

REVIEW REPORT

Review of NASA's Use of Audit Services
Provided by the Defense Contract Audit Agency
P&A-98-001

September 30, 1998



**OFFICE OF
INSPECTOR GENERAL**

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



Reply to Attn of:

W

September 30, 1998

TO: HK/Director, Contract Management Division

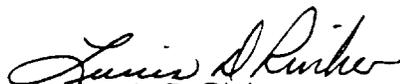
FROM: W/Assistant Inspector General for Partnerships and Alliances

SUBJECT: Report on Review of NASA's Use of Audit Services
Provided by the Defense Contract Audit Agency, P&A 98-001

The Office of Inspector General completed a review to evaluate the use, benefits, and effectiveness of reimbursable audit services provided to NASA by the Defense Contract Audit Agency (DCAA). The subject final report is provided for your use. Please refer to the executive summary for our overall review results.

This report includes our evaluation of your response with respect to planned corrective actions. We will keep all recommendations open pending completion of corrective actions. In addition, we request that Code H reconsider its position on recommendation 6(c) regarding NASA's systems for tracking DCAA workload and reports.

We appreciate the courtesies extended to the staff throughout our review. Personnel that we interviewed felt DCAA provided an invaluable and very beneficial service for accomplishing NASA procurement activities. Should you have any questions or need information, please contact Debra Guentzel at 202-358-2555 or me at 202-358-2162. See Appendix N for distribution of this final report.


Lewis D. Rinker

Enclosure
cc: JM/D.Green

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Review of NASA's Use of Audit Services Provided by the Defense Contract Audit Agency NASA Headquarters, Washington, DC

EXECUTIVE SUMMARY

OVERALL PURPOSE OF REVIEW

The Office of Inspector General (OIG), Assistant Inspector General for Partnerships and Alliances (AIGP&A) performed a review to evaluate the use, benefits, and effectiveness of audit services provided by the Defense Contract Audit Agency (DCAA) to the National Aeronautics and Space Administration (NASA).

We reviewed DCAA services for fiscal year (FY) 1997 and prior years as relevant. We interviewed procurement personnel at Headquarters, Goddard Space Flight Center (GSFC), Marshall Space Flight Center (MSFC), and Johnson Space Center (JSC). These three Centers managed 74.4 percent of NASA's FY 1997 obligations for contracts over \$25.0 million. Additional information on our scope and methodology is at Appendix A.¹

BACKGROUND

The DCAA is a separate agency of the Under Secretary of Defense (Comptroller), Department of Defense (DoD). NASA is DCAA's largest non-Defense customer and obtains contract audit and other related audit services per formal agreements. The hourly reimbursable rate and estimated hours for NASA audits are determined each fiscal year by mutual agreement between DoD and NASA.

For FY 1997, the DCAA reimbursable rate was \$67.31 per hour, and the actual work billed for NASA was 244,873 hours. DCAA billed NASA about \$16.5 million and issued 2,456 reports related to NASA assignments. The majority of those reports related both to NASA as well as other government entities. DCAA reports on preaward proposal evaluations, defective pricing reviews, and other direct efforts related solely to NASA contracts.

RESULTS IN BRIEF

Throughout our review, NASA procurement personnel expressed very positive comments about DCAA audits and services. Responses to our questions on quality, timeliness, and responsiveness of DCAA services averaged 4.20 on a scale of 1.0 to 5.0, with 5.0 the highest rating. In general, NASA

¹ As addressed within Appendix A, to accomplish our review we relied primarily upon interviews with procurement officials. We did not review in detail contract files, price negotiation memorandums, or other documents related to individual procurement actions. The primary focus of our review was to identify indicators of potential improvements and best practices, rather than determine the cause and effect of any potential problems disclosed by results of our review.

EXECUTIVE SUMMARY

procurement personnel believed DCAA services and products improved significantly over the past 3 to 5 years, primarily from DCAA's initiatives to enhance its customer-oriented approach for providing services.

While the benefits and effectiveness of DCAA services were very good, we did identify areas to improve the use of DCAA services. We developed recommendations to improve the content of audit reports; assess the level of liaison support needed; improve negotiation, pricing, and closeout operations; develop performance measurements; and increase NASA's oversight of the use and benefits of services². A summary of recommendations is at Appendix I and supporting details are addressed in the Observations and Recommendations sections of this report. During our review, we also identified best practices for consideration by NASA management for use at all Centers. Specific best practices are discussed in report sections under Observations and Recommendations

MANAGEMENT RESPONSE

The NASA management response is presented in its entirety as Appendix J. As discussed under the Coordination Activities section of this report, DoDIG and DCAA also provided comments to our draft report. Their comments are presented as Appendixes K and L. Our evaluation of each management response follows the applicable recommendation.

GENERAL COMMENTS

Each NASA employee interviewed during our review was very cooperative and provided very timely assistance. We especially appreciated the candor NASA employees displayed while describing their recent and prior experiences in working with DCAA auditors.

DCAA officials and personnel provided considerable assistance during our review. Upon request, DCAA Headquarters personnel performed unique data inquiries and prepared special statistical reports from DCAA systems. We especially appreciated the level of coordination provided by DCAA to obtain statistics, as such proved to be invaluable for completing our review.

² Throughout this report, the term "NASA's oversight" or similar wording does not imply that NASA has any responsibility to evaluate the management or administration of DCAA's mission, activities, or operations. As a subordinate agency, DCAA is organizationally accountable to the Under Secretary of Defense (Comptroller). As discussed in the Introduction section of this report, the Department of Defense Inspector General (DoDIG) has formal oversight authority to review DCAA's quality of services and adherence to auditing standards. The term "NASA oversight" or similar wording used in this report means procedures and techniques used by NASA procurement management to monitor and evaluate the use, benefits, or effectiveness of DCAA services provided to NASA.

INTRODUCTION

Purpose The OIG AIGP&A performed a review to evaluate the use, benefits, and effectiveness of audit services provided by DCAA to NASA. As part of our review, we identified best practices regarding the use of DCAA services; considered comments from both NASA and DCAA personnel regarding working relationships; and assessed oversight by NASA management regarding the use of DCAA services, to include performance measurements and metrics.

Scope and Methodology We reviewed DCAA contract-related services provided to NASA during fiscal year (FY) 1997 and prior years as relevant. We did not review services related to grants, including cooperative agreements. Additional details on the scope and methodology used to accomplish our review are at Appendix A.

Coordination Activities The Department of Defense Inspector General (DoDIG) has statutory authority to establish contract audit policy and to perform oversight of DCAA operations and assess adherence to auditing standards.³ As noted by DoDIG in its coordination comments to this report, its evaluations of DCAA generally considered the adequacy of DCAA coverage for defense and non-defense contracts. Therefore, DoDIG evaluations of DCAA coverage of incurred costs, cost accounting standards, and systems reviews inherently included some NASA contracts. We coordinated with DoDIG, reviewed several reports on DCAA services, and confirmed no DoDIG reviews related specifically to DCAA services provided to NASA. Only one report of minor findings, issued in 1991, related solely to DCAA services for non-Defense customers.⁴

We met with executives and managers of DCAA Headquarters to explain the unique nature of our review. We evaluated NASA's use of DCAA services available, as well as the benefits and effectiveness of DCAA services provided to NASA procurement officials and contracting officers. However, we did not assess professional auditing standards, emulate DoDIG quality reviews, evaluate specific audits, nor analyze the DCAA hourly rate. To facilitate our review, we needed considerable data from DCAA systems. In an extremely helpful manner, DCAA liaison worked directly with us to perform system inquiries, explain data fields, and provide other information for our review.

As part of our coordination activities, DoDIG and DCAA reviewed our draft report and provided written comments. We considered each comment and incorporated clarifications or other information as needed into this final report as appropriate. DoDIG and DCAA comments are presented as Appendixes K and L, respectively.

³ Reference the *Inspector General Act* of 1978, as amended (Public Law 95-452, 5 U.S.C. Appendix); Sections 8(c)(1) through 8(c)(9) on additional responsibilities of the DoDIG address audit policy and oversight responsibilities for all DoD components, including DCAA. For details on DoDIG's policies to implement IG Act responsibilities, reference DoD Directive (DoDD) 5106.1, *Inspector General of the Department of Defense*, dated March 14, 1983, and DoDD 7600.2, *Audit Policies*, dated February 2, 1991.

⁴ Memorandum report dated June 7, 1991, Subject: Report on Oversight Review of the Audit Services Rendered by the Defense Contract Audit Agency to Non-Department of Defense Organizations, addressed increases in hourly rates, communications with customers, and backlogs of incurred cost audits.

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OIG Audit Policy and Cognizance

The Inspector General Act of 1978, as amended, states that it is the responsibility of each Inspector General (IG) to provide policy direction for and to conduct, supervise, and coordinate audits and investigations related to the programs and operations of its respective establishment.⁵ Therefore, in addition to the DoDIG, the NASA OIG can establish audit policies applicable to contract audit and advisory services used in the award and administration of contracts, grants, and cooperative agreements in support of NASA's programs and operations. Additionally, the IGs can review DCAA activities with a view toward promoting economy and efficiency in the administration of the respective establishment's programs and operations and preventing and detecting fraud and abuse.

Background

The DCAA is a separate agency of the DOD Under Secretary of Defense (Comptroller). NASA is DCAA's largest non-Defense customer and obtains DCAA services per formal agreements.⁶ DCAA accepts and performs each NASA request for contract audit services, as noted in the DCAA Contract Audit Manual (DCAAM).⁷

The hourly rate and estimated hours for NASA audits are determined each fiscal year by mutual agreement between DoD and NASA.⁸ For FY 1997, the DCAA reimbursable rate was \$67.31 per hour, and NASA was billed for 244,873 hours. During FY 1997, DCAA billed NASA about \$16.5 million and issued 2,456 reports related to NASA assignments.⁹

<u>Category of DCAA Work</u>	<u>Number of Reports</u>
Preaward Proposal Evaluations	543
Incurred Cost Audits	1,611
Defective Pricing Reviews	23
Cost Accounting Standards (CAS) Reviews	278
Other Direct Efforts	<u>1</u>
Total FY 1997 Reports	<u>2,456</u>

The majority of the 2,456 reports related both to NASA and other government entities; i.e., incurred cost audit and CAS review reports related to all government contracts with a particular

⁵ Reference Section 4(a)(1) on duties and responsibilities of each IG.

⁶ A Memorandum of Understanding (MOU) dated June 18, 1969 established NASA and DoD authorities (Appendix B). An MOU dated August 14, 1992 defined cost elements of DCAA's hourly reimbursable rate and addressed billing procedures; OIG review did not include analysis of the DCAA hourly rate or reimbursable billings (copy of MOU is not included in this report). An MOU dated December 22, 1987 specified NASA OIG and DCAA coordination policies (Appendix C); the OIG reviewed its MOU during late 1997 and no changes were pursued at that time.

⁷ The DCAAM is the official internal publication (DCAA Manual 7640.1, January 1998) on DCAA auditing policies, procedures, standards, and guidance. The DCAAM is also referred to as the "CAM" and paragraph numbers are used for reference citations.

⁸ The hourly rate negotiated with NASA was also used for 27 non-Defense entities, the total group of DCAA's reimbursable customers as cited at DCAAM 15-104 (January 1998).

⁹ Total reports reflected in NASA OIG Semiannual Reports to Congress for FY 1997, as derived from semiannual statistics provided by DCAA and consistent with recent system inquiries obtained by OIG for this review. As previously agreed upon, DCAA used the five major categories to summarize about 100 DCAA-defined types of contract audit services.

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contractor, not merely NASA contracts.¹⁰ DCAA reports on preaward proposal evaluations, defective pricing reviews, and other direct efforts related solely to NASA contracts.

As addressed in the DCAAM, NASA suggested eight routine areas for audit emphasis on its large contracts. The areas were not unique to NASA contracts and did not present additional work for DCAA.¹¹ NASA issued revised policies during 1997 that included general guidance on DCAA audit work.¹²

Prior Related Reports and Reviews

The General Accounting Office (GAO) issued during September 1994 a report on *NASA Contract Management, Improving the Use of DCAA's Auditing Services* (GAO/NSIAD-94-229), which included six recommendations to NASA management.¹³ NASA procurement officials advised all corrective actions have been completed in response to the GAO report. However, we did note conditions and improvements needed that were similar to areas previously reported; i.e., status of contractor systems, tracking of all DCAA audit reports, and close-out of completed contracts. Our results on such potential repeat finding areas are provided within the Observations and Recommendations section of this report.

In addition to other reviews referenced and discussed in the GAO report,¹⁴ the NASA OIG issued a prior report on *Selected Aspects of NASA Reimbursement and Oversight Activities for Defense Contract Audit Agency Support Services, Marshall Space Flight Center* (MA-93-007, July 13, 1993). As an overall conclusion, the OIG report stated NASA's use of DCAA audit support was generally effective. Primary recommended improvements related to DCAA's reimbursable adder rates. During our review, nothing came to our attention relevant to the Marshall OIG audit report.

¹⁰ Total DCAA hours for such projects were prorated and billed to each government entity involved with the contractor. Incurred cost audits, systems audits, and CAS reviews relate to all government contracts. Incurred cost audits involve a contractor's financial statements and financial data for a fiscal year. For semiannual reporting purposes only, the category "incurred cost audits" included systems audits, which involve a contractor's functional processes and accounting or management systems; e.g. material costs, purchasing, material management, estimating, and billing systems; labor costs, labor cost distribution systems, and compensation rate reviews; and indirect and other direct cost reviews, such as pension, travel, and consulting costs. CAS reviews involve a contractor's accounting policies and cost allocation policies.

¹¹ Reference DCAAM 15-106.3 and Chapter 3-S20 Supplement; the eight areas included audit guidance on contractor performance controls, financial management, purchasing and subcontracting practices, engineering and scientific manpower utilization, facilities and equipment, engineering changes, indirect costs, and prior GAO audits of NASA contractors or contracts. As also stated in the DCAAM, the eight areas would normally be included in an audit of a major contractor with a large dollar volume of NASA and/or DoD contracts.

¹² NASA issued NASA Policy Directive (NPD) 1200.1, effective January 23, 1997, and NASA Procedures and Guidelines (NPG) 1200.1, effective October 8, 1997; both were entitled *Management Accountability and Control, Audit Liaison, and Audit Followup*.

¹³ Recommendations related to unallowable costs claimed by contractors; statements in negotiation memoranda on the status of contractor systems; active involvement of NASA to develop DCAA's annual plan; incomplete NASA audit follow-up efforts; lack of NASA oversight on status of DCAA audit reports delegated for follow-up and resolution to DoD administrative COs (ACOs), per a NASA MOU with Defense Contract Management Command (DCMC); and initiatives to reduce a backlog of completed contracts to be closed.

