limits for resolution or reporting requirements. Records on the status of reports, maintained in official contract files, meet the Circular requirement.

FY's 1997 and 1998 Audit Reports Reviewed

Type of Audit	Number of Audits	Number of Reports			
		Reviewed	With Findings	Delegated to DoD ¹	Retained by NASA ²
Incurring Cost	1,448	20	13	11	2
Cost Accounting Standards	285	20	3	3	
Forward Pricing ³	186	20	8		8
Operation	64	20	5	4	1
Defective Pricing ⁴	15	15	1	1	
	1,999	95	30	19	11

¹ NASA delegated to DoD the authority for resolution and disposition of contract audit findings and recommendations.

² NASA retained the authority for resolution and disposition of contract audit findings and recommendations.

³ A forward pricing audit involves an assessment of both the proposal (offer) and the offeror's ability to successfully accomplish the prospective contract and a determination that the proposal is acceptable for negotiation of a fair and reasonable price.

⁴ The purpose of a defective pricing audit is to test whether the price, including profit, negotiated in a pricing action was increased by a significant amount because the contractor furnished cost or pricing data that was not accurate, complete, and current.

Management Controls

We examined Marshall policies and procedures concerning the contract audit follow-up process. We also reviewed Marshall practices to track contract audit reports and to follow up on audit recommendations for timely resolution and disposition.

We considered management policies and procedures to be adequate. However, controls need to be strengthened to ensure that contracting officers maintain a dialogue with the DoD ACOs (Finding A) and resolve audit recommendations within 6 months as required by OMB Circular A-50 (Finding B).

Audit Field Work

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

Appendix B. Reportable Contract Audit Reports

The DCAA Contract Audit Manual 7640.1, Volume 2, Chapter 15, defines reportable contract audit reports as:

- (1) Those reports containing findings and recommendations, whether or not the findings are qualified, covering estimating system surveys, accounting and related internal control system reviews, defective pricing reviews, and cost accounting standards (CAS) matters. (Reports containing only favorable findings and recommendations, such as CAS reports recommending that a contractor's proposed accounting change be approved, or estimating system surveys that only contain "suggestions for improvements" are not reportable.)
- (2) Those reports covering operations audits, incurred costs, settlement of final indirect cost rates, final pricing submissions, termination settlement proposals, and claims if reported costs or rates questioned or unsupported/qualified equal \$100,000 or more.
- (3) Reports on audit-determined final indirect cost rates and Form(s) 1, to the cognizant Administrative Contracting Officer (ACO) when the auditor cannot reach an agreement with the contractor.

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Appendix E. Summary of Prior Coverage

The NASA OIG and GAO have issued reports related to the use of audit services provided by DCAA and to NASA's audit follow-up process. The reports are summarized below.

NASA

“Review of NASA’s Use of Audit Services Provided by the Defense Contract Audit Agency,” Report Number P&A-98-001, September 30, 1998. NASA needs to improve its oversight of the use, benefits, and effectiveness of DCAA services. Also, NASA’s audit follow-up system needs improvement to ensure that all reports, including those sent to DoD for follow-up and resolution, are properly accounted for and resolved. This condition occurred because NASA tracked only reportable DCAA audit reports, the Centers did not have a centralized point to receive and track audit reports, and NASA did not monitor the status of DCAA audit reports sent to DoD for follow-up and resolution. The OIG made six recommendations to NASA. Management partially concurred with the recommendations and plans to coordinate on information available from DCAA to improve NASA’s oversight of the use of DCAA services. However, procurement management believes the present systems at NASA Headquarters and its Centers are sufficient for tracking DCAA workload and reports.

“NASA Audit Follow-up Process: HQ Center,” Report Number HQ-94-009, May 26, 1994. NASA did not have an effective follow-up system to closely monitor contract audits and ensure timely and complete resolution. This occurred because NASA Headquarters procurement officials did not have an active role in routinely monitoring actions taken on the reports; instead procurement officials relied on the individual contracting officer to resolve and implement the audit recommendations. Also, the procurement and contracting officers at the Centers did not have clear and formal performance standards to promote effective contract audit follow-up. The NASA Contract Pricing and Finance Division concurred with the OIG recommendation to participate in the resolution and disposition process at the Center procurement offices and to include contract audit follow-up standards in the contracting officers’ performance plans.

GAO

“NASA Contract Management: Improving the Use of DCAA’s Auditing Services,” Report Number GAO/NSIAD-94-229, September 30, 1994. The GAO raised many concerns related to NASA contractors’ unallowable cost claims, the status of contractors’ business systems, NASA’s involvement in DCAA’s audit planning process, timeliness of contract close out, and contract audit tracking and follow-up systems. The GAO made six recommendations. Two of the recommendations dealt with NASA’s untimely tracking and

Appendix E

following up on contract audit reports, monitoring audit findings and recommendations that are resolved by DoD ACOs, and documenting the status and disposition of the audit findings in contract files. NASA management agreed that its audit tracking and reporting systems need improving, but was concerned that the GAO recommended that NASA track the status of audit reports that DoD also tracked and was responsible for resolving. The GAO's response was: "We do not want NASA to duplicate DoD's work. Our point is that NASA should understand and evaluate the adequacy of the service it is receiving in this area."

Appendix F. Management's Response

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



Reply to Att of DE01

FEB 2 2000

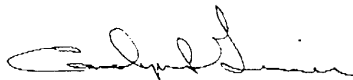
TO: NASA Headquarters
Attn: W/Russell A. Rau

FROM: DE01/Sidney P. Saucier

SUBJECT: OIG Draft Report on the Audit of the NASA Contract Audit Follow-up
System at Marshall Space Flight Center. (Assignment No. A9901800)

As requested, we are forwarding to you a revised response to the subject report. Please note that our comments were coordinated with NASA Headquarters Code H and include their response to Recommendations 1 and 2.

