



Office of Inspector General
Semiannual Report
October 1, 1995 - March 31, 1996

Office of Inspector General

The Honorable Daniel S. Goldin
Administrator
National Aeronautics and
Space Administration
Washington, DC 20546

Dear Mr. Goldin:

I am pleased to submit to you my second semiannual report on the activities and accomplishments of the Office of Inspector General (OIG) for the period which ended March 31, 1996. This report is required by the Inspector General Act of 1978, as amended, and is to be forwarded by you to the Congress.

Our accomplishments are summarized in the Statistical Highlights and Executive Summary sections, and have been realized in part with the support of NASA managers. Significant matters are grouped in this report by major program area.

The OIG recognizes the downsizing and budgetary challenges facing the Agency and is dedicated to helping create a NASA that works better and costs less. To respond to these demands, we established two new OIG functional areas--partnerships and alliances, and inspections and assessments. Through these two programs, we will be working with NASA management and other Federal entities to identify ways to combine resources, technical knowledge, capabilities, and facilities to provide optimal return on limited funds for aerospace activities. We also have reorganized substantially the audit program to be responsive to the enterprises and centers of excellence established by NASA's strategic plan. Along with these changes, we strive to provide timely feedback to our partners and program managers.

I appreciate the cooperation and consideration extended to us by you and NASA management at all levels, and look forward to addressing the challenges and opportunities which face the Agency.

Sincerely,

Roberta L. Gross

Inspectors General Vision Statement

We are agents of positive change striving for continuous improvement in our agencies' management and program operations and in our own offices.

Mission and Authority

The Inspector General Act of 1978, as amended, creates independent audit and investigative units, called Offices of Inspector General (OIGs), at 61 Federal agencies. The mission of the OIGs, as spelled out in the Act, is to:

- Conduct and supervise independent and objective audits and investigations relating to agency programs and operations.
- Promote economy, effectiveness and efficiency within the agency.
- Prevent and detect fraud, waste and abuse in agency programs and operations.
- Review and make recommendations regarding existing and proposed legislation and regulations relating to agency programs and operations.
- Keep the agency head and the Congress fully and currently informed of problems in agency programs and operations.

To ensure objectivity, the IG Act empowers IGs with:

- Independence to determine what reviews to perform.
- Access to all information necessary for the reviews.
- Authority to publish findings and recommendations based on the reviews.

Statement of Reinvention Principles

We Will:

- Work with our agency head and the Congress to improve program management.
 - Maximize the positive impact and ensure the independence and objectivity of our audits, investigations and other reviews.
 - Use our investigations and other reviews to increase Government integrity and recommend improved systems to prevent fraud, waste and abuse.
 - Be innovative and question existing procedures and suggest improvements.
 - Build relationships with program managers based on a shared commitment to improving program operations and effectiveness.
 - Strive to continually improve the quality and usefulness of our products.
 - Work together to address Government-wide issues.
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Reporting Requirements

The Inspector General Act of 1978, as amended, requires the Inspector General to keep the Administrator and Congress fully and currently informed about problems and deficiencies in NASA's operations and the necessity for corrective action. In addition, the Act specifies that semiannual reports will be provided to the Administrator by April 30 and October 31, and to the Congress 30 days later. The Administrator may transmit comments to Congress along with the report, but may not change any part of the report.

The table below cross-references this report to the reporting requirements prescribed in the Inspector General Act of 1978, as amended by Public Law 100-504.