¹⁴ The GAO discussed other reports and reviews related to its 1994 review; i.e., SWAT Team on Civilian Agency Contracting – Report on NASA (August 1992); NASA Audit Follow-up Process, NASA OIG Headquarters Center (HQ-94-009, May 26, 1994); and NASA OIG Headquarters 1993 and 1994 reports on Analysis of DCAA Audits on NASA's Top 25 Contractors.

OBSERVATIONS AND RECOMMENDATIONS

Overall Evaluation and Potential Improvements

NASA personnel expressed numerous positive comments about major improvements in DCAA services. Procurement officials, managers, contracting officers (COs), and other procurement personnel that we interviewed felt DCAA provided an invaluable and very beneficial service that contributed significantly to accomplishing NASA procurement activities. However, we did identify potential improvements related to DCAA audit reports and products, procurement liaison auditor (PLA) services, proposal and negotiation services, pricing and closeout operations, and NASA management oversight.

We also identified noteworthy procedures and practical techniques that we considered “best practices.”¹⁵ Such prudent management practices appeared to facilitate better use of DCAA services or resulted in more effective audit benefits. As discussed in the following related sections of our Observations, some best practices contributed to resolving or preventing specific problems disclosed during our review. We believe these practices warrant NASA management’s consideration to enhance the potential benefits and effectiveness of services provided by DCAA.

Satisfaction Ratings on DCAA Services

Over the past few years, DCAA implemented several initiatives to reinforce a customer-oriented culture throughout the organization. DCAA periodically conducted internal quality reviews of selected areas, to include customer feedback. During September 1996, the DCAA performed a *Customer Satisfaction Survey of Non-DOD Agencies*. Procurement officials, managers, and COs responded to a standard questionnaire that focused on four major areas.¹⁶ DCAA received responses from 11 non-DOD customer organizations selected, including NASA. As part of our assessment, we reviewed results of the DCAA’s 1996 survey.

NASA’s average ratings were higher than the average of the 11 customers surveyed for each questionnaire category: timeliness, quality, usefulness, and overall satisfaction. On a scale of 1.0 to 5.0, with 5.0 as the highest rating, NASA provided a 4.25 rating in overall satisfaction with DCAA services. Further details on the DCAA survey and responses from each NASA Center are at Appendix G.

Our interviews of 33 selected NASA COs showed that DCAA services were still highly regarded in terms of quality, timeliness, and responsiveness to requests, as shown by the following chart.

¹⁵ Best practices for contract administration are defined by the National Performance Review (NPR) as techniques that agencies may use to help detect and avoid problems in the acquisition, management, and administration of contracts. Best practices are practical techniques gained from practical experience that may be used to improve the procurement process. *A Guide to Best Practices for Contract Administration, Office of Federal Procurement Policy (OFPP), October 1994* is available on at the NPR procurement homepage on the internet at <http://www-far.npr.gov/BestP/BestPCont.html>.

¹⁶ A major certified public accounting firm, KPMG Peat Marwick, LLP, reviewed and validated DCAA’s standard questionnaire and statistical sampling plan, which entailed a 95 percent confidence level.

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We computed the overall average and average rating per Center from responses provided by COs for the three components.

Contracting Officers' Ratings of DCAA Services

<u>NASA Center</u>	<u>No. of Interviews</u>	<u>Quality</u>	<u>Timely</u>	<u>Responsive</u>	<u>Average</u>
GSFC	8	3.94	4.44	4.38	4.25
JSC	12	4.13	4.05	4.13	4.10
MSFC	13	4.23	4.12	4.42	4.26
Overall Average	33	4.10	4.20	4.31	4.20

Several procurement officials and COs at GSFC, JSC, and MSFC stated that DCAA services and products improved significantly, especially over the past 3 to 5 years. For example, one procurement manager expressed that previously an overall rating of 2.0 would have been appropriate. Personnel at NASA Headquarters and the three Centers we interviewed believed a primary reason for improvements was DCAA's dedicated efforts to increase direct communications with NASA customers.

Reports Varied Among DCAA Offices

The DCAAM prescribes required report contents and standard report formats for various types of major audit assignments.¹⁷ However, NASA COs explained reports often varied as to content and format among the different DCAA offices and regions. To obtain more useful DCAA reports with supporting facts and details, several COs suggested changes and provided comments, such as the following examples.

- The COs preferred the executive summary of incurred cost reports to have a schedule of proposed and questioned rates for the years involved. A report which illustrated this format was issued by a DCAA Mid-Atlantic Region office¹⁸
- The COs also preferred the schedule of incurred costs for applicable years to list government contracts and associated direct and indirect cost elements. A report which did not provide the preferred schedule details was from an Eastern Region Office.¹⁹ The report executive summary did include a schedule of proposed and questioned dollars and the questioned rates for indirect cost pools. However, the report did not include rates or cost schedules to show the auditor-determined elements of indirect pools and questioned costs.

¹⁷ Chapter 10 of the DCAAM addressed reporting requirements for various major assignments, such as pre-award proposal evaluations, incurred cost audits, post-award cost or pricing data audits, contract termination reviews, cost accounting standards (CAS) reviews, and contract audit closing statement reviews.

¹⁸ Silver Spring Branch Office, Audit Report No. 6221-96K10150921, dated March 31, 1998.

¹⁹ Huntsville Branch Office, Audit Report No. 1201-98N10250077, dated March 31, 1998.

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- For initial pricing reports of prime contractors as well as major subcontractors, the COs preferred an expanded executive summary to include the proposed and recommended indirect cost rates and factors. The COs also preferred a summary of the contractor's approved business systems with their respective approval dates.
- For long-lead hardware procurements, one CO preferred to see a more in-depth analysis of the proposed materials and subcontract costs.
- For business systems audits, several COs wished to be included on distribution of the final report.
- One CO suggested that a consistent approach be used to report questioned costs on incurred cost audits.

Best Practice A procurement manager at GSFC implemented a division procedure about 4 years ago to request DCAA services in a more definitive manner. In coordination with DCAA, the manager developed the procedure to receive more useful DCAA audit reports. During our review, no similar process or procedure surfaced.

The GSFC division instructions and accompanying sample *Letter of Request for Pricing-Audit-Technical Evaluation Services* (NASA Form 1434) are self-explanatory and provided as Appendix H of this report. While Form 1434 is used NASA-wide, the division developed the sample contents of *Services Requested* (Block 11) as examples of clearly defined requests.

The manager developed the procedure based on a meeting with the DCAA Procurement Liaison Auditor, during which he realized DCAA would perform any service requested by NASA. His division could easily obtain detailed audit results in DCAA reports, as long as such was clearly requested and communicated to DCAA.

He also understood that a DCAA report generally provided conclusions without supporting details of audit results.²⁰ For example, routine audit results were available but not included in DCAA reports, such as a contractor's direct and indirect cost rates, material scraps and spares factors, CAS noncompliance issues, and business systems approvals or problems. Typically, DCAA provided such details during follow-up telephone conversations initiated by the manager, COs, or others.

As discussed in the preceding section on report variances, we frequently received comments on improvements needed for consistency among DCAA reports. We believe many of the report

²⁰ Although such was the manager's understanding, DCAA policy does require supporting details in reports. Reference DCAAM 10-210.6 which states: "Explanatory notes should contain detailed information such that the contracting officer is clearly able to understand the basis for each element of cost, how the cost was evaluated, and the conclusions made on the basis of that evaluation. Explanatory notes should be prepared for each significant cost element."

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consistency improvements desired by NASA could be achieved by using the GSFC division manager's practice. In addition, expectations were defined more clearly and less time was needed for follow-up conversations with DCAA auditors. The procedure appeared to result in a more efficient and closer working relationship with DCAA.

Recommendation 1 To improve the usefulness of DCAA audit services and reports, the Associate Administrator for Procurement should coordinate the reporting preferences of COs with DCAA and consider NASA-wide use of the procedure used by GSFC to request DCAA services.

NASA Management Response Partially concur. Management concurred with considering the use of the GSFC procedure to request DCAA services. Management concurred with the intent of the remainder of our recommendation, but did not concur with "...should coordinate the reporting preferences of COs..." In its response, NASA noted the DCAAM includes provisions to add report elements to a standard report format, depending on the type of audit performed.

OIG Evaluation of Response Management's planned action to promulgate the GSFC procedure to request DCAA services is fully responsive to our recommendation.

We recognize report flexibility is permitted by the DCAAM and COs could coordinate with DCAA their reporting preferences. As we reported, COs generally did not coordinate preferences with DCAA and did not receive the desired level of facts or audit results in DCAA reports. Since the initial coordination was lacking between the CO and DCAA, the NASA Office of Procurement should reinforce with COs the flexibility available to them to obtain DCAA reports that meet the COs specific or unique needs.

We believe CO's preferences and DCAA's reporting flexibility could be addressed relatively easily by NASA procurement via procurement notices, other policies, or guidance; NASA-wide and Center-level on-site conferences or teleconferences; and the NASA procurement home page resources.

DoDIG and DCAA Comments Coordination comments provided by DoDIG and DCAA did not include any information regarding Recommendation 1 or results of our review for this report section on satisfaction ratings.

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Procurement Liaison Auditor (PLA) Services

DCAA operations include a PLA function to provide advisory services to COs and other procurement officials. DCAA designated a full-time, onsite PLA for JSC and a part-time, off-site PLA for the other two Centers we reviewed. The NASA procurement personnel we interviewed at GSFC, JSC, and MSFC viewed the DCAA PLA services as extremely beneficial. PLAs assisted procurement officials to achieve sound contracting practices by performing the following types of services.²¹

- Facilitating communication with DCAA offices
- Providing accounting and financial advisory services
- Coordinating audit requests and interpreting audit findings
- Explaining changes to DCAA policies and procedures
- Elevating customer concerns to DCAA management
- Arranging attendance of DCAA auditors at negotiations
- Participating in training sessions, seminars, and reviews

At the time of our review, GSFC had a part-time, off-site PLA; MSFC a part-time, collocated PLA plus a recently added part-time, off-site PLA; and JSC a full-time, onsite PLA.²²

MSFC Needs Increased PLA Services

The workload for each PLA varied widely at GSFC, MSFC, and JSC. The part-time, off-site PLA for GSFC received fewer requests for services over the past 2 years.²³ The part-time, collocated PLA for MSFC provided little or no services over the past 2 to 3 years. And, the full-time, onsite PLA for JSC provided dedicated services to JSC COs and other procurement personnel.

Several COs and other procurement officials at MSFC worked previously with the collocated MSFC PLA, and all volunteered very positive comments about the quality of services provided. The MSFC collocated PLA also served as the onsite PLA for an Army major subordinate command collocated with MSFC at Redstone Arsenal in Huntsville, Alabama.²⁴

The MSFC collocated PLA explained the Army workload increased substantially over the past few years. As such, the MSFC PLA had not worked on NASA projects for at least the past 2 years. We

²¹ Reference DCAAM 15-300 for PLA policies, procedures, and services, as well as a listing of onsite liaison auditors.

²² The GSFC PLA is an auditor at the DCAA Silver Spring Branch Office in Silver Spring, Maryland; the collocated MSFC PLA is the onsite PLA for the U. S. Army Aviation and Missile Command at Redstone Arsenal; and the recently added MSFC PLA is the onsite PLA for the U. S. Army Tank-Automotive and Armaments Command in Warren, Michigan. JSC is the only NASA Center with a full-time, onsite PLA. The latest MOU between DCAA and JSC, effective August 7, 1996, addressed specific PLA advisory services and JSC coordination activities (Appendix D); per DCAAM 15-303.2.a. an MOU is required for a full-time PLA to help ensure no misunderstandings as to the nature of liaison services.

²³ Discussed further in the Pricing and Closeout Support Operations section of this report.

²⁴ The U. S. Army Aviation and Missile Command, a major subordinate command of the U. S. Army Materiel Command, performed research, development and acquisition activities for DoD major weapon systems; i.e., rotary wing aircraft (helicopters) and defense missile systems.

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learned from MSFC procurement management that an additional DCAA off-site PLA recently started providing very limited support to MSFC. The additional off-site PLA also served as the onsite PLA for an Army major subordinate command located in Warren, Michigan.²⁵ With little time to devote to MSFC procurements, the additional off-site PLA typically visited MSFC one day a month to assist with resolving contract closeout actions.

MSFC COs and other procurement officials, including the Director of Procurement, expressed considerable interest in obtaining a full-time, onsite PLA. Additional DCAA PLA support was desired for closeout activities, reviews of contractors' restructuring and reorganization costs, and various other procurement activities. In addition, nearly all MSFC contracts were not geographically located near Huntsville, Alabama, and were under the cognizance of various DCAA Regions or Offices. The MSFC officials strongly believed the PLA services were especially helpful with coordinating and resolving situations with geographically disbursed NASA contractors.

Other Comments Received on PLA and Related DCAA Services

Several NASA COs and procurement personnel commented that DCAA needed to increase its outreach efforts to better "sell themselves." For example, less experienced COs and managers often did not know the broad range of assistance and services available from DCAA. We recognize that NASA management should also play an invaluable role to increase the knowledge of DCAA services, as well as understanding the benefits derived from such services to the procurement process. The following are other comments and suggestions we discussed during our review.

- The COs sometimes have difficulty finding the correct DCAA office to send audit delegation letters and requests for audits of initial pricing proposals; suggestions included a toll-free number for questions and improvements to the DCAA homepage.
- The PLAs frequently do not receive a price negotiation memorandum (PNM) as required by DCAAM 4-104. The PNM is needed by DCAA to measure its effectiveness for pre-award services. The PNM is also a key document required by Federal Acquisition Regulation (FAR) provisions (see FAR 15.808).
- The NASA procurement officials are coordinating with DCAA to include NASA contract numbers within DCAA's database systems for NASA-related or NASA-unique audits and reports. The contract number would be very beneficial to improving NASA's ability to easily monitor the use of DCAA services, track the status of reports, and evaluate the benefits of DCAA services.

²⁵ The U. S. Army Tank-Automotive and Armaments Command, a major subordinate command of the U. S. Army Materiel Command, performed research, development, and acquisition activities for tanks and armaments. The off-site PLA for MSFC also supported the Rock Island and Picatinny arsenals, located in Illinois and Pennsylvania, respectively.

OBSERVATIONS AND RECOMMENDATIONS

**Best Practice
PLA at JSC** The full-time, onsite PLA at JSC appeared to be an extremely beneficial DCAA service for NASA procurement activities. The PLA had taken a noteworthy, assertive approach to meet COs and explain the benefits of PLA services. The majority of JSC COs interviewed were very complimentary of the PLA role, as well as the professionalism of the assigned PLA. The COs had worked directly with the PLA for contract assistance, technical advice, or in-house staff training.