If you have any questions or need additional information concerning our comments, please contact RS40/Andy McMillan at (256) 544-9273.


for Sidney P. Saucier
Associate Director
Enclosure

**NASA RESPONSE TO THE OIG DRAFT REPORT ON THE AUDIT
OF THE NASA CONTRACT AUDIT FOLLOW-UP SYSTEM AT
MARSHALL SPACE FLIGHT CENTER
ASSIGNMENT NO. A9901800**

RESPONSES TO THE RECOMMENDATIONS:

OIG Recommendation 1: The Associate Administrator for Procurement should reemphasize to all procurement officers the NASA FAR Supplement 1842 7301(3) requirements to coordinate with DoD ACO's who have been delegated resolution authority on NASA contracts and to review and fully document the status of the resolution and disposition of audit findings. The Associate Administrator should consider including in the DoD ACO delegation a requirement to provide NASA Centers the detailed resolution and disposition information on audit findings and recommendations

Code H Response: Concur. The Associate Administrator for Procurement will reemphasize to all procurement officers the importance of maintaining a dialogue with DOD ACO's in order to ensure that resolution and disposition status of audit findings under the ACO's cognizance are reported back to the responsible NASA contracting officer. Further, although the current NASA delegation letter (NASA Form 1430) line 14, provides for the DOD ACO "to provide the NASA Contracting Officer (CO) with copies of all communications relating to the administration of the contract that you consider significant," we will direct the procurement officers to add the following language to line 14 in order to ensure that ACO's provide the NASA CO's with current audit status: "This specifically includes detailed information on the resolution and disposition status of DCAA audit findings and recommendations."

CORRECTIVE ACTION OFFICER: Code HK/J. Horvath
CORRECTIVE ACTION CLOSURE OFFICIAL: Code HK/S. Thompson
PROJECTED CORRECTIVE ACTION CLOSURE DATE: 3/31/2000

OIG Recommendation 2: The Associate Administrator for Procurement should reemphasize to all Center procurement officers the requirement to resolve contract audit report recommendations within the 6 months from issuance of the final audit report, as required by OMB Circular A-50, and NASA FAR Supplement 1842 7301

Code H Response: Concur. Although it is our belief and contention that all Centers actively pursue the resolution of contract audit recommendations within the 6 months from issuance of the final audit report, we will reemphasize this requirement to all Center procurement officers.

CORRECTIVE ACTION OFFICER: Code HK/J. Horvath
CORRECTIVE ACTION CLOSURE OFFICIAL: Code HK/S. Thompson
PROJECTED CORRECTIVE ACTION CLOSURE DATE: 3/31/2000

OIG Recommendation 3: The Director, Marshall Space Flight Center, should provide the definition of reportable audit reports to Marshall procurement officers.

MSFC Response: Concur. Contracting officers need to understand what is considered a reportable audit to ensure they are monitored appropriately. The Policy & Information Management Department, within the MSFC Procurement Office, provided the definition of reportable audit reports (as provided in the DCAA Contract Audit Manual) and all applicable regulations, policies, and procedures to all department managers and team leads on November 16, 1999. Based on this information, it is requested that this item be closed upon issuance of the final report.

OIG Recommendation 4: The Director, Marshall Space Flight Center, should establish performance standards for Marshall procurement officers to provide effective contract audit follow-up.

MSFC Response: Concur with the intent of the recommendation. At the present time, department managers within the MSFC Procurement Office have a standard in their performance evaluations for "timely resolution of all audit findings." The MSFC Procurement Officer will also emphasize to all procurement personnel the importance of effectively implementing the audit recommendations. We believe that this process, along with the additional guidance anticipated from NASA Headquarters addressing Recommendations 1 and 2, will ensure proper emphasis and management oversight are given to this area. Consequently, we do not feel that additional personnel should be required to incorporate this as a performance standard.

Appendix G. Report Distribution

National Aeronautics and Space Administration (NASA) Headquarters

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

NASA Centers

Director, Ames Research Center
Director, John H. Glenn Research Center at Lewis Field
Director, Goddard Space Flight Center
 Chief Financial Officer, Goddard Space Flight Center
Director, Langley Research Center
 Chief Financial Officer, Langley Research Center
Director, John F. Kennedy Space Center
 Chief Counsel, 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
Associate Director, National Security and International Affairs Division, Defense Acquisition Issues, General Accounting Office
Professional Assistant, Senate Subcommittee on Science, Technology, and Space

Chairman and Ranking Minority Member -- Congressional Committees and Subcommittees

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

Congressional Member

Honorable Pete Sessions, U.S. House of Representatives

NASA Reader Survey

NASA Assistant Inspector General for Auditing

Reader Survey

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

Report Title: NASA Contract Audit Follow-up at Marshall Space Flight Center

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

Circle the appropriate rating for the following statements.

	Strongl y Agree	Agree	Neutra l	Disagre e	Strongl y Disagre e	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)

Congressional Staff

NASA Employee

Private Citizen

Government: _____ Federal: _____ State: _____ Local: _____

Media

Public Interest

Other: _____

May we contact you about your comments?

Yes: _____

No: _____

Name: _____

Telephone: _____

Thank you for your cooperation in completing this survey.

Major Contributors to the Report

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Anh T. Doan, Auditor-in-Charge

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