<u>Act Citation and Requirement</u>	<u>Page(s)</u>
Section 4(a)(2) Review of Legislation and Regulations	39
Section 5(a)(1) Significant Problems, Abuses and Deficiencies	17-22
Section 5(a)(2) Recommendations With Respect to Significant Problems, Abuses and Deficiencies	17-22
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Section 5(a)(5) Summary of Instances Where Information and 6(b)(2) Was Unreasonably Refused or Not Provided	None
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Section 5(a)(9) Statistical Table on Management Decisions on Recommendations That Funds Be Put to Better Use	26
Section 5(a)(10) Summary of Each Audit Over 6 Months Old For Which No Management Decision Has Been Made	None
Section 5(a)(11) Significant Revised Management Decisions	25
Section 5(a)(12) Significant Management Decisions With Which the Inspector General Disagrees	25

AUDITS

<u>Activities</u>	OIG Reports Issued	11
	DCAA Reports Referred to NASA Management by OIG	17
	Other External Reports Referred to NASA Management by OIG	2
	Management Letters Issued	7
<u>Impact</u>	Recommended Better Use of Funds	
	OIG	\$508.5 million
	DCAA	0
	Other External	0
	TOTAL	\$508.5 million
	Questioned Costs	
	OIG	\$ 0
	DCAA	9.4 million
	Other External	0
	TOTAL	\$ 9.4 million

INVESTIGATIONS

<u>Activities</u>	Cases Opened	114
	Cases Closed	126
	Cases Pending (315 criminal and 29 noncriminal)	344
	Hotline Complaints	
	Received	40
	Referred to Audits or Investigations	35
	Referred to NASA Management	0
	Referred to Other Agencies	0
	No Action Taken	5
<u>Impact¹</u>	Indictments/Informations	16
	Convictions/Plea Bargains/Pretrial Diversions	18
	Cases Referred for Prosecution	19
	Cases Declined	5
	Cases Referred to NASA Management for Action	29
	Cases Referred to Other Agencies for Action	3
	Suspensions/Debarments	
	Individuals	9
	Firms	6
	Administrative Actions	
	NASA Employees	18
	Contractor Employees	7
	Recoveries	\$18.5 million
	Funds Put to Better Use	<u>1.7 million</u>
	TOTAL OIG Investigations Dollar Impact	\$20.2 million

¹ Includes results from joint investigations.

This semiannual report summarizes the audit, investigation, and other activities performed by the Office of Inspector General (OIG) during the 6-month period which ended March 31, 1996, pertaining to programs and operations of the National Aeronautics and Space Administration (NASA). The report is required by law for the purpose of keeping the Administrator and the Congress currently and fully informed.

During this reporting period, OIG audits and investigations have had the following measurable dollar impact:

AUDITS	
• Better Use of Funds:	\$508.5 million
• Questioned Costs:	0
• Total Audit Impact:	\$508.5 million
• Cost Impact Per Auditor:	\$5.4 million
INVESTIGATIONS	
• Recoveries:	\$18.5 million
• Better Use of Funds:	\$1.7 million
• Indictments:	16
• Convictions:	18
• Cost Impact Per Agent:	\$.4 million

AUDITS

- NASA could save about \$450 million if it transfers orbiter vehicle maintenance and modification activities from Palmdale, California, to Kennedy Space Center, Florida. (Page 20)
- The Earth Observing System program could save \$55 million by closing three archive centers and could potentially put to better use \$3.1 million if certain equipment is not procured. (Page 22)
- More than \$390,000 can be saved by providing on-Center office space to contractor employees. (Page 19)
- NASA should discontinue consolidating aircraft at a Center until it completes a full cost and programmatic assessment. (Page 17)
- The OIG rendered an unqualified opinion on NASA's FY 1995 financial statements. (Page 17)

INVESTIGATIONS

- The Government recovered over \$3.3 million from a manufacturer who submitted bills for the same research studies to more than one Government agency. (Page 19)
- A company and two officials were indicted on charges of improperly importing strainers and check valves used by NASA and the Navy. (Page 21)
- A contractor pled guilty to charges of falsifying certificates of conformance to represent that fasteners were tested according to specifications. (Page 20)
- A company and two officials agreed to repay the Government \$530,000 and relinquish claims to \$1.5 million after it was disclosed that they had received payment from several agencies for research they previously performed and for which they had been paid by other agencies. (Page 19)
- NASA spent nearly \$100,000 to implement remedial and corrective actions after a hacker illegally gained access to computers at a naval installation and two NASA Centers. (Page 22)

