

**Statement of  
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**before the**

**Subcommittee on Federal Financial Management, Government Information,  
Federal Services, and International Security  
Committee on Homeland Security and Governmental Affairs**

**United States Senate**

Chairman Carper, Senator Coburn, and Members of the Subcommittee, thank you for the opportunity to appear today to discuss NASA's progress in identifying, eliminating, and recovering improper payments. NASA is committed to ensuring that taxpayer resources are used appropriately and, therefore, that the Agency makes proper payments. In my testimony today, I will outline the steps NASA has taken to address improper payments, including complying with the Improper Payments Information Act (IPIA) of 2002.

I would like to begin by explaining the composition of NASA's contracts and how that affects our payments. Contractors support the execution of many of NASA's research and development (R&D) programs. The variable and often unpredictable nature of this complex R&D work leads NASA to use cost versus fixed-price contracts. While both contract types are used in various NASA programs, cost contracts represent approximately 88 percent of payments made, and fixed-price contracts represent the remaining 12 percent. NASA has implemented a multi-pronged approach to oversee the integrity of the payments for its R&D programs and associated contracts.

Effective contract process controls represent one element of our approach and are the cornerstone of NASA's efforts to ensure proper payments. Once contract work is underway, NASA adheres to financial management procedures and internal controls that help to ensure that proper payments are made from the initial disbursement of funds. As an important second element of our approach, the Defense Contract Audit Agency (DCAA) reviews cost contracts and our contractors' adherence to accounting and control requirements. For cost contracts, the DCAA also conducts contract close-out audits that

may identify any questionable costs. Any questionable costs are reviewed by the NASA contracting officer for resolution, if necessary.

As a third element, complementary to our program integrity activities, the Agency has taken the additional step of establishing an Acquisition Integrity Program (AIP) aimed at strengthening acquisition oversight and management. AIP was formally launched in December 2006 by NASA's Deputy Administrator, Shana Dale, and tasked with ensuring that transparency, accountability, and integrity remain paramount touchstones in all aspects of the NASA acquisition process. This commitment to preserve resources is a collaborative effort among the Offices of the Inspector General, the Chief Financial Officer, General Counsel, and Procurement. The AIP seeks to maximize remedies that return funds to Agency accounts for use in required areas, identify irresponsible contractors for suspension or debarment, and improve the understanding and effectiveness of procurement processes.

Finally, in accordance with the IPIA of 2002 and consistent with Office of Management and Budget (OMB) guidance, NASA seeks to continually strengthen its program integrity activities and assess its risk assessment approach and recovery audit processes.

NASA, as well as other agencies, is required to complete an improper payments risk assessment. For its FY 2006 risk assessment, NASA used the results of the prior year's recovery audit. Through that process, NASA reviewed approximately \$57 billion of cost and fixed-price contract payments across all programs dating back to 1997. Based on the results of that assessment, NASA found the total value of improper payments that had not already been identified and reported in prior years to be \$256,255. This formed the basis for the amount reported in the FY 2006 Performance and Accountability Report (PAR). In that document, NASA reported that the Agency's assessed risk and actual results for the past three years have shown NASA's improper payments to be less than the benchmark 2.5 percent of program payments and less than \$10 million.

There have been several observations regarding Questioned Costs and their relationship to the improper payment figures reported in NASA's PAR. Questioned Costs are not analogous to improper payments. Rather, they are costs that NASA's Office of Inspector General (OIG) found had no supporting documentation at the time of audit, or that they recommend be further reviewed by NASA management to determine validity, or questioned whether they were expended for an unnecessary purpose. Therefore, since there are more categories of possible Questioned Costs than exist with improper payments and since these audit Questioned Cost are not always sustained, it is likely, and is in fact typically the case, that the OIG would report a higher figure for Questioned Costs than the amount that is reported as improper payments.

For FY 2007, NASA's risk assessment approach incorporates lessons learned from the results of prior year audit recovery activities and incorporates OMB Memorandum M-06-03, Issuance of Appendix C to OMB Circular A-123, August 10, 2006 instructions. This risk assessment addresses disbursement activities on a program basis for both cost and

fixed-price contracts. A statistically valid sample of payment transactions will be obtained and tested, after which, NASA will report the results.

With respect to a recovery audit program, as I noted earlier in my testimony, NASA performed a comprehensive recovery audit in FY 2006. NASA is implementing improvements in our FY 2007 recovery audit. And, consistent with OMB guidance, the Agency has chosen to exclude cost contracts from the scope of its recovery audit activities. Cost contracts establish a cost ceiling that cannot be exceeded without NASA's approval. The contractor then bills NASA based on the effort expended. Payments under cost contracts may be interim, provisional or otherwise subject to further adjustment in accordance with the terms of the contract. These contracts are already subjected to on-going reviews. Further, the DCAA conducts interim and final audits of these contracts. At contract closeout, all prior interim payments made under these cost contracts are accounted for and reconciled. Including these contracts in a recovery audit program would result in duplicative audits of contractor records and, to date, has not yielded monetary benefits or proven to be cost beneficial for external review based on contingent recovery fees.

Based on lessons learned over the past few years, the Agency is revising contractor requirements in its Request for Proposal for audit recovery services.

We have taken steps to bring our program into compliance with OMB's guidelines for implementing the Improper Payments Information Act of 2002. As a result, I am confident in the results of our assessments. We will continue to adopt lessons learned from future recovery audits to ensure that we are making the most of those efforts.

In closing, NASA is fully committed to ensuring that Agency payments are properly made and that the Agency fully complies with the Improper Payments Information Act of 2002.

Mr. Chairman, I would be pleased to respond to any questions you or the other Members of the Subcommittee may have.