The PLA and the JSC audit liaison and closeout activities appeared to have established and maintained a very cohesive working relationship. In addition, the DCAA PLA worked closely with a full-time, onsite liaison person for Defense Contract Management Command (DCMC) to resolve closeout actions, such as working with DCMC administrative contracting officers (ACOs) or JSC COs to reach agreement on open DCAA audit report recommendations.

Recommendation 2 The Associate Administrator for Procurement should coordinate with DCAA to assess the level of PLA support services needed for each NASA Center and to obtain a full-time onsite PLA for MSFC.

Management Response Concur. The need for PLA services at each NASA Center will be assessed and coordinated with DCAA.

OIG Evaluation of Response Management's planned action, to include a review of MSFC needs, is fully responsive to our recommendation.

Recommendation 3 The Associate Administrator for Procurement should re-emphasize to COs the responsibility to coordinate negotiation results and provide copies of PNMs to DCAA PLAs or cognizant DCAA auditors, as appropriate.

NASA Management Response Concur. Responsibilities will be re-emphasized at a Procurement Officer's Conference to be held during the week of 10/25/98.

OIG Evaluation of NASA Response Management's planned action is fully responsive to our recommendation.

DoDIG and DCAA Comments Coordination comments provided by DoDIG and DCAA did not include any information regarding Recommendations 2 or 3 nor results of our review for this report section on PLA services.

OBSERVATIONS AND RECOMMENDATIONS

Proposal and Negotiation Services

During FY 1997, NASA awarded \$9.3 billion in new contracts and contract modifications. NASA predominantly uses the negotiated method of contracting and the cost-plus type of contract. Cost-plus-award-fee contracts accounted for \$5.5 billion or 59 percent of total award dollars, cost-plus-fixed-fee for \$.6 billion or 6 percent, cost-plus-incentive and fixed-price incentive for \$1.7 billion or 18 percent, and fixed-price contracts accounted for \$1.0 billion or 11 percent of the FY 1997 total award dollars.²⁶

NASA rarely requested available DCAA services for assistance during contract proposal development and negotiations.²⁷ On very few acquisitions, NASA did appear to use a process similar to the DoD's Integrated Product Team (IPT) process. As a relatively recent integrated team approach, the IPT process enables DCAA to provide real-time audit services during the development of a proposal, as well as direct assistance and advice during negotiations with contractor personnel. Various DCAAM sections address the IPT process and the role of the DCAA auditor as a team member, which includes providing real-time assistance during the proposal development and negotiation phases.²⁸

Benefits of DCAA IPT Role on Proposals

DCAA auditors were frequently involved during development of proposals and negotiations with DOD contractors. During FY 1996, DCAA became a "full participant" in the DoD IPT procurement initiative. As an IPT member, the DCAA auditor provided real-time input on potential problems during the proposal preparation process. In addition, DCAA started the audit process much earlier by auditing each major segment or cost element of a proposal upon completion by the contractor.

We discussed these services with DCAA and reviewed information on DCAA's improvement initiatives related to National Performance Review (NPR) activities. DCAA reported to DoD many benefits derived from DCAA's involvement as an IPT member, such as the following examples.²⁹

²⁶ The remaining \$.5 billion or 6 percent of the \$9.3 billion FY 1997 awards and modifications consisted of other miscellaneous types of contracts, such as economic price adjustment, labor-hour, time and material, etc. Other procurement data presented elsewhere in this report may differ for various reasons. For example, Appendix A shows FY 1997 obligations of \$8.8 billion for contracts over \$25.0 million, while the awards of \$9.3 billion included procurements over \$25,000; "award" dollars may have differed from actual obligations; and different sources were used for this report as appropriate. The \$9.3 billion FY 1997 awards and modifications was obtained from the *Annual Procurement Report for Fiscal Year 1997*, a formal document issued each year by the NASA Office of Procurement and available on NASA's internet procurement home page at <http://www.hq.nasa.gov/office/procurement/>.

²⁷ See DCAAM 15-305.6 on arranging DCAA participation at negotiations. The Federal Acquisition Regulation (FAR) 15.805-1 provides the CO with discretion as to who should attend negotiations. The NASA FAR Supplement (NFS) provides no additional requirements or guidance regarding DCAA participation at negotiations.

²⁸ See DCAAM 1-805 and 1-806 on the DCAA auditor's role on the IPT.

²⁹ Information from a January 1998 DCAA memorandum to DOD on *DCAA Streamlining Initiatives*, which addressed the IPT role as contributing to audit process improvements, and from an NPR report on *Reinventing the Department of Defense, September 1996*, available on DoD's NPR internet home page at <http://www.dtic.mil/npr/dcaa.html>.

OBSERVATIONS AND RECOMMENDATIONS

- With continuous audit involvement, significantly improved the estimating process and reduced contract award cycle time.
- With a team structured approach, reduced the inherent adversarial nature of contractor-auditor relationships and greatly increased the voluntary reliance of customers for valid, on-time, audit advice.
- As an IPT team member, provided audit reports with “no surprises” and within quick turn-around times for final audit products.
- As a restructuring IPT member, expedited the review and certification of a complex restructuring proposal involving numerous contractor segments, various phases, and several billion dollars.

Benefits of DCAA Presence at Negotiations

According to NASA procurement officials and COs interviewed, NASA rarely requested DCAA auditors to attend contract negotiations. In general, NASA has not considered the potential benefits of such DCAA services.

We acknowledge potential benefits to NASA would most likely vary based on the type of contract to be awarded, such as a fixed-price versus a cost-plus contract. Also, we realize an auditor’s presence during contractor negotiations could create a “chill factor.” However, a DCAA auditor could provide considerable knowledge about a contractor’s operations, costs, and other areas.³⁰

In addition, many major contractors within the defense industrial base serve both DoD and NASA. The DCAA auditors could be able to apply to NASA contracts their expertise and experience gained from work on DOD contracts. Consequently, we believe the presence of a DCAA auditor for advice and assistance during negotiations could be very beneficial to obtaining the best contract terms and prices for NASA.

Recommendation 4

The Associate Administrator for Procurement should assess adopting the DoD IPT concept and evaluate the value of requesting DCAA services during proposal preparation and negotiation phases on a case-by-case basis.

NASA Management Response

Partially concur. Procurement management provided several additional comments related to our recommendation, ultimately noting it will perform the recommended action. Management’s

³⁰ For example, DCAA was involved on the United Space Alliance (USA) novation, providing continuous advisory services for the Source Evaluation Board (SEB) and real-time audit assistance throughout the USA-related restructuring of existing contracts. During our review, two COs interviewed had also previously requested and obtained DCAA’s assistance during specific negotiations with contractors; both felt strongly the real-time advice and presence of a DCAA auditor were clearly beneficial to negotiation results.

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additional comments focused on the absence of PLAs at some NASA Centers; the absence of regulations or guidelines to require our recommended action; and the sole discretion and authorities of a CO regarding negotiations and team members.

OIG Evaluation of Response

Although comments initially state “partially concur,” management’s planned actions, as stated in the last sentence of its comments, are responsive to meeting the intent of our recommendation. Our recommendation emphasizes considering and assessing DCAA’s services on proposal preparation and negotiation phases on a case-by-case basis. We agree that DCAA’s assistance on negotiation teams would likely be most beneficial on larger procurements. We also recognize that PLAs are not located at all Centers, but off-site PLA services for any Center can be arranged with DCAA upon request.

Also, participation by DCAA on IPTs is generally available at contractor locations where DCAA auditors are assigned on-site, which entails nearly all major aerospace contractors. Since the on-site auditors are typically very knowledgeable about the contractor facility and operations, their input and participation should provide leverage as a readily available resources to achieve the best contract terms and price for the government.

We agree and acknowledge a CO has sole authority and discretion regarding members of a negotiation team. At the present time, there are no regulations or guidelines that mandate NASA to use DCAA auditors for real-time audit assistance during proposal preparation or negotiation phases, such as done during the IPT process or similar procedure. However, as noted in our report, the DCAAM 1-805 and 1-806 address the DCAA auditor’s role on an IPT. During May 1995, the Secretary of Defense directed the IPT process, including the real-time audit assistance and active participation by DCAA as IPT members. Although not required or provided as guidance within procurement regulations relative to NASA, we believe the use of such DCAA assistance should be viewed as a prudent management practice.

DCAA and DoDIG Comments

Coordination comments provided by DoDIG and DCAA did not include information regarding Recommendation 4. Both agreed the DCAA presence at major contract negotiations could be beneficial in obtaining the best contract price. However, both disagreed that a DCAA auditor’s presence at negotiations could create a “chill factor,” as discussed in results for this section on proposal and negotiation services. Both stressed that within DoD, the auditor is considered a member of the Government negotiating team, just like other technical specialists who assist in contractor negotiations. The DCAA auditor is regarded within DOD as an integral member of the procurement team and not as an obstacle to the negotiation process.

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OIG Evaluation of DCAA and DoDIG Comments

Although not addressed in our report results, it was apparent from our discussions with COs, managers, and procurement support personnel that the role of the DCAA auditor was perceived differently within NASA than within DoD. We interviewed several NASA procurement personnel that had considerable prior experience in DoD procurement positions.

We fully agree that the DCAA auditor should be perceived or considered to be an integral part of the procurement team and negotiation process. However, it was clearly our impression from interviews that, in general, DCAA was viewed as a third-party for audit assistance. Our use of the “chill factor” statement was not intended to reflect negatively upon the DCAA auditor’s role, but to summarize comments expressed by individuals with both NASA and DoD procurement experience. Perhaps DCAA was not viewed as a procurement “team member” as much within NASA as within DOD due to inherent organizational differences, as DCAA is a major element internal to the DOD procurement structure.

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Pricing and Closeout Support Operations

DCAA provides invaluable and necessary information to the NASA COs supporting both cost and pricing reviews and contract closeout activities. Different operations among the three Centers visited appeared to influence the amount of DCAA services requested for cost and pricing reviews and contract closeout services. Central pricing support and closeout offices were abolished and decentralized to project level procurement teams. Such changes were made to reduce the total number of procurement personnel, as recommended by NASA's Zero Base Review (ZBR) to implement the NPR requirements.

To achieve reduction goals, GSFC abolished its central pricing and closeout offices. MSFC recently abolished its central pricing office, but retained its central closeout office. JSC maintained its central closeout office.

Decentralized Pricing Concerns

At GSFC, assistance from DCAA appeared to be requested less often, in part, due to the decentralization of pricing operations. Based on interviews with the GSFC procurement managers and the DCAA PLA, considerably fewer requests for services were received by the PLA over the past 2 years. We recognize other factors may have contributed to fewer requests; e.g., a GSFC CO may have worked directly with cognizant DCAA auditors or relied upon contractor-provided cost and pricing data, as allowed by streamlined acquisition provisions.

At MSFC, several COs expressed concern that the lack of a central pricing office will create or already has created a greater need for DCAA support services. Coupled with additional procurement team changes, some COs believed they would resort to personally performing pricing activities. For example, pricing specialists from the central pricing office were reassigned to procurement teams as contract specialists; and some existing contract specialists were to assume pricing duties. Nearly all COs interviewed believed the learning curve inherent with the decentralization would create a void in expertise needed for pricing activities.

We did not attempt to determine whether decentralized pricing operations were more cost-effective or actually reduced the number of procurement personnel needed for contracting activities. We did receive a few positive comments about decentralization, primarily regarding the diversification of skills and experiences that could be achieved with pricing decentralization. However, we received numerous positive comments in favor of a central pricing office from COs and other procurement personnel. Overall, it was believed that a central office provided better continuity and technical experiences, closer working relationships with DCAA auditors, and more timely assistance on proposal evaluations.

OBSERVATIONS AND RECOMMENDATIONS

Closeout Process and Coordination

Contract closeout is an important aspect of contract administration and requires close coordination among all key players: the contractor; the cognizant contract audit activity, such as DCAA; and the contracting, finance, and program offices. Closeout begins when a contract is physically completed; i.e., all services accomplished and products delivered. Closeout is completed when all administrative actions are completed, audit resolution accomplished, all disputes settled, and final payments issued.

Depending on the type of contract used, the closeout process ranges from simple to very complex for cost-reimbursement contracts. Contract closeout on cost-reimbursement contracts is affected by the entire DCAA contract audit process used to determine the reasonableness, allowability, and allocation of costs incurred. The DCAA contract audits include a preaward audit of the contractor's proposal, an incurred cost audit of the contractor's claimed costs, and a closeout audit to reconcile the contractor's final claim to incurred costs.

Consequently, closeout is typically more complex for cost-reimbursement contracts. As such, it is especially important that NASA contracting officials and DCAA auditors have a good working relationship to accomplish the coordination required to complete timely and appropriate closeout.

Closeout Delays Can Cause Potential Adverse Impacts

In general, excessive delays in closeout for cost-reimbursement contracts is not a good business practice. For example, when there is a delay in completing the cost-incurred and closeout audits, contracting officials often cannot complete the closeout process for cost-reimbursement contracts.³¹ In addition, closeout delays may result in other adverse impacts, such as:

- Excessive and unallowable costs in future billings from the same contractor on the contract pending closeout or another contract with the particular contractor.
- Future contracts awarded based on historical, unaudited incurred costs that may be excessive and derived from contracts pending closeout.
- Losses in recoveries due to the government if a contractor files bankruptcy before completion of final closeout.
- Lost or reduced funding due to high levels of unliquidated obligations associated with contracts completed but pending final closeout.

³¹ Reference the *Guide to Best Practices for Contract Administration, Office of Procurement Policy (OFPP), October 1994*, the first of a series of OFPP guides on best practices related to NPR procurement initiatives.

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NASA Should Assess Impact of GSFC Changes

As all NASA Centers were not included in our review, we do not know the status of plans, if any, to abolish or establish central pricing and closeout offices at other NASA Centers, and the associated impact on the DCAA-provided services. GSFC has operated without central offices a sufficient period of time to assess the impact on procurement processes, including the use of DCAA services. Before further implementing pricing or closeout changes, NASA should perform an assessment, with input from all working levels, of adverse effects or improvements resulting from the GSFC organizational changes.

Other Concerns Related to Closeout Activities

Contract closeout activities have been intensively managed at NASA over the past 2 years to reduce backlogs and to deobligate or disburse corresponding unliquidated obligations. As such, we did not analyze closeout report statistics or the status of backlogs. However, we noted the following areas related to closeout activities we believe warrant management's consideration.

- At GSFC, JSC, and MSFC, nearly all COs interviewed expressed that "someone else" performed closeout activities, as it was not actually a CO responsibility. A CO's typical highest priority is to manage current contract actions.