INSPECTIONS AND ASSESSMENTS

- We initiated inquiry into the use of retention and relocation bonuses. (Page 15)
- We initiated inquiry into the worker's compensation program. (Page 15)

PARTNERSHIPS AND ALLIANCES

- We created an OIG review into NASA aerospace cooperative activities. (Page 14)
- We are seeking coordination with OIG offices whose agencies have a partnership role with NASA in aerospace activities. (Page 14)

High Risk Areas and Material Weaknesses

The OIG continues to focus attention on material weaknesses and areas of significant concern reported under the Federal Managers' Financial Integrity Act (FMFIA) and areas of material nonconformance considered by the OIG to be reportable under the FMFIA Act.

FINANCIAL MANAGEMENT SYSTEMS

On January 19, 1996, the Administrator reported progress the Agency made toward correcting internal control weaknesses. He reported that the Agency completed corrective action on one material weakness: inadequate control over institutional contracting practices; and two material nonconformances: financial management reporting/general ledger, and valuation of Government-owned/contractor-held property. Although we did not perform a detailed audit, we are satisfied that the Agency's actions address the weaknesses.

The Administrator's report also stated that a previously reported high risk area, financial systems, and a material nonconformance area, budgetary controls, were merged into a new financial management systems material weakness. We will stay informed of management's progress towards closing this material weakness.

Relative to the financial management reporting/general ledger material nonconformance, we are aware that high level emphasis has been placed on insuring that reconciliations of subsidiary accounts to control accounts are taking place. The valuation of Government-owned/contractor-held property is still a concern to the OIG. In a memorandum, dated October 17, 1995, to the Chief Financial Officer, the OIG noted its concerns with the lack of available supporting data for millions of dollars of work-in-process at a major NASA contractor facility. The memorandum also noted that contractor-held property reports were not always accurate.

Introduction

The Agency was created by the National Aeronautics and Space Act of 1958. The Act provides that the Nation's aeronautical and space activities shall be the responsibility of, and shall be directed by, a United States civilian agency, except that activities primarily associated with defense shall be the responsibility of the Department of Defense (DOD). Research and development activities of NASA are directed and managed from Headquarters in Washington, DC, eight field installations, the Jet Propulsion Laboratory (a Federally-funded research and development facility), and several component installations. Research and development work managed and funded by NASA is largely executed by contractors. In fiscal year (FY) 1996, NASA employs nearly 21,050 civil servants and no more than 39,000 on or near site support services contractor employees. Under a continuing resolution, NASA's budget authority (to obligate Agency funds) for FY 1996 is at an annual rate equivalent to approximately \$13.2 billion.

ROLE OF THE INSPECTOR GENERAL

The NASA OIG, established by the Inspector General Act of 1978 (PL 95-452), as amended, performs a balanced program of audits, investigations, and other activities to assist NASA management in promoting economy, efficiency, and effectiveness in the administration of its programs and operations, and preventing and detecting fraud and mismanagement. With over 89.6 percent of the Agency's total obligations allocated to procurement, a significant amount of OIG activity is directed toward procurement effectiveness and irregularities, and contract fraud. OIG investigators and auditors conduct independent investigations and audits of NASA's programs and operations. The OIG works jointly with other Offices of Inspector General, the Federal Bureau of Investigation (FBI), the Defense Contract Audit Agency (DCAA), and other investigative and audit entities when concurrent jurisdiction exists.

The OIG is organized into four major units: Audits, Investigations, Inspections and Assessments, and Partnerships and Alliances. OIG personnel primarily are located at NASA Headquarters and at nine NASA installations. Of the OIG's authorized staffing level, approximately 81 percent are assigned to its field offices. Working under the general direction of the Inspector General (IG), the Assistant Inspectors General for Auditing (AIGA);

Investigations (AIGI); Inspections and Assessments (AIGIA); and Partnerships and Alliances (AIGPA) are responsible for the development, implementation, and management of their respective programs. During this reporting period, an inspections and assessments function was established, Debra A. Guentzel was appointed as the AIGA, David M. Cushing was appointed as the AIGIA, and Lewis D. Rinker was appointed as the AIGPA.

