National Aeronautics and
Space Administration

Office of Inspector General
Washington, DC 20546-0001

October 11, 2006

TO: Procurement Officer, Johnson Space Center

FROM: Assistant Inspector General for Auditing

SUBJECT: Addendum to Final Report on Subcontract Management by United Space Alliance under the Space Flight Operations Contract (Report No. IG-06-013, August 28, 2006)

We requested additional management comments on the subject final report because we did not consider the comments on Recommendations 2 and 3 to be responsive. We received additional management comments on September 26, 2006 (see the Enclosure), that are responsive. Recommendation 2 will remain open pending completion of the corrective action plan. Recommendation 3 is closed. A summary of management comments on Recommendations 2 and 3 and our evaluation of the comments is provided below.

Recommendation 2

We recommended that the NASA Space Flight Operations Contract (SFOC) contracting officer require United Space Alliance (USA) to submit a corrective action plan addressing measures USA would take to ensure adequate pricing determinations and proper documentation supporting its pricing determinations for future subcontract actions. We further stated that, at a minimum, the plan should include a description of training initiatives, Company Acquisition Procedures (CAP) revisions, and other necessary measures, as well as a schedule for completion.

Johnson management stated in its June 8, 2006, response to the draft report that, "as evidenced by three prior contractor purchasing system reviews (CPSRs) and the review [conducted as a result of the audit findings], these isolated instances of lacking adequate cost and pricing determinations are considered as minor and not representative of any serious risk to the Government and not warranted of a formal recommendation." Johnson management also stated that it would discuss with USA the need to cover cost and pricing determinations as part of USA's future refresher training. While we believe such discussion would be helpful, it would not, by itself, be sufficient to correct the conditions leading to the deficiencies. Therefore, in the subject final report, we requested Johnson reconsider its position and provide additional comments regarding this recommendation to require USA to submit a substantive corrective action plan, including a schedule for completion, addressing the deficiencies identified.

Johnson management submitted additional comments on September 26, 2006, stating that, while they maintain their original position, they have requested that USA develop a corrective action plan for improving pricing determinations and supporting documentation. USA agreed to

comply and submitted a corrective action plan, which is included as the enclosure to management's additional comments.

On the basis of these comments and action, the recommendation is resolved but will remain open pending implementation of the corrective action plan. Management estimates this task will be completed by December 21, 2006.

Recommendation 3

We recommended that the NASA SFOC contracting officer determine a periodic schedule for sampling and reviewing USA subcontract pricing determinations under the partnering process to ensure that the pricing determinations were properly performed and documented in accordance with the requirements identified in USA's CAP.

Johnson management stated in its June 8, 2006, response to the draft report that they concurred and that "as of May 19, 2006, the SFOC contracting officer delegated this function to the local Defense Contract Management Agency to perform the reviews on an annual basis." While we obtained the documentation supporting that the delegation was made and accepted, the CPSR completed July 17, 2006, through August 1, 2006, did not include an assessment of whether partnering was separate from price negotiations because the sample did not include any "partnered" files. Therefore, in the subject final report, we requested that Johnson provide additional comments regarding actions that it would take to ensure that future CPSRs included "partnered" files.

Johnson management submitted additional comments on September 26, 2006, stating that the CPSR performed "mainly consisted of new purchase orders/subcontracts, not change orders to existing subcontracts, which is where most of the 'partnering' occurs." However, Johnson management plans to issue a letter of delegation for this function to the follow-on Space Program Operations Contract, which they anticipate will include partnered actions.

Based on these comments, the recommendation is resolved and closed.

We appreciate the courtesies extended to the staff. If you have any questions, or need additional information, please contact Ms. Diane Choma, the Project Manager, at 301-286-6443.

Evelyn R. Klemstine

Evelyn R. Klemstine
Enclosure

cc:
Assistant Administrator for Procurement
Director, Management Systems Division

Management's Additional Comments

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

September 26, 2006

Reply to Attn of: BV-06-190

TO: NASA Headquarters
Attn: Assistant Inspector General for Auditing

FROM: BA/Procurement Officer

SUBJECT: Additional Comments to Final Audit Report, "Subcontract Management by United Space Alliance under the Space Flight Operations Contract" (Report No. IG-06-013; Assignment No. A-05-001)

As requested in the final report dated August 28, 2006, JSC is providing additional comments to recommendations 2 and 3.

Recommendation 2: "The NASA Space Flight Operations Contract (SFOC) contracting officer should require USA to submit a corrective action plan within 60 days from issuance of this report addressing measures USA will take to ensure adequate pricing determinations and proper documentation supporting its pricing determination for future subcontract actions."

JSC Comments: We maintain our original position as stated in our letter dated June 8, 2006, however, we agree there is always room for improvement. As such, we have requested a corrective action plan (CAP) for improving pricing determinations and supporting documentation. USA has agreed to comply and has submitted a CAP as shown in the enclosure.

Recommendation 3: "The NASA SFOC contracting officer should determine a periodic schedule for sampling and reviewing USA subcontract pricing determinations under the partnering process to ensure that the pricing determinations were properly performed and documented in accordance with the requirements identified in USA's CAP." (Company Acquisition Procedure)

JSC Comments: As stated in our letter dated June 8, 2006, we concur with this recommendation. On May 19, 2006, this function was delegated to the local Defense Contract Management Agency to perform the subject reviews on an annual basis. The initial review was conducted along with the Contractor's Purchasing System Review (CPSR) held on July 17, 2006, through August 4, 2006. However, the sample period

mainly consisted of new purchase orders/subcontracts, not change orders to existing subcontracts, which is where most of the "partnering" occurs. It was then verified that the listing of change orders over $1 million within the sample period had been consented to as required. During the consent process, pricing is reviewed by the cognizant office. It is noted that a Letter of Delegation for this function will be incorporated into the follow-on Space Program Operations Contract, which we anticipate "partnered" actions to occur. We consider this recommendation closed. Additionally, because of the amount of scrutiny both inside and outside NASA, we are highly sensitive to management of the USA contract. I assure you that due diligence is paid to it by my procurement staff. A tremendous amount of work has been expended in analyzing your audit findings, by both my staff and USA personnel, and we are confident that any deficiencies will be addressed.

If you have any questions, please contact Patsy Ritterhouse, JSC Audit Liaison, at 281-483-4220 or via email at patsy.h.ritterhouse@nasa.gov.

Debra L. Johnson

cc:
NASA Headquarters
John Werner, Management Systems Division
Joe LeCren, Office of Procurement

Enclosure

USA Corrective Action Plan for OIG Recommendation 2:

- Review Company Acquisition Procedure 5.725, Performing a Cost Analysis, and update to ensure the following processes are reflected:
  - Documentation requirements for cost analysis
  - Factors for determining the need for audit of subcontractor rates
- Provide updated training to Subcontracts personnel (Subcontract Administrators, Compliance Analysts, Cost Analysts) with a focus on the following:
  - Price Analysis - Techniques
  - Cost Analysis - Requirements
  - Documentation of price and cost analysis (inclusive of dispositioning discrepancies/issues)
    - Exercises
    - Examples
- Estimated completion date for both: December 21, 2006

Enclosure