However, closeout delays often occurred because closeout personnel expended considerable time determining the status of actions needed for final closeout, requesting final contractor billings needed for incurred cost audits, and coordinating actions and decisions needed for audit resolutions. These types of activities could have been routinely performed by cognizant COs. Such activities are part of a CO's audit follow-up responsibilities and are ultimately under the CO's decision-making authorities.

Assuming sufficient time and resources are available, the CO teams could perform such activities more effectively during the time a contract is active. In addition, COs could use a contract file checklist to ensure the contract files and pending actions are acceptable for transfer to closeout personnel.

- NASA delegated ACO responsibilities for nearly all NASA contracts to the Defense Contract Management Command (DCMC). Consequently, the DCMC ACOs generally performed follow-up and resolution activities for DCAA contract audit reports and other audit products. NASA does not monitor the status of DCMC ACO actions for resolution of DCAA audit findings and recommendations.³²

³² The DCMC ACO area was also addressed in the GAO report *Improving the Use of DCAA's Auditing Services* (GAO/NSAID-94-229) issued September 30, 1994.

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NASA's policy is to make optimum use of contract administration services provided by the DCMC ACO. However, we believe NASA COs should maintain oversight of DCMC ACO resolution activities, including monitoring the status of significant unresolved DCAA audits and the appropriateness of resolution actions taken by DCMC ACOs.

Continuous coordination and attention of NASA COs should help to ensure closeout is not delayed due to delegated ACO activities. In addition, final decisions by NASA COs may be essential to resolve disagreements with contractors based on DCAA's incurred cost audits or other audit results. Although the ACO role is delegated, NASA COs retain and should exercise ultimate authorities and responsibilities for decisions to resolve controversial audit issues.

- At JSC and MSFC, the central closeout office consisted of one NASA CO and four to six onsite contractor personnel. At GSFC, contractor support was not used for closeout activities. We did not determine whether contractors were used at the remaining Centers.

The NPR initiatives address the use of contractor support for "administrative functions" as a best practice for contract closeout.³³ NASA should determine the extent to which contractors can be used to improve closeout activities.

Best Practices To provide in-house training for decentralized operations at GSFC, *A Contract Closeout and Retirement Guide* was developed by contract administrators of the former central closeout office. The guide provided very detailed information on closeout procedures, practices, and example documents for various types of contracts and other procurement instruments.³⁴ In addition, the guide addressed criteria and judgment factors for various types of closeout methods, to include administrative and quick-closeout provisions and procedures.

In addition to providing assistance, onsite instruction continued on a scheduled basis for project office procurement personnel and others responsible for closeout under the decentralized operations. The guide and training included noteworthy examples of unusual situations and experiences. For example, the guide included reasons for using quick closeout or administrative closeout procedures and techniques for coordinating with DCAA auditors to complete closeout actions within shorter time frames. In addition,

³³ Reference *A Guide to Best Practices for Contract Administration, Office of Procurement Policy (OFPP), October 1994*, which stated that "...such administrative functions as creating the closeout file, soliciting required closeout forms from internal organizations, and obtaining the contractor's releases are duties that can be performed through contractor support as long as forms are executed and approved by the contracting officer."

³⁴ Various types of procurement instruments such as cost-plus, fixed price, and indefinite delivery indefinite quantity contracts; blank purchase agreements; and purchase orders.

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training addressed common misunderstandings that “final” closeout left no recourse for further government actions, if needed, against a contractor.³⁵

- Recommendation 5** For continued improvement of NASA’s contract closeout activities, the Associate Administrator for Procurement should:
- (a) fully assess the operational impact of abolishing the Centers’ pricing and central closeout offices;
 - (b) evaluate the current closeout processes and procedures to determine their effectiveness;
 - (c) evaluate the potential benefits of using contractor support personnel to improve closeout activities; and
 - (d) consider adopting the GSFC closeout guide for all Centers.

NASA Management Response Acknowledged. Management appreciated our comments on closeout, but believed our report contents on closeout deviated from the purpose of our review. Management does plan to make the GSFC closeout guide available to all NASA procurement officers for consideration.

OIG Evaluation of Response Management’s planned action is fully responsive to part (d) of our recommendation regarding the GSFC closeout guide. We recognize NASA’s positive and productive efforts to reduce the contract closeout backlog. Considering the closeout process and related audit activities as essential elements of DCAA services provided to NASA procurement, the closeout concerns surfaced during our interviews with NASA COs and procurement management officials. Our objective and intent was not to assess closeout activities. However, we considered it useful and valuable to the agency to include in our report the closeout information to assist NASA’s continued improvements in this important function. We believe our reported results on closeout activities should be considered by procurement management officials while planning organizational changes that impact the contract closeout function.

DCAA and DoDIG Comments Coordination comments provided by DoDIG and DCAA did not include any information regarding Recommendations 5 or results of our review for this report section on pricing and closeout support operations.

³⁵ As explained by one in-house instructor, often a reluctance exists to use administrative closeout procedures because a situation may be recognized subsequently that should have been addressed prior to final closeout. During on-site training, it was explained that contract files are always available for future use as needed. The GSFC training included pro-forma memorandum for record (MFR) examples for closeout recommendations; the recommended MFR format included the following statement: “...This contract will be retired to the Federal Records Center and held there for six years before being destroyed.”

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NASA's Oversight of the Use and Benefits of DCAA Services

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 DCMC for follow up and resolution, are properly accounted for and resolved. Improvements at the Center level should inherently result in the capability to monitor the status of DCAA reports and services on a NASA-wide basis.

Metrics and Performance Measurements

Part of our review entailed understanding how DCAA measured its performance and what metrics were used. One performance measure used is the sustention rate. The rate is computed by dividing the total costs questioned sustained by the COs or ACOs by the total costs questioned by DCAA. We did not verify the accuracy of DCAA-provided data we used to compute sustention rates. However, we believe the sustention rate would provide a measure of the effectiveness of DCAA services, as well as the usefulness of the presentation of DCAA findings or audit reports to COs or ACOs. Our computation of DCAA's sustention rate on NASA-unique assignments is at Appendix F.

Another performance measure used by DCAA is the return on investment (ROI), which is expressed in dollars and cents returned for every dollar spent. The ROI is computed by dividing the total costs of DCAA operations by the total net savings. DCAA's overall ROI for FY 1997 was \$10 for every \$1 spent. At this time, DCAA's information system does not account for NASA-unique assignments; therefore, we could not calculate a ROI for NASA-unique assignments.

NASA Headquarters or Centers do not have performance measurements or metrics specifically related to evaluating the effectiveness of the use of DCAA reports and services during negotiations with contractors. With initiatives to achieve Government Performance and Results Act (GPRA) requirements, some performance measurements relative to DCAA services should prove useful to fulfill GPRA reporting. For example, as a minimum, performance measurements or metrics could be developed for a sustention rate for each Center procurement office, a sustention rate using DCAA reports, and a sustention rate using in-house cost analyses. In addition to GPRA data, we believe such information would provide Centers with evaluation tools to identify potential areas for improvements.

DCAA's information system could provide NASA-specific assignment data only for about 6% of the DCAA effort performed for NASA during FY 1997. As unique to NASA, the audits covered efforts that were 100% relevant to NASA. The 6% situation occurred because accounting and estimating systems audits and incurred cost audits at most contractor locations had a mix of federal agency contracts. We did confirm that NASA-unique data plus other NASA-related data tracked to monthly billings and

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semiannual report statistics. DCAA is currently planning to redesign its information system in the next 18 months. NASA should work with DCAA to obtain useful performance measurements and metrics related to DCAA services and NASA procurements.

NASA Audit Follow-up Process

Per OMB Circular A-50, *Audit Follow-up*, one purpose of an audit report tracking system is to ensure that audit recommendations are reported if not resolved within 6 months.³⁶ NASA's audit follow-up system tracks DCAA contract audit reports that are "reportable" and also includes "open" or unresolved audit issues or recommendations that are under NASA authority for resolution.³⁷

Generally, very few DCAA reports meet all criteria of reportable, with unresolved issues, and under NASA's resolution authority. For example, as discussed under the Background section of this report, DCAA issued 2,456 reports during FY 1997 that were "related to NASA assignments." Based on our analysis of information from NASA's tracking system, NASA tracked no more than 25 DCAA reports during FYs 1997 and 1996. Consequently, only about 1.0 percent of the FY 1997 DCAA reports related to NASA were tracked and monitored by NASA Headquarters procurement management.

Monitoring DCAA Reports and Planning Process were Lacking

NASA management has no centralized monitoring function and NASA-wide tracking of all DCAA reports received or audits planned, in process, or completed. At the three NASA Centers included in our review, only JSC tracked all DCAA audit reports received at the center including those reports DoD is responsible for resolving. In addition, only JSC tracked DCAA audit workload for its contractors to include planned, in process, and completed audits. We did not examine JSC's compliance with OMB Circular A-50 nor did we validate the accuracy of the data maintained. At the other two centers, there was no centralized point where all reports were received and tracked.

Delegations to DCMC not Adequately Monitored

NASA generally did not monitor the status of DCAA audit reports sent to the DCMC for follow up and resolution and were often not informed by DCMC as to the actions taken which affected their contracts. Consequently, NASA could not ensure that audit

³⁶ OMB Circular A-50 on Audit Follow-up sets governmentwide policy on responding to audit findings and recommendations. OMB requires agencies to, among other things, track all audit reports to ensure that findings and recommendations are properly resolved and corrective actions are taken; and report semiannually to agency administrators on the status of unresolved audit reports over 6 months old.

³⁷ For this review, nearly all DCAA audit reports related to NASA were delegated for resolution to Defense Contract Management Command (DCMC) under the role of DCMC administrative contracting officers (ACOs); such arrangements were provided by formal MOU between NASA, DOD, and DCMC. Types of "reportable reports" and those not reportable are defined in DCAAM 15-603.2a and 15-603.2b, respectively, as provided at Appendix E of this report. Further details on reportable and non-reportable are in DCAAM 15-106.2, as well as DoDD 7640.2 on Policy for Follow-up on Contract Audit Reports.

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findings and recommendations were resolved on a timely basis and that the resolutions were in NASA 's best interest.³⁸

OMB Circular A-50 provides the policies and procedures for use by executive agencies when considering reports issued by the IGs, other executive branch audit organizations, the GAO, and non-Federal auditors where follow up is necessary. DoDD 7640.2 clarifies the responsibilities, reporting requirements, and follow-up procedures on contract and grant audits conducted by DCAA. Although not subject to provisions of DoDD 7640.2, NASA elected to use the DCAA monthly reports described in DCAAM 15-604.3 for all contract audit reportable reports.³⁹

Best Practice As a noteworthy practice, JSC business office operations tracked DCAA reports and coordinated with DCAA PLAs and other auditors. All DCAA reports flowed into the operations office and both reportable and nonreportable audit reports were monitored through a database to the final JSC requesting official. A separate database was maintained that included details by JSC contractor on DCAA audits planned, including mandatory annual audit requirements, and audits completed. Central tracking of all post-award contract audit reports that required NASA action helped to ensure appropriate monitoring by NASA management and timely resolution of issues affecting JSC contracts.

Recommendation 6 The Associate Administrator for Procurement should:

- (a) identify data fields needed in DCAA management information and job accounting systems to develop objective metrics and performance measurements relevant to DCAA services and possibly compute ROI ratios for DCAA costs;
- (b) coordinate with DCAA to establish information NASA needs from available DCAA system reports to improve NASA's oversight of the use of DCAA services and develop ROI ratios, other metrics, or performance measurements to use for GPRA requirements; and
- (c) consider implementation on a NASA-wide basis the JSC or similar procedure for tracking the DCAA workload and reports.

NASA Management Response Partially concur. Procurement management did not agree to pursue the development of metrics or ROI ratios, believing such would not be beneficial. Management agreed that performance measurements to address the effectiveness, quality, and

³⁸ In its report entitled "NASA CONTRACT MANAGEMENT, Improving the Use of DCAA's Auditing Services" dated September 1994, GAO found that the NASA HQ and center tracking systems did not contain all reports requiring NASA officials to take corrective actions. In addition, the tracking systems did not contain the status of audit reports DoD is responsible for resolving.

³⁹ DoDD 7640.2, Policy for Followup on Contract Audit Reports, dated August 16, 1995, prescribes DoD policies for contract audit followup and establishes a system for management action on contract audit reports. The system provides for tracking, resolution, and disposition of reports, as well as evaluations by internal auditors (reference DCAAM 15-602b).

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timeliness of DCAA services would be beneficial. Management plans to coordinate on information available from DCAA to improve NASA's oversight of the use of DCAA services. Procurement management believes the present systems at NASA Headquarters and its Centers are sufficient for tracking DCAA workload and reports.

OIG Evaluation of Response

Management's proposed actions are responsive to achieving the intent of our recommendation, except for recommendation 6(c). We recognize performance measurements could be beneficial. We did not intend that a ROI or other metric was the only factor for consideration. As about only 1.0 percent of DCAA's FY 1997 reports related to NASA were reportable, we still believe it would be most beneficial for oversight purposes to track nonreportable DCAA products. Of the three Centers visited during our review, JSC was the only Center that tracked DCAA workload and reports, both reportable and nonreportable. We cannot agree that the present NASA systems are sufficient. Accordingly, we request that Code H reconsider its position on recommendation 6(c).

In addition, we have been advised that starting in FY 1999, the Assistant Inspector General for Auditing (AIGA) will be conducting evaluations of NASA's tracking and reporting systems with a specific focus on compliance with OMB Circular A-50, as well as the exercise of sound business judgment in the resolution and disposition of contract audits. Since the identification of specific problems with the quality and timeliness of resolution and disposition of individual contract audits was outside the scope of this review and report, the AIGA's upcoming evaluations will provide additional information with regard to the need for improving NASA's tracking and reporting systems.

DCAA and DoDIG Comments

Coordination comments provided by DoDIG and DCAA did not include any information regarding Recommendation 6 or results of our review for this report section on NASA's oversight of the use and benefits of DCAA services.