The OIG organizational structure has changed dramatically during this period. In February, we reorganized the OIG audit function along programmatic lines. The changes are designed to create an organization that operates more efficiently and provides better services to the Agency. Program directors oversee OIG-wide audit operations and coordinate activities with audit field office managers. The investigations program is managed by three Regional Inspectors General for Investigations (for the northeast, southeast and western geographic areas) who report to the AIGI. All programmatic areas are matrix-supported to provide maximum flexibility for adapting to future changes that may occur in NASA's programs and operations.

The OIG has its own legal counsel, and personnel and budget authority.

AUDITS

Section 5(a) of the Inspector General Act, as amended, delineates those areas to be covered in the semiannual report including identification of significant problems, abuses, and deficiencies relating to the agency's programs and operations and the recommendations made in the current reporting period with respect to those issues. In 1980, the Senate Committee on Appropriations directed the Inspector General to include in the semiannual report a summary of unresolved audits.

OIG audits evaluate the economy, efficiency, and effectiveness with which NASA programs and operations are performed and managed at all NASA installations and by NASA contractors and grantees. During this period, the OIG issued 11 audit reports that addressed program and operational areas with high vulnerability of risk and impact on NASA operations, internal control weaknesses, and other management deficiencies. Appendix I lists these reports. Because many of NASA's major contractors are also DOD contractors, the services of the DCAA are relied upon for most audits of contractors. The OIG, in coordination with the DCAA, has expanded its audit coverage of NASA contractors for many reasons, including: issues reported in OIG audits and investigations, the importance of contractors in performing NASA's mission, continued use of on-site contractors to provide support services to NASA, and the significant impact contractor data has on NASA's financial statements.

Audits of NASA grants and contracts at most educational and nonprofit institutions are performed by public or state auditors with cognizant Federal agency oversight. Audit reports provided to the OIG are reviewed, and those containing significant issues are referred to NASA management. Appendix II lists 17 DCAA and 2 external audit reports that were referred by the OIG to management during this period. Information on all DCAA reports issued and action taken by NASA management during the 6-month period is contained in Appendix III.

Management letters are used to quickly bring matters to the attention of NASA management. During this reporting period, the OIG issued seven such letters. These letters are described in the "Cooperation With Management" section below.

Chief Financial Officers (CFO) Act. The CFO Act of 1990 (PL 101-576) requires: (1) Federal agencies to produce certain financial statements beginning with FY 1991, and (2) the OIG of those agencies to audit those statements. To meet its responsibilities under the CFO Act, the OIG has a committed cadre of auditors performing financial audits.

INVESTIGATIONS

Sections 5(a)(1) and (2) of the Inspector General Act, as amended, delineate those areas to be reported in the semiannual report including identification of significant problems, abuses, and deficiencies relating to the agency's programs and operations and the recommendations made in the current reporting period with respect to those issues. Section 5(a)(4) specifies the inclusion of a summary of matters referred to prosecutive authorities and the prosecutions and convictions which have resulted.

OIG investigations originate from many sources, with about 60 percent resulting from information provided by NASA or contractor employees. OIG investigators develop and investigate cases having significant financial and programmatic impact. The OIG continues to focus investigative resources on preventing and detecting fraud and waste in NASA's procurement activities. The investigative caseload remains at a level that requires continual prioritization. Concerted efforts by the OIG to investigate cases with potentially significant impact have produced a consistent record of positive results.

During this reporting period, we enhanced our firearms training program to include mandatory quarterly qualifications, and instituted a physical fitness component for criminal investigators. Along with firearms training, we are providing refresher training in trial processes; Federal criminal and civil legal updates; interviewing techniques and policy; and law of arrest, search and seizure. This was done to better prepare the staff members for the increasing number of instances where deputation as Special Deputy U.S. Marshals has been necessary to perform the mission of this office. The enhanced training program will fully qualify the criminal investigators for deputation as the need arises.