We performed field work at NASA Headquarters (HQ), GSFC, MSFC, and JSC from October 2, 1997 through June 30, 1998. The universe for our review consisted of NASA's open contracts over \$25.0 million. An "open contract" was ongoing or completed but administrative actions were needed to close out the contract. As of September 30, 1997, total obligations for such contracts were \$8.8 billion, or 68.0 percent of NASA's \$12.8 billion total procurement obligations for FY 1997.^a As shown by the following summary, the three Centers we selected for our field visits represented 74.4 percent of the total FY 1997 obligations and 82.2 percent of the total award value for NASA contracts over \$25.0 million.^b

Universe of NASA Contracts over \$25 Million

Center	Contractors	Contracts	Fiscal Year 1997		Award Value	Percentage
			Obligations	Percentage		
ARC	13	15	\$179,372,937		\$1,335,317,589	
DFRC	2	2	6,671,722		\$100,623,052	
HQ	4	4	35,005,965		\$1,445,388,095	
KSC	5	5	274,424,872		\$3,182,388,311	
LaRC	14	17	233,477,078		\$1,650,595,966	
LeRC	14	22	282,918,514		\$5,353,820,058	
NMO (JPL)	2	2	1,134,795,017		\$5,340,000,000	
SSC	3	3	99,673,015		\$718,924,201	
Total	57	70	\$2,246,339,120	25.59%	\$19,127,057,272	17.81%
<u>Centers Selected for Field Visits</u>						
GSFC	25	53	1,432,764,067		\$13,448,848,328	
JSC	18	29	3,426,141,040		\$45,165,560,061	
MSFC	21	36	1,671,787,511		\$29,667,469,650	
Total	64	118	\$6,530,692,618	74.41%	\$88,281,878,039	82.19%
Universe Total	121	188	\$8,777,031,738	100.00%	\$107,408,935,311	100.00%

To review the various types of DCAA services, we judgmentally selected a representative mix of contractors and contracts administered by GSFC, JSC, and MSFC.^c We developed a standard set of questions for interviews to evaluate the effectiveness and benefits derived by NASA from audit services provided by DCAA.

We interviewed the 33 COs with cognizance for the 58 contracts in our sample. We obtained each CO's views and general experiences in dealing with DCAA. We obtained the views of NASA procurement executives and managers and DCAA officials at both Headquarters and field level activities.

^a Procurement obligations included all NASA procurement instruments; i.e., contracts under and over \$25.0 million; blanket purchase agreements; purchase orders; grant agreements, including cooperative agreements; and other instruments as appropriate to acquire goods and services.

^b Source of the universe data was an OIG query of the Financial and Contractual Status (FACS) system, maintained as the primary data base for all NASA contracts (www.hq.nasa.gov/office/procurement).

^c The \$5.3 billion FY 1997 total obligations for our sample represented 60.8 percent of the \$8.8 billion total obligations for all NASA open contracts over \$25.0 million.

As shown on the following summary, we interviewed COs responsible for 21 contracts at GSFC, 16 at JSC, and 21 at MSFC.

Contracts Selected for CO Discussions

<u>Contractor</u>	<u>Contract No.</u>	<u>Place of Performance</u>	<u>Award Date</u>	<u>Completion Date</u>	<u>Contract Type</u>	<u>FY 1997 Obligations</u>	<u>Award Value</u>
1 Aerojet General Corp	NAS5-29402	Azusa, CA	01/06/86	02/17/98	CPAF	\$0	\$103,590,215
2 Aerojet General Corp	NAS5-32314	Azusa, CA	07/07/93	03/01/04	CPAF	\$34,703,000	\$141,249,298
3 AlliedSignal Tech Services	NAS5-31000	Greenbelt, MD	11/13/87	09/30/97	CPAF	\$284,611,020	\$1,885,356,565
4 AlliedSignal Tech Services	NAS5-32153	Wallops Island	11/24/93	04/14/96	CPAF	-\$710	\$43,083,606
5 Ball Aerospace & Tech Corp	NAS5-29370	Boulder, CO	10/23/86	03/31/98	CPFF	\$6,499,978	\$115,040,685
6 Ball Aerospace & Tech Corp	NAS5-30355	Boulder, CO	08/09/88	08/31/99	CPAF	\$2,543,228	\$25,465,211
7 Computer Sciences Corp	NAS5-31500	Greenbelt, MD	11/09/87	07/18/97	CPAF	-\$8,768,788	\$1,182,320,229
8 Computer Sciences Corp	NAS5-32261	Wallops Island	06/20/95	01/31/98	CPAF	\$9,101,244	\$33,266,803
9 Hughes STX Corp	NAS5-30960	Greenbelt, MD	11/30/90	01/24/97	CPAF	\$1,100,308	\$43,958,630
10 ITT Corp	NAS5-30384	Fort Wayne, IN	09/29/88	06/04/99	CPAF	\$9,233,224	\$105,079,986
11 ITT Corp	NAS5-96090	Fort Wayne, IN	08/13/96	04/30/10	CPAF	\$24,200,000	\$120,171,497
12 Lockheed Martin Corp	NAS5-29600	Princeton, NJ	11/07/85	12/31/96	CPAF	\$0	\$46,358,707
13 Lockheed Martin Corp	NAS5-30503	Princeton, NJ	01/18/89	11/01/97	CPAF	\$761,459	\$219,518,758
14 Lockheed Martin Corp	NAS5-32633	King of Prussia, Pa	10/26/92	08/15/98	CPAF	\$43,532,461	\$366,790,589
15 Lockheed Martin Corp	NAS5-40000	Sunnyvale, CA	10/21/92	09/30/98	CPAF	\$0	\$71,728,339
16 Lockheed Martin Corp	NAS5-50000	Greenbelt, MD	10/01/92	09/30/99	CPAF	\$74,322,325	\$296,638,196
17 Lockheed Martin Corp	NAS5-97181	Palo Alto, CA	06/18/97	04/20/05	CPIF	\$3,678,156	\$54,229,000
18 Orbital Sciences Corp	NAS5-30935	Pomona, CA	07/27/90	12/31/96	CPAF	\$1,627,671	\$46,314,882
19 Santa Barbara Research Ctr.	NAS5-32631	Goleta, CA	06/28/94	08/15/98	CPAF	\$9,650,000	\$93,098,131
20 Space Systems Loral Inc	NAS5-29500	San Jose, CA	10/28/85	12/15/08	CPAF	\$24,130,338	\$1,053,602,865
21 TRW Inc	NAS5-31488	Redondo Beach, CA	09/11/91	07/02/98	CPAF	-\$289,512	\$58,261,494
Subtotal GSFC - 21 Sampled Contracts						\$520,635,402	\$6,105,123,686
22 BRSP	NAS9-19700	Houston, TX	01/16/97	02/28/98	FFP	\$16,862,167	\$25,338,350
23 Boeing Co	NAS9-17540	Houston, TX	01/06/86	11/30/98	CPAF	\$32,300,857	\$407,202,430
24 Boeing Co	NAS15-10000	Houston, TX	11/15/93	06/30/03	CPAF	\$1,546,005,879	\$5,835,935,563
25 Boeing North American Inc	NAS9-17800	Downey, CA	08/01/87	03/31/98	CPAF	\$8,502,978	\$1,875,955,813
26 Boeing North American Inc	NAS9-18000	Houston, TX	01/01/86	12/31/00	CPAF	\$2,264,313	\$5,340,321,405
27 Johnson Controls	NAS9-18551	Houston, TX	06/26/91	04/30/97	CPFF	\$10,731,908	\$113,940,090
28 Krug International Corp	NAS9-97005	Houston, TX	02/01/97	01/31/00	CPAF	\$10,907,247	\$56,761,202
29 Krug Life Sciences Inc	NAS9-18492	Houston, TX	02/04/91	06/30/97	CPAF	\$5,235,083	\$179,756,813
30 Lockheed Martin Aerospace	NAS9-18300	Houston, TX	01/17/90	09/30/98	CPAF	\$71,856,124	\$719,319,108
31 Lockheed Martin Corp	NAS5-30689	Littleton, CO	05/31/89	09/30/97	CPFF	\$30,000	\$216,490,440
32 Lockheed Martin Corp	NAS9-18210	Princeton, NJ	09/20/89	09/30/97	FFP	-\$389	\$37,102,671
33 Lockheed Martin Corp	NAS9-18817	Houston, TX	07/30/93	09/30/98	CPAF	\$34,986,074	\$147,578,198
34 Lockheed Martin Corp	NAS9-19192	Schenectady, NY	08/24/94	09/30/96	T&M	-\$226,044	\$30,317,532
35 Lockheed Martin Engr/Sci	NAS9-19100	Houston, TX	12/23/93	09/30/98	CPAF	\$307,324,428	\$894,320,997
36 McDonnell Douglas Corp	NAS9-18200	Huntington Beach, CA	12/23/87	12/31/01	CPAF	-\$746,000	\$4,624,066,048
37 United Space Alliance	NAS9-20000	Houston, TX	09/26/96	09/30/02	CPIF	\$1,326,636,951	\$7,143,793,043
Subtotal JSC - 16 Sampled Contracts						\$3,372,671,576	\$27,648,199,703

Contracts Selected for CO Discussions

<u>Contractor</u>	<u>Contract No.</u>	<u>Place of Performance</u>	<u>Award Date</u>	<u>Completion Date</u>	<u>Contract Type</u>	<u>FY 1997 Obligations</u>	<u>Award Value</u>
38 BAMS I	NAS8-38330	MSFC, AL	09/29/89	10/31/97	CPAF	\$34,016,316	\$289,097,999
39 Boeing Co	NAS8-40218	Seattle, WA	07/01/94	12/31/98	CPAF	\$14,198,944	\$31,884,707
40 Boeing Co	NAS8-50000	MSFC, AL	12/22/87	09/30/04	CPAF	\$35,094,714	\$2,203,210,133
41 Boeing North American Inc	NAS8-40000	Canoga Park, Ca	11/03/86	12/31/01	CPAF	\$0	\$5,975,653,636
42 Boeing North American Inc	NAS8-45000	Canoga Park, Ca	06/28/96	12/31/01	CPAF	\$200,858,870	\$1,222,691,965
43 Computer Sciences Corp	NAS8-60000	MSFC, AL	05/03/94	04/30/98	CPAF	\$129,738,548	\$504,773,294
44 Cray Grumman Systems JV	NAS8-39700	MSFC, AL	11/20/92	02/28/98	FFP	\$7,882,674	\$52,102,028
45 IBM	NAS9-18510	Houston, TX	09/20/91	09/03/99	FFP	\$1,693,578	\$42,219,882
46 Lockheed Martin Corp	NAS8-36000	Littleton, CO	01/11/83	02/28/97	CPFF	\$0	\$147,232,400
47 Lockheed Martin Corp	NAS8-36200	New Orleans, LA	06/07/88	08/31/01	CPAF	\$325,938,937	\$3,620,076,126
48 Lockheed Martin Corp	NAS8-36747	New Orleans, LA	08/25/86	09/30/97	Cost	-\$337,000	\$206,782,590
49 Lockheed Martin Corp	NAS8-37334	Palo Alto, CA	01/21/87	01/26/96	CPFF	\$0	\$31,841,476
50 Lockheed Martin Corp	NAS8-39243	New Orleans, LA	09/28/92	10/31/01	Cost	\$28,936,905	\$140,723,186
51 Sverdrup Technology Inc	NAS8-40836	MSFC, AL	02/23/96	02/26/98	CPAF	\$12,591,010	\$30,522,139
52 Teledyne Industries Inc	NAS8-41000	MSFC, AL	02/27/91	09/30/00	CPAF	\$9,186,988	\$333,908,238
53 Thiokol Corp	NAS8-31323	Brigham City, UT	05/08/75	12/31/98	Cost	\$0	\$58,614,922
54 Thiokol Corp	NAS8-38100	Brigham City, UT	07/17/91	02/15/01	CPAF	\$419,353,054	\$3,895,992,117
55 Thiokol Corp	NAS8-38680	Brigham City, UT	07/01/91	09/30/00	Cost	\$2,000,000	\$76,860,893
56 Thiokol Corp	NAS8304906	Brigham City, UT	06/26/74	12/31/97	CPIF	\$590,178	\$3,156,161,128
57 USBI Booster Production Co	NAS8-36300	Huntsville, AL	01/09/85	09/30/99	CPIF	\$143,499,832	\$2,461,914,875
58 United Technologies Corp	NAS8-36801	West Palm Beach, FL	08/18/86	07/31/00	CPAF	\$75,080,000	\$966,105,109
Subtotal MSFC - 21 Sampled Contracts						\$1,440,323,548	\$25,448,368,843
Grand Total - 58 Sampled Contracts						\$5,333,630,526	\$59,201,692,232
Universe of all Contracts over \$25.0 Million at GSFC, JSC, and MSFC						\$6,530,692,618	\$88,281,878,039
Percentage of Sample to the Universe						81.67%	67.06%

Agreement Between
the National Aeronautics and Space Administration
and the Department of Defense
for Performance of Contract Administration and Contract Audit Services
in Support of NASA Contracts

1. Purpose. This agreement establishes policies and procedures by which the Department of Defense (DoD) will perform Contract Administration and Contract Audit Services in support of National Aeronautics and Space Administration (NASA) contracts and will promote maximum NASA use of these services.
2. Authority. Section 203(b)(6) of the National Aeronautics and Space Act of 1958, Public Law 85-568 (72 Stat. 429; 42 U.S.C. 2473(b)(6)).
3. Scope. This agreement encompasses, but is not limited to, the following general categories of contract administration, contract audit, and related support services (which include those functions set forth in Armed Services Procurement Regulation 1-406) requested by NASA and performed by DoD contract administration and contract audit services offices:
 - a. Contract Audit
 - b. Contract Administration
 - c. Engineering Support (including Reliability)
 - d. Quality Assurance
 - e. Production
 - f. Property Administration
 - g. Industrial Facilities
 - h. Plant Clearance
 - i. Industrial Security
 - j. Safety
 - k. Flight Operations
 - l. Labor Relations
 - m. Small Business
 - n. Transportation and Packaging
 - o. Equal Employment Opportunity Contract Compliance Review Services

The scope of this agreement does not encompass architect-engineer, construction of facilities or acquisition of real estate services which are covered under separate interagency agreements.

4. Policies.
 - (a) It is NASA policy that maximum use be made of those contract administration and contract audit services available from DoD,

subject to the recognition that certain functions may be withheld as being necessary for program management, or other reasons. NASA recognizes and agrees that those services will normally be performed by DoD in accordance with the terms of the NASA contracts and applicable DoD regulations and procedures, unless special NASA requirements necessitate other arrangements.

- (b) It is DoD policy to accept and perform those contract administration and contract audit services requested by NASA.
- (c) It is DoD policy to perform contract administration and contract audit in accordance with the terms of the NASA contracts and applicable DoD regulations and procedures unless otherwise provided for in this agreement, NASA letters of delegation, or other official NASA requests for services (e. g., requests for pre-award surveys or audit, pricing, and technical evaluations).

5. Technical Direction. NASA shall have technical direction of all NASA contracts on which the DoD is performing contract administration services. NASA may also assign technical representatives to contractor's plants or laboratories to provide direct liaison with NASA and to provide technical guidance and assistance to the contractor and DoD personnel.

6. Quality Assurance. Applicable requirements of NASA Quality Publication NPC 200-1A, "Quality Assurance Provisions for Government Agencies," and special instructions accompanying the NASA letter of delegation shall be followed and take precedence over DoD regulations and procedures in the DoD performance of quality assurance services in support of NASA contracts.

7. Disclosure of Information. DoD policies, regulations, and procedures for the disclosure or release of classified or unclassified DoD-originated information to the Congress or General Accounting Office by contract administration and contract audit services offices shall also apply to NASA-originated information, unless otherwise instructed by the NASA contracting officer. When the contract administration and contract audit services offices are required to secure the approval of higher authority prior to such a disclosure or release and the information is NASA-originated, the request shall be referred directly to the Administrator, NASA.

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8. Reimbursement. Contract administration and contract audit services will be performed by DoD for NASA on a reimbursement basis in accordance with the arrangements set forth in Appendix C to this agreement.
9. Responsibilities. The Director of Procurement, NASA, and the Director for Contract Administration Services, Office of the Assistant Secretary of Defense (Installations and Logistics), and the Deputy Comptroller for Audit Systems, Office of the Assistant Secretary of Defense (Comptroller) are responsible for coordinating all matters affecting this agreement.
10. Appendices. Attachment No. 1 is an index of appendices to this agreement.
11. Changes. This agreement and appendices may be revised at any time upon mutual assent of NASA and DoD in accordance with their respective procedures affecting interagency agreements. Additional appendices may be added to provide for unique relationships between NASA and DoD required in the performance of contract administration and contract audit services.
12. Termination. Either NASA or DoD may terminate this agreement upon reasonable notice.
13. Superseded agreements.
 - (a) Agreement Between the Department of the Air Force and the National Aeronautics and Space Administration Concerning Air Force Assistance to NASA in the Procurement of Research and Development and/or the Performance of Field Service Functions, effective 15 August 1959, revised 15 September 1960.
 - (b) Agreement Between the Department of the Army and the National Aeronautics and Space Administration Concerning Army Assistance in the Secondary Administration of NASA Contracts, effective 1 July 1960 (except for paragraph 4, "Facilities").
 - (c) Basic Agreement Between the Navy and the National Aeronautics and Space Administration for Performance of Field Service Functions by the Navy for NASA, effective 1 March 1962.

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- (d) Agreement Between the Department of Defense and the National Aeronautics and Space Administration Concerning the Performance by the Department of Defense of Contract Administration Services for NASA within the Philadelphia Contract Administration Services Region (Pilot Test), effective April 20, 1964, and Appendix Number (1) effective October 15, 1964.
- (e) Letter agreements effective November 13, 1964, extending the agreement in (d) above to all Defense Contract Administration Services Regions.

14. Effective Date. This agreement is effective upon the latest date of signature below and shall remain in effect until terminated.

FOR: Department of Defense

FOR: National Aeronautics and
Space Administration



Melvin R. Laird
Secretary of Defense



Dr. Thomas O. Paine
Administrator of NASA

15 June 1969
Date

28 May 1969
Date

MEMORANDUM OF UNDERSTANDING
BETWEEN THE DEFENSE CONTRACT AUDIT AGENCY
AND THE OFFICE OF INSPECTOR GENERAL
NATIONAL AERONAUTICS AND SPACE ADMINISTRATION

This memorandum sets forth an understanding between the Defense Contract Audit Agency (DCAA) and the NASA Office of Inspector General (OIG) regarding the policy and procedures for the planning, conducting and coordinating of audit and investigative activities at NASA's contractors and grantees.

GENERAL

The National Aeronautics and Space Administration operates under the provisions of the Federal Acquisition Regulation (FAR), NASA/FAR Supplement and applicable Office of Management and Budget (OMB) guidelines.

Audit services are provided by DCAA to NASA in accordance with the arrangements set forth in the "DOD-NASA Agreement for Performance of Contract Administration and Contract Audit Services in Support of NASA Contracts", dated June 18, 1969, as amended. Contract audit services are usually performed for NASA contracting officers on the basis of delegations of audit authority or other special requests. DCAA services are reimbursed by NASA in accordance with arrangements set forth in Appendix C to the DOD-NASA agreement. Reimbursement will be based on actual hours at the prevailing interagency billing rate.

This memorandum of understanding applies to those NASA OIG audit and investigative activities which need to be coordinated with DCAA. This memorandum does not change any of the arrangements set forth in the DOD-NASA agreement.

Questions concerning matters arising from implementation of this agreement will be coordinated between the Office of Assistant Director, Operations for DCAA and the Assistant Inspector General for Auditing (AIGA) for the NASA OIG.

APPLICABLE AUTHORITY

The Inspector General Act of 1978, Public Law 95-452, created the NASA Office of Inspector General with statutory authority to conduct and coordinate independent audits and investigations relating to NASA programs and operations.

DCAA was established by a directive of the Department of Defense (DOD) for the purpose of performing all contract auditing for DOD and providing accounting and financial advisory services, in connection with the negotiation, administration and settlement of contracts and

subcontracts, to all DOD procurement and contract administration activities. DCAA also furnishes contract audit services to other Government agencies.

SCOPE

It is understood and agreed that:

1. The criteria in the DCAA Contract Audit Manual will be used to determine locations where contract audit coverage will be maintained by DCAA. Audit cognizance will be established in consonance with the intent of OMB Circular A-73 entitled, "Audit of Federal Operations and Programs." Requests by the NASA OIG for audit at other locations may be accepted by DCAA where the best interests of the Government are served by doing so.

2. At contractor locations where DCAA has audit cognizance, DCAA will respond to specific requests from the NASA OIG for contract audit coverage. DCAA is responsible for determining the manner and level of effort necessary to provide the requested audit coverage. The DCAA Contract Audit Manual will be the determining guide for the conduct of audits. In accordance with generally accepted government auditing standards, audits of NASA contracts and subcontracts will include compliance with the provisions of the FAR and the NASA/FAR Supplement, as well as individual contractual requirements. It is understood that requested contract audit coverage may include DCAA evaluation of internal controls and examinations of contractor accounting and financial management systems, considered necessary to satisfy the requirements of the Standards for Audit of Governmental Organizations, Programs, Activities, and Functions (1981 revision) as incorporated by Section Six of OMB Circular A-73.

Requests for audit issued by the NASA OIG will be addressed directly to the cognizant DCAA field office. Initial contacts may be made by telephone with a written confirming audit request to follow. Generally the OIG requests will be made by NASA OIG center directors.

3. If DCAA acknowledges that it cannot provide assistance requested by the NASA OIG because (a) it concerns matters beyond the proper role of DCAA, (b) it would impede the prompt execution of DCAA's primary role of furnishing accounting and financial management advisory services regarding DOD contracts and subcontracts, or (c) it would result in undue delays or inefficiencies in the accomplishment of NASA's audit objectives, the NASA OIG will coordinate with appropriate DCAA officials to determine how the audit work will be performed.

4. Reviews of NASA program results to determine if the goals and objectives of organizations, programs, activities or functions established by laws or regulations are attained, as required by applicable GAO audit standards, are the responsibility of the NASA OIG.

5. To the extent permitted by law and NASA investigative policies, NASA OIG will notify appropriate DCAA officials of any internal or external reviews, including reviews by the NASA OIG, GAO, investigative agencies, etc., which may impact on the audit services furnished by DCAA, and will coordinate in advance with appropriate DCAA officials concerning any NASA internal auditor visits to the premises of contractors being audited by DCAA. In this regard, appropriate sections of draft reports which result from such reviews will be provided to permit comment on those matters involving DCAA.

6. DCAA will transmit promptly to the NASA OIG, concurrently with its internal reporting process, reports of suspected contractor fraud or other wrongdoing whether disclosed by outside sources or detected through performance of the contract audit function.

7. Audit services provided by DCAA on request from the NASA OIG, will be reimbursed in accordance with Appendix C of the DOD-NASA agreement.

8. DCAA will include NASA contracts, on the same basis as DOD contracts, in its selection plan for postaward reviews for possible defective pricing under Public Law 87-653. Requests for special review of specific contracts for possible defective pricing will be accepted where DCAA is cognizant and may be accepted on a casual basis.

9. DCAA reports on audits requested by the NASA OIG will be addressed to the appropriate NASA OIG center director and forwarded in accordance with advice contained in the request for audit. A special report will be submitted promptly to NASA OIG when any unusual circumstances will have an immediate and significant impact on NASA.

10. The NASA OIG will provide audit requirements to DCAA for consideration in the development of DCAA's annual audit plans. DCAA field audit offices will coordinate and provide to NASA OIG center directors information pertaining to those audit requirements which have been programmed and other planned audits which will impact NASA major contractors. See DCAA Contract Audit Manual (DCAAM), Chapter 10-S11, for a list of the NASA OIG center directors and their assigned geographic areas.

11. Where the NASA OIG is not the audit report addressee, DCAA will furnish to the NASA OIG copies of audit reports on all types of contract audits affecting NASA. These will include but not be limited to audits of operational or functional areas, direct and indirect costs incurred, contract terminations, price proposals and forward pricing rate studies, defective pricing audits, and reviews related to cost accounting standards. Audit report distribution will be made in accordance with DCAAM Chapter 10.

12. DCAA Headquarters will furnish to the NASA AIGA copies of its management information system reports summarizing audit performance on NASA contractors and subcontractors. The reports will be semi-annual performance statistics on DCAA reports issued, including

numbers of reports, dollars examined and the results of audits. Semiannually, DCAA will also provide the NASA AIGA with the Disposition of Assignments Report on NASA assignments.

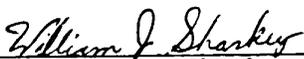
13. This Memorandum of Understanding may be terminated by either party at any time by issuance of a written notice 60 days in advance of the intended termination date. From time to time the parties can agree to such modifications of this document as they deem appropriate.

EFFECTIVE DATE

This agreement is effective upon the last date of signature below and shall remain in effect until terminated.

FOR: DEFENSE CONTRACT AUDIT
AGENCY

FOR: NATIONAL AERONAUTICS AND
SPACE ADMINISTRATION
OFFICE OF INSPECTOR GENERAL



William J. Sharkey
Assistant Director,
Policy and Plans



Richard J. Pelletier
Assistant Inspector General
for Auditing

12-22-87
Date

12-8-1987
Date

MEMORANDUM OF UNDERSTANDING

This Memorandum of Understanding (MOU) sets forth the understanding between the Defense Contract Audit Agency (DCAA), and the NASA-Johnson Space Center (JSC) covering the procurement liaison auditor services to be rendered by DCAA for JSC, Houston Texas. Procurement liaison audit services are authorized by DoD Directive 5105.36, Defense Contract Audit Agency Charter, Section D.9., which states "Establish and maintain liaison auditors as appropriate at major procuring and contract administration offices." Where necessary and appropriate, the following specific advisory audit services are covered by this MOU and the authorizing DoD Directive:

- a. Up-front coordination and planning of field audit services required in connection with major acquisitions.
- b. Meeting with acquisition officials to discuss the quality and timeliness of audits, and recommendations to improve DCAA services.
- c. Coordinating and facilitating the issuance of audit reports, including that effort required to effect resolution of access to records and inadequate cost data problems encountered by DCAA field audit offices (FAOs) at individual contractor locations.
- d. On the spot consultation and explanations of preaward and postaward audit report findings.
- e. Attending prenegotiation meetings based on the significance of the dollar amount of the contemplated contractual action and the complexities of audit matters to be addressed. When circumstances warrant or at the specific request of the acquisition official, the PLA will also coordinate field auditor attendance at the meetings.
- f. Arranging for attendance of cognizant DCAA field personnel at contract negotiations, and/or participating in the negotiations when it is deemed impractical for field personnel to attend.
- g. Attending meetings to address issues and problems affecting DCAA's relationship and work with NASA-JSC acquisition personnel.
- h. Advising contracting officers on matters related to DCAA's postaward audit reports and coordinating requests for follow-up audit effort on audit findings.
- i. Keeping NASA-JSC acquisition officials informed of the nature and impact of new or revised audit policy.
- j. Expediting the receipt of requested information when the contracting officer is having difficulty obtaining such information.

DCAA identifies for NASA HQ in a monthly report, all "reportable" contract audit reports as defined in the DCAAM 15-603.2 below.

15-603.2 -- Reporting Requirements

- a. DoD procurement and administrative components are required to submit semiannual status reports on reportable contract audit reports to the DoD Inspector General. These status reports are to be submitted within thirty calendar days after the end of the semiannual periods ending 28 February and 31 August. Reportable reports are:
 - (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.
- b. Audit reports covering preaward proposals; forward pricing proposals, including change orders/modifications; labor, overhead or other advance rate agreements; progress payments; preaward surveys; assist audits; and closing statements are not subject to the reporting provisions of the directive.
- c. Interim reports to be incorporated into a future report are not reportable.
- d. The semiannual status reports are to include reportable reports
 - (1) open as of the end of the reporting period, and
 - (2) closed during the reporting period.
- e. Under the directive, a contract audit report is considered dispositioned when
 - (1) the contractor implements the audit recommendations or the contracting officer's decision;
 - (2) the contracting officer negotiates a settlement with the contractor and a contractual document has been executed;
 - (3) the contracting officer issues a final decision pursuant to the "Disputes Clause" (see 15-502) and 90 days elapse without contractor appeal to the Armed Services Board of Contract Appeals (ASBCA):
 - (4) a decision has been rendered on an appeal made to the ASBCA or U.S. Claims Court and any corrective actions directed by the Board or Court have been completed and a contractual document has been executed;
 - (5) audit reports have been superseded by, or incorporated into, a subsequent report; or
 - (6) any corrective actions deemed necessary by the contracting officer have been taken so that no further actions can be reasonably anticipated. Should the contractor appeal to the Claims Court within the 12 months
 - (7) after final decision, the audit must be reinstated as an open report in litigation.

DCAA billed 244,873 hours during FY 1997 for services provided to NASA. The majority of DCAA services was incurred cost audits and accounting or other business systems reviews. Inherently, such DCAA efforts were not unique to NASA contracts or those of any single Federal department or agency. DCAA incurred cost audits and system reviews are applicable to several Federal entities, unless an audited contractor's business or segment is dedicated 100 percent to a specific Federal entity. Hours worked on incurred cost audits or system reviews were billed by DCAA on a prorated basis to the various Federal entities.^a

NASA does not maintain a database of assignments performed or reports issued by DCAA. In addition, the DCAA job accounting system was never intended to be used to retrieve assignments that related solely to NASA contracts or other NASA procurement activities. Consequently, DCAA's system does not include the capability to retrieve all NASA-unique work. Based on discussions, we learned DCAA plans to implement within the next 2 years a new system that should provide the type of data fields and retrievals we requested for our review.

As reported by DCAA for FY 1997, DCAA returned \$3.7 billion in net savings to the Government on an operating budget of \$371 million or about \$10 in savings for every \$1 of operating cost. (Internet source: <http://www.dtic.mil/dcaa/index.html>) We attempted to determine NASA's return on investment (ROI) for DCAA services by reviewing statistics on assignments related solely to NASA. With established system data fields and retrieval capabilities, DCAA was able to provide from its system the following information for 168 NASA-unique assignments of 14,536 hours performed during FY 1997.^b

	AUDIT COUNT	FY HOURS	TOTAL HOURS	AUDIT EXCEPTIONS	EXCEPTIONS SUSTAINED	NET SAVINGS	
(Amounts are in Thousands)							
Operational Audits	2	0	481	\$2,971	\$0	\$0	
Other Incurred Audits	3	0	387	\$778	\$12	\$12	
Terminations	13	530	2,204	\$6,771	\$5,496	\$5,644	
Special Audits	8	8	924	\$13,607	\$9,701	\$11,633	
Cost Accounting Stds	3	0	179	\$1,001	\$650	\$577	
Initial Pricings	<u>139</u>	<u>256</u>	<u>10,361</u>	<u>\$79,728</u>	<u>\$46,895</u>	<u>\$8,197</u>	
Grand Total	168	794	14,536	\$104,856	\$62,754	\$26,063	
Sustention Rate					\$62,754	=	59.85%
					\$104,856		

The 14,536 hours for NASA-unique work represented only 6.0 percent of the total 244,703 hours provided by DCAA during FY 1997 for NASA-related services. The corresponding sustention rate of 59.85 percent appeared to be reasonable.^c However, we could not assume the NASA-unique work was representative of the total DCAA work for NASA. Consequently, we could not reach any conclusions about the ROI or sustention rate for DCAA services.

^a DCAA used a standard method to prorate costs based on the relative percentage of incurred costs of contracts of each Federal entity; i.e., the annual incurred costs related to each department or agency were divided by the total incurred costs for all contracts of each Federal entity included in the audit.

^b "Audit exceptions" refers to a DCAA recommendation or contractor costs that DCAA questioned in an audit report as unreasonable, unallowable, or unallocable. "Exceptions sustained" refers to DCAA recommendations or questioned costs resulting from contracting officer and contractor concurrence, contracting officer final decision, or litigation. "Net savings" refers to the actual savings to NASA realized from the exceptions sustained.

^c "Sustention rate" refers to the percentage of reported audit exceptions that were sustained by contracting officers; the 59.85 percent was computed as \$62,754 total exceptions sustained divided by \$104,856 total audit exceptions reported during FY 1997.

As discussed in the Quality of DCAA Services section of this report, DCAA conducted its first customer satisfaction survey of reimbursable customers during September 1996. A major public accounting firm, KPMG Peat Marwick, LLP, independently reviewed and validated the questionnaire and statistical sampling plan used for the survey. DCAA sent 200 questionnaires to 11 of its 27 reimbursable customers, which were all non-Defense departments and agencies.

DCAA received 125 responses to its *Customer Satisfaction Survey of Non-DOD Agencies*, a standard questionnaire for procurement officials, managers, and COs, designed to complete within 15 minutes. Using a ranking scale of 1.0 to 5.0, with 5.0 as the highest rating, survey respondents ranked the timeliness, quality, usefulness, and overall satisfaction of the various DCAA audit services provided; e.g., price proposal reviews, telephone rate requests, estimating and accounting system reviews, incurred cost audits, or defective pricing and operations audits.

As DCAA's largest reimbursable customer, NASA received 86 questionnaires and provided 55 responses to DCAA. For each questionnaire category, the NASA average rating was higher than the average of the 11 reimbursable customers surveyed. NASA respondents rated DCAA the highest in quality, overall satisfaction, usefulness, and timeliness with average ratings of 4.27, 4.25, 4.21, and 4.05, respectively. The following summary shows NASA responses by Center for each questionnaire category.

NASA Survey Summary Results

<u>Center</u>	<u>No. of Respondents</u>	<u>Timeliness</u>	<u>Quality</u>	<u>Usefulness</u>	<u>Overall Satisfaction</u>
Ames Research Center	2	4.40	4.60	4.60	4.60
Goddard Space Flight Center	9	3.46	3.77	3.44	3.54
NASA Headquarters	2	4.83	4.67	4.67	4.83
Johnson Space Center	11	3.84	4.12	4.15	4.24
Kennedy Space Flight Center	8	4.23	4.43	4.40	4.37
Langley Research Center	3	3.50	3.88	4.00	3.88
Lewis Research Center	4	4.12	4.12	4.23	4.18
Jet Propulsion Laboratory	3	3.80	4.00	4.20	4.00
Marshall Space Flight Center	12	4.48	4.67	4.67	4.68
Stennis Space Center	1	5.00	5.00	5.00	5.00
NASA Average	55	4.05	4.27	4.21	4.25
Reimbursable Customers	125	3.87	4.08	4.08	4.03

The GSFC divisional instructions detailed below and the accompanying sample *Letter of Request for Pricing-Audit-Technical Evaluation Services* (NASA Form 1434) displayed on the following page are shown here as a best practice. While Form 1434 is used NASA-wide, the division developed the sample contents of *Services Requested* (Block 11) to use as examples of clearly defined requests.

Additional Information Request to DCAA Audit Request

In addition to the information requested on the NASA Form 1434, "Letter of Request for Pricing-Audit-Technical Evaluation Services," you are requested to address the following items in your audit report. Please contact our office on (301) 286-3764 if you have any questions about any of the information requested below.

1. Should your report recommend the use of indirect costs ceilings, please provide the actual indirect costs ceiling rates that you believe should be included in the contract.
2. Please provide cost realism information for all proposed cost categories and elements, including the basis for each recommendation. Such information and recommendations are solicited to aid in our development of what the contractor's "should or probable cost" will be to the Government should it be selected for contract award. "Should or probable cost" is defined as the Government's forecast of what the contractor's incurred costs will be to perform the contract consistent with the technical approach proposed by the contractor.
3. Please provide the current status (i. e., approved, under review, never reviewed, approved with conditions, etc.) for all business systems of this company or organization. Please include the certifying or approving official's name(s) and the date(s) of certification or approval. Please indicate whether the systems are those of the entity proposed, a parent organization, etc.
4. Please provide historical escalation rates for labor, other direct costs, indirect costs, etc. and your recommendations for escalation of these elements of cost. Please include with your recommendations the basis for each recommendation, such as company history, this proposal, and any other information available to your office. If available, also provide the contractor's actual escalation rates for the past five contractor fiscal years. For certifications or approvals that fall outside your purview, please provide the name of the responsible Government audit office, including the name and phone number of the responsible official.
5. Please provide information regarding the realism of the contractor's proposed indirect cost pools, your recommendations, and the bases for your recommendations.
6. For Forward Pricing Rate Agreements, please provide the duration for which the FPRA and associated rates are approved (i. e., this rate is the approved rate until January 2, 1995).
7. If no FPRA's are available for any cost category or element, please include with your recommendation any historical information and information from the last proposal from this contractor.
8. In reviewing the contractor's proposed professional compensation package, please provide a comparison to other companies in the industry and in the region.
9. Please provide an analysis of the contractor's past proposed labor rates and costs as compared to its incurred labor rates and costs on competitive contracts it has won in the past. Also include a similar analysis of the contractor's past proposed indirect costs and rates as compared to its incurred indirect costs and rates.
10. Some contractors have begun to transfer some costs from their historical location in indirect cost pools into direct costs. Please provide an analysis of these transferred costs, showing what costs have been transferred, the time periods during which they were/are transferred, and whether such costs have migrated between indirect and direct cost pools over the past five years.
11. Should you have any questions about this request, please contact _____, at (301) 286-_____.

National Aeronautics and Space Administration LETTER OF REQUEST FOR PRICING-AUDIT- TECHNICAL EVALUATION SERVICES		1. NASA CONTROL NO -10-001	2. SERVICING OFFICE CONTROL NO
3. TO: DCAA ATTN: Jane Smith Main Street City, ST ZIP		4. FROM: NASA GODDARD SPACE FLIGHT CENTER ATTN: CODE 910.2/LINDA LANDINI GREENBELT, MD 20771	
5. PRIME CONTRACTOR OR SUBCONTRACTOR NAME AND ADDRESS XYZ COMPANY STREET CITY/ST ZIP		6. CONTRACT NO.	7. PROPOSAL, RFP OR MODIFICATION REFERENCE, IF NOT ENCLOSED. (SEE ITEM 12) RFP5-61102/252
		8. CONTRACT TYPE CPIF	9. DATE REQUIRED JUNE 10, 1996 - VERBAL JUNE 17, 1996 - WRITTEN
10. NASA CONTACT FOR THIS REQUEST (Name, code and phone) Linda Landini, Code 910.2, (301)286-5605; FAX (301)286-1762			
11. SERVICES REQUESTED: THIS IS A COMPETITIVE PROCUREMENT. NASA SOURCE EVALUATION BOARD PROCEDURES APPLY. <i>Provide cost realism review for the Atmospheric Pollution, Aerosol, and Chemistry Satellite (APACS) proposal for the period 1/1/97 - 12/31/02 as follows:</i> a. Provide direct and indirect rates and any other factors data. Include reasonableness of proposed rate of escalation. b. Review material unit prices and costs for reasonableness. Provide reasonableness of proposed material escalation. Provide scraps and spares factors. Provide any price differences for materials. c. Provide statement that CAS disclosure statement is adequate. d. Provide information regarding any CAS noncompliances. e. Provide comment on the adequacy/approval of contractor's business systems; such as accounting, compensation, estimating, purchasing, etc. f. Provide verbal report by required date. <i>GSFC will directly order assist audit for subcontractors over \$1M.</i> <i>Technical evaluation will be performed by GSFC. NASA's policy precludes providing a copy to the cognizant field offices.</i>			
12. ENCLOSURES (identify) Proposals shall be forwarded directly to DCAA by the offeror.			
13. INFORMATION COPIES SENT TO (Organization and Location): DCAA, John Doe			
14. ATTENTION RECEIVING OFFICE--Please acknowledge below and return one copy to the requesting office within 5 work days. If required date in item 9 above cannot be met, please contact the individual named in item 10.			
15. TYPED NAME OF REQUESTOR Linda V. Landini		16. SIGNATURE OF REQUESTOR	17. DATE SIGNED
THE ABOVE REQUEST FOR SERVICES IS HEREBY ACKNOWLEDGED			
18. DATE SERVICES WILL BE FURNISHED		19. CONTACT FOR THIS REQUEST (Name & phone)	20. REFER INQUIRIES TO THE FOLLOWING CONTROL NO.
21. TYPED NAME		22. SIGNATURE	23. DATE SIGNED

NASA FORM 1434

- Recommendation 1** To improve the usefulness of DCAA audit services and reports, the Associate Administrator for Procurement should coordinate the reporting preferences of COs with DCAA and consider NASA-wide use of the procedure used by GSFC to request DCAA services.
- Recommendation 2** The Associate Administrator for Procurement should coordinate with DCAA to assess the level of PLA support services needed for each NASA Center and to obtain a full-time onsite PLA for MSFC.
- Recommendation 3** The Associate Administrator for Procurement should re-emphasize to COs the responsibility to coordinate negotiation results and provide copies of PNMs to DCAA PLAs or cognizant DCAA auditors, as appropriate.
- Recommendation 4** The Associate Administrator for Procurement should assess adopting the DoD IPT concept and evaluate the value of requesting DCAA services during proposal preparation and negotiation phases on a case-by-case basis.
- Recommendation 5** For continued improvement of NASA's contract closeout activities, the Associate Administrator for Procurement should:
- (a) fully assess the operational impact of abolishing the Centers' pricing and central closeout offices;
 - (b) evaluate the current closeout processes and procedures to determine their effectiveness;
 - (c) evaluate the potential benefits of using contractor support personnel to improve closeout activities; and
 - (d) consider adopting the GSFC closeout guide for all Centers.
- Recommendation 6** The Associate Administrator for Procurement should:
- (a) identify data fields needed in DCAA management information and job accounting systems to develop objective metrics and performance measurements relevant to DCAA services and possibly compute ROI ratios for DCAA costs;
 - (b) coordinate with DCAA to establish information NASA needs from available DCAA system reports to improve NASA's oversight of the use of DCAA services and develop ROI ratios, other metrics, or performance measurements to use for GPRA requirements; and
 - (c) consider implementation on a NASA-wide basis the JSC or similar procedure for tracking the DCAA workload and reports.

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



SEP. 17 1998

Reply to Attn of **HK**

TO: W/Assistant Inspector General for Partnerships and Alliances
FROM: HK/Director, Contract Management Division
SUBJECT: Code H Response to OIG Draft Audit Report on Review of NASA's
Use of Audit Services Provided by the DCAA, No. P&A-98-001

Enclosed is our response to the subject report dated August 27, 1998.

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

A handwritten signature in black ink that reads "Scott Thompson".

Scott Thompson

Enclosure

HEADQUARTERS OFFICE OF PROCUREMENT

RESPONSE TO

OFFICE OF INSPECTOR GENERAL (OIG)

DRAFT REPORT NO. P&A-98-001

DATED AUGUST 28, 1998

REVIEW OF NASA'S USE OF AUDIT

SERVICES PROVIDED BY DCAA

DATE: SEP. 17 1998

Code H Response to OIG 8/27/98
Draft Report, P&A-98-001
Page 2

Code H's narrative response is provided as follows:

OIG Recommendation No. 1:

To Improve the usefulness of DCAA audit services and reports, the Associate Administrator for Procurement should coordinate the reporting preferences of COs with DCAA and consider NASA-wide use of the procedure used by GSFC to request DCAA services.

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

Although we concur with the intent of the recommendation, we do not concur with the portion of the recommendation which indicates that Code H "should coordinate the reporting preferences of COs". Depending on the uniqueness of the procurement, individual COs may have different reporting preferences regarding their specific audit. The DCAA Contract Audit Manual (CAM), Part 10-204 provides for a standard format; however, it also provides for the inclusion of other elements depending on the type of audit performed. Therefore, Code H feels that the COs in conjunction with the DCAA auditors should coordinate reporting preferences as they see fit. As to the consideration of using the GSFC procedures NASA-wide to request DCAA services, we feel that promulgating best practices is a positive idea, and we will ensure that the GSFC procedures are made available to all the NASA Center Procurement Offices for their review and implementation as appropriate. It should be noted that other Centers, e.g. JSC, also use a modified NASA Form 1434 when requesting DCAA services. This action will be accomplished as indicated below:

CORRECTIVE ACTION OFFICIAL: HK/J. Horvath
CORRECTIVE ACTION CLOSURE OFFICIAL: HK/S. Thompson
PROJECTED CORRECTIVE ACTION CLOSURE DATE: December 30, 1998

OIG Recommendation No. 2:

The Associate Administrator for Procurement should coordinate with DCAA to assess the level of PLA support services needed for each NASA Center and to obtain a full-time onsite PLA for MSFC.

Code H Response to Recommendation No. 2: CONCUR

Code H will assess the need for PLA support services at the NASA Centers and coordinate with DCAA should it be determined that one or more centers require such services.

CORRECTIVE ACTION OFFICIAL: HK/J. Horvath
CORRECTIVE ACTION CLOSURE OFFICIAL: HK/S. Thompson
PROJECTED CORRECTIVE ACTION CLOSURE DATE: January 31, 1999

OIG Recommendation No. 3:

The Associate Administrator for Procurement should re-emphasize to COs the responsibility to coordinate negotiation results and provide copies of PNMs to DCAA PLAs or cognizant DCAA auditors, as appropriate.

Code H Response to Recommendation No. 3: CONCUR

Although we are sure that the majority of the NASA Center Procurement Offices are complying with this requirement as outlined in FAR 15.406-3(b), we will re-emphasize this requirement in the upcoming Procurement Officer's Conference (week of 10/25/98) with the Center Procurement Officers. Therefore, we consider this recommendation closed.

OIG Recommendation No. 4:

The Associate Administrator for Procurement should assess adopting the DOD IPT concept and evaluate the value of requesting DCAA services during proposal preparation and negotiation phases on a case-by-case basis.

Code H Response to Recommendation No. 4: PARTIALLY CONCUR

In reviewing the text leading up to this recommendation, the implication was made that NASA rarely requested available DCAA services for assistance during

Page 4

contract proposal development and negotiations and referenced the CAM 15-305.6 for arranging DCAA participation. It should be noted that this reference deals with the use of **PLA services** and that not all NASA Centers have PLAs available to them. Also, reference is made to FAR 15.805-1 which provides the CO with discretion as to who should attend negotiations. The current version of FAR Part 15, specifically 15.406-3(a)(3) only requires that the PNM document the persons participating in the negotiation. Also, NFS 1815.406-170 (a) provides that the PPM include the Government negotiation team members. Based on the above, and absence of any other regulations or guidelines, it is evident that the implication is that COs can determine the makeup of their negotiation team, including DCAA auditors. In addition, we recognize the possible benefits of including a DCAA presence on NASA negotiation teams, however, it would appear that these benefits would only be realized on a few, visible procurements, with major contractors. In fact, your report recognizes this by setting forth the DCAA involvement in the USA novation, etc. In other words, use of DCAA would most likely be only beneficial in the larger dollar value procurements and only in these cases would DCAA have the time and resources to participate. Notwithstanding the above, we will assess the DOD IPT concept and evaluate the value of requesting DCAA services during proposal preparation and negotiation phases on a case-by-case basis.

CORRECTIVE ACTION OFFICIAL:	HK/J. Horvath
CORRECTIVE ACTION CLOSURE OFFICIAL:	HK/S. Thompson
PROJECTED CORRECTIVE ACTION CLOSURE DATE:	January 31, 1999

OIG Recommendation No. 5:

For continued improvement of NASA's contract closeout activities the Associate Administrator for Procurement should: (a) fully assess the operational impact of abolishing the Centers' pricing and central closeout offices; (b) evaluate the current closeout processes and procedures to determine their effectiveness; (c) evaluate the potential benefits of using contractor support personnel to improve closeout activities; and (d) consider adopting the GSFC closeout guide for all centers.

Code H Response to Recommendation No. 5: H ACKNOWLEDGES COMMENTS

Although Code H appreciates the comments by the OIG on the NASA closeout process, we were under the perception that this audit was for the purposes of performing a review on the services being provided by DCAA to NASA. This recommendation deviates from that intent and addresses NASA center

Page 5

management decisions on the organization of their closeout activities. Although while we appreciate the comments by the OIG on possible ways to improve the closeout process we believe that the Centers should continue to have the prerogative to determine the organization that best meets their individual needs. Also, Code H has been cooperating with DCAA on an annual basis in the "Defense Logistics Agency (DLA) Initiative" which works toward the elimination of the large backlog of completed contracts to be closed. This initiative allows customer identification of contracting actions that are physically complete and awaiting final audit, and helps DCAA direct their audit efforts toward those contractors with the largest number of overage contracts or outstanding contract value. Also, a number of our centers are using contractor support in the closeout area and have been for a number of years. As to closeout effectiveness, Code H has been tracking the agency closeout activity since FY 1995 and closeouts continue to decrease. For example, total dollars in closeout in FY 1995 were \$900million and as of 6/30/98, total closeout dollars are \$503million. Code H is aware of the need for performing closeouts as rapidly as possible and we will continue to monitor this area in order to ensure that result. As to your idea of adopting the GSFC closeout guide for all the centers, we will ask the GSFC Procurement Officer to make the guide available to all the NASA Procurement Officers for review and consideration based on their own resources and organizational structure. Based on the above, we consider this recommendation to be closed.

OIG Recommendation No. 6:

The Associate Administrator for Procurement should: (a) identify data fields needed in DCAA management information and job accounting systems to develop objective metrics and performance measurements relevant to DCAA services and possibly compute ROI ratios for DCAA costs; (b) coordinate with DCAA to establish information NASA needs from available DCAA system reports to improve NASA's oversight of the use of DCAA services and develop ROI ratios, other metrics, or performance measurements to use for GPRA requirements; and (c) consider implementation on a NASA-wide basis the JSC or similar procedure for tracking the DCAA workload and reports.

Code H Response to Recommendation No. 6: PARTIALLY CONCUR

- (a) Code H understands the importance of metrics in measuring performance; however, we do not agree that metrics that measure ROI ratios for DCAA costs would be beneficial to NASA. Measurements that address the effectiveness, quality, and timeliness of the services that DCAA provides to NASA would be more beneficial and allow us to determine where improvements, if any, need to be made.

Page 6

- (b) Code H will coordinate with DCAA to see what information is available to improve NASA's oversight of DCAA services.
- (c) Code H has a tracking system (Corrective Action Tracking Systems/CATSII) which is an agency-wide system used by all Centers. This system was implemented as a result of a prior GAO report recommendation. This system tracks all reportable DCAA audits. In addition, DCAA provides Code H with a monthly report of any new audits that are considered reportable. The centers have individual systems for tracking audits that are not reportable. At the present time, we do not see a need to establish additional tracking systems, especially in this time of reduced resources and budget. In fact, it is very improbable that Code AO would approve the implementation of another agency-wide information system for this purpose.

CORRECTIVE ACTION OFFICIAL:	HK/J. Horvath
CORRECTIVE ACTION CLOSURE OFFICIAL:	HK/S. Thompson
PROJECTED CORRECTION ACTION CLOSURE DATE:	January 31, 1999



INSPECTOR GENERAL
DEPARTMENT OF DEFENSE
400 ARMY NAVY DRIVE
ARLINGTON, VIRGINIA 22202

SEP 15 1998

Office of the Inspector General
National Aeronautics and Space Administration
Attention: Mr. Lewis D. Rinker
Headquarters
Washington, DC 20546-0001

Dear Mr. Rinker:

We appreciate the opportunity to comment on the draft report on "Review of NASA's Use of Audit Services Provided by the Defense Contract Audit Agency Assignment No. P&A-98-001" and offer the following clarifying comments for your consideration.

Overall Purpose of Review, page 1. The purpose stated is to evaluate the use, benefits, and effectiveness of audit services provided by the Defense Contract Audit Agency (DCAA) to the National Aeronautics and Space Administration (NASA). However, the report does not discuss reviewing the contracting officer's use of the audit results that would assess the effectiveness and benefit of the audits. There is no discussion of reviewing price negotiation memorandums or other documents to determine how the contracting officials used the audit reports. We suggest the wording be clarified if this part of the evaluation was not performed by the Office of the Inspector General (OIG), NASA.

Background in the Executive Summary and on page 4. The DCAA is a separate Defense Agency under the direction, authority, and control of the Under Secretary of Defense (Comptroller).

Coordination Activities, page 3. The OIG, Department of Defense (DoD), has statutory authority to establish contract audit policy and perform oversight of DCAA. Although we agree that no OIG, DoD, reviews related specifically with services provided to NASA, our evaluations generally considered the adequacy of DCAA coverage for defense and non-defense contracts. Therefore, our evaluations of DCAA coverage of incurred costs, Cost Accounting Standards, and systems reviews would include NASA contracts.

Benefits of DCAA Presence at Negotiations, page 14. We disagree that the auditor's presence at negotiations could create a "chill factor." In DoD, the auditor is considered a member of the Government negotiating team, just like others technical specialists, who assists the contract negotiator. We agree that the DCAA presence at major contract negotiations could be beneficial in obtaining the best contract price.

Recommendation 4, page 14. The use of Integrated Product Teams (IPTs) has been used at major contractor locations where DCAA is in residence. We suggest you add at the end of the recommendation, major procurements where DCAA is in residence. This will clarify the use of IPTs.

Thank you for the opportunity to comment on the draft report. Please contact Mr. Donald E. Davis, Deputy Assistant Inspector General for Audit Policy and Oversight, on (703)604-8758 if you have any questions.

Sincerely,



for
Robert J. Lieberman
Assistant Inspector General
for Auditing



IN REPLY REFER TO

DEFENSE CONTRACT AUDIT AGENCY
8725 JOHN J. KINGMAN ROAD, SUITE 2135
FORT BELVOIR, VA 22060-6219

OAL 730.5.62.101

21 SEP 1998

Lewis D. Rinker
Assistant Inspector General
for Partnerships and Alliances
National Aeronautics and Space Administration, HQ
3rd and E Streets
Washington, DC 20546-0001

Dear Mr. Rinker,

Thank you for the opportunity to comment on your draft report "Review of NASA's Use of Audit Services Provided by the Defense Contract Audit Agency" dated 27 August 1998. We were especially appreciative of the very favorable and positive way you portrayed DCAA and the services that we provide. It was obvious from reading your report that you value our audit services.

We would like to point out one item which we believe can be paraphrased in a more favorable light. On page 14 of your draft report there is a comment that the DCAA auditor's presence at contract negotiations could create a "chill factor." We recognize that the contractor may have reservations about DCAA's presence at the negotiation table. However, when the overall objective is to obtain the best contract price, we would prefer that the auditor be regarded as an integral member of the procurement team and not as an obstacle to the negotiation process.

As always, we shall strive to anticipate your needs and to maintain a healthy relationship with those who depend the most on our service, your procurement community. It was a pleasure working with you and the members of your staff. If you have any questions, or if we can be of further assistance, please contact Linda Ebersbach, Program Manager, Audit Liaison Division. She can be reached at 703-767-2286.

Sincerely,

Handwritten signature of Earl J. Newman in cursive script.
Earl J. Newman
Assistant Director
Operations

Lewis D. Rinker, Assistant Inspector General for Partnerships and Alliances
Debra A. Guentzel, Director, Partnerships and Alliances
Kenneth C. Wood II, Manager, Contract Audit Program

National Aeronautics and Space Administration (NASA) Headquarters

AD/Acting Deputy Administrator
B/Chief Financial Officer
B/Comptroller
G/General Counsel
H/Acting Associate Administrator for Procurement
I/Associate Administrator for External Relations
J/Associate Administrator for Management Systems and Facilities
JM/Management Assessment Division
L/Associate Administrator for Legislative Affairs
M/Associate Administrator for Space Flight
R/Associate Administrator for Aeronautics and Space Transportation Technology
S/Acting Associate Administrator for Space Science
U/Associate Administrator for Life and Microgravity Sciences and Applications
Y/Associate Administrator for Earth Science
Z/Acting Associate Administrator for Policy and Plans

NASA Field Installations

Director, Ames Research Center
Acting Director, Dryden Flight Research Center
Director, Goddard Space Flight Center
Director, Jet Propulsion Laboratory
Director, Lyndon B. Johnson Space Center
Director, John F. Kennedy Space Center
Director, Langley Research Center
Director, Lewis Research Center
Director, George C. Marshall Space Flight Center
Director, John C. Stennis Space Center
Manager, Michoud Assembly Facility
Manager, NASA Management Office - JPL
Manager, JSC White Sands Test Facility

NASA Offices of Inspector General

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

Department of Defense Organizations and Individuals

Under Secretary of Defense (Comptroller)

Director, DCAA

Director, DLA

Department of Defense Organizations and Individuals (Cont'd)

Commander, DCMC

Inspector General

Assistant Inspector General for Auditing

Other 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

Special Counsel, Subcommittee on National Security, International Affairs, and Criminal Justice

Professional Assistant, Subcommittee on Science, Technology, and Space c/o Tom Cooley

Chairman and Ranking Minority Member - Congressional Committees and Subcommittees

Senate Committee on Appropriations

Senate Subcommittee on VA-HUD-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-Independent Agencies

House Committee on Government Reform and Oversight

House Committee on Science

House Subcommittee on Space and Aeronautics

Congressional Member

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

ACO	Administrative Contracting Officer
ARC	Ames Research Center
AIGA	Assistant Inspector General for Auditing
AIGP&A	Assistant Inspector General for Partnerships and Alliances
CAS	Cost Accounting Standards
CO	Contracting Officer
DCAA	Defense Contract Audit Agency
DCAAM	Defense Contract Audit Agency Manual
DCMC	Defense Contract Management Command
DFRC	Dryden Flight Research Center
DoD	Department of Defense
DoDD	Department of Defense Directive
DoDIG	Department of Defense Inspector General
FACS	Financial and Contractual Status
FAR	Federal Acquisition Regulation
FY	Fiscal Year
GAO	General Accounting Office
GPRA	Government Performance and Results Act
GSFC	Goddard Space Flight Center
HQ	Headquarters
IG	Inspector General
IPT	Integrated Product Team
JPL	Jet Propulsion Laboratory
JSC	Johnson Space Center
KSC	Kennedy Space Center
LaRC	Langley Research Center
LeRC	Lewis Research Center
MFR	Memorandum for Record
MOU	Memorandum of Understanding
MSFC	Marshall Space Flight Center
NASA	National Aeronautics and Space Administration
NHB	NASA Handbook
NMO	NASA Management Office
NPD	NASA Policy Directive
NPG	NASA Procedures and Guidelines
NPR	National Performance Review
NFS	NASA FAR Supplement
OFPP	Office of Federal Procurement Policy
OIG	Office of Inspector General
PLA	Procurement Liaison Auditor
PNM	Price Negotiation Memorandum
ROI	Return on Investment
SSC	Stennis Space Center
ZBR	Zero Base Review

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