LEGISLATIVE REVIEW

Section 4(a)(2) of the Inspector General Act, as amended, establishes the Inspector General's responsibility to review existing and proposed legislation and regulations relating to the programs and operations of the agency, and to make recommendations concerning their impact on those programs.

The OIG legal staff provides advice and assistance on a variety of legal issues and matters relating to the OIG's review of Agency programs and operations. The OIG Attorney-Advisor acts as the central official for the review and coordination of all legislation, regulations, Freedom of Information Act (FOIA) requests, and congressional and legal matters requiring OIG attention. The OIG legal staff provides advice and assistance to senior OIG management, staff auditors and investigators, and serves as counsel in administrative litigation in which the OIG is a party.

DEBT COLLECTION

The Senate Report accompanying the Supplemental Appropriations and Rescissions Act of 1980 (PL 96-304) requires Inspectors General to report amounts due the agency, and amounts overdue and written off as uncollectible.

Due to a change in Department of Treasury reporting requirements, data for the 6-month period which ended March 31, 1996, is not available. NASA's Financial Management Division provided data for the period which ended September 30, 1995. The receivables due from the public totaled \$50,949,328, of which \$816,414 is delinquent. The amount written off as uncollectible for the period October 1, 1994 through September 30, 1995, was \$65,641.

ADMINISTRATION

Sections 6(a)(6) and (7) of the Inspector General Act, as amended, delineate the Inspector General's personnel management authority, subject to the provisions of Title 5, United States Code. Section 6(a)(8) provides the Inspector General authority to enter into contracts and other arrangements for audits, studies, analyses and other services with public agencies and with

private persons, and to make payments as may be necessary to carry out the provisions of this Act. The Inspector General Act Amendments of 1988 provide a separate appropriation account for each OIG.

The OIG's internal administrative and support operations are directed and managed by the Director, Resources Management Division (RMD), who advises the IG and all other OIG managers and staff on administrative, budget, personnel, management, and oversees OIG adherence to management policies. Under the Director's guidance, the OIG exercises full, autonomous personnel and budget authority. The RMD provides OIG employees with technical and administrative support by coordinating and acquiring state-of-the-art electronic data processing and office automation equipment and capabilities.

During this reporting period, RMD was reduced in staff from 14 to 8 persons. It is primarily divided into divisions for personnel and resources. The personnel staff was reduced from four to the director and a staff specialist. Two specialists were reassigned to the Inspections and Assessments program. They will continue to provide performance appraisal, retirement, and overall personnel support to the OIG organization, as needed. With three fewer staff, the resources staff continues to provide budget, travel, training, procurement, property management, and special projects support. During the next reporting period, we plan to decentralize the management of travel, training, awards, overtime, and small purchases into four cost centers managed by the IG and three AIGs. This will properly match program management responsibilities with resources management. Overall funds control will continue to be provided by RMD.

One of RMD's accomplishments during this period was to plan and conduct in March a training conference in Silver Spring, Maryland, for 155 professional OIG employees. The conference afforded employees the opportunity to attend discipline-based training tracks as well as plenary sessions of topical presentations by NASA, industry, and legislative sources.

Cooperation With Management

The OIG maintained a balance between preserving its independence while forging a cooperative working relationship with NASA management. As such, we are reexamining our procedures and processes to become more collaborative as we work with NASA management. We continue using audit products such as management letters. These early warning letters provide management, on a real time basis, notice about emerging concerns so that the Agency can take early corrective action.

Another initiative is to expedite our review of referrals of administrative allegations brought to our attention that do not warrant further OIG activity. During this period, 14 such matters were referred. NASA managers reviewed the referrals and issued oral reprimands to 12 individuals and written reprimands to 7 individuals. Two other individuals resigned their positions. We believe the new procedure allows us to better prioritize use of our resources and affords NASA managers with information they need to manage their programs and staffs.

Following are other examples of OIG actions during this reporting period which demonstrate our commitment to use our expertise so that NASA management can perform more efficiently.

- Audit Coordination Process. We are leading an effort to establish at JPL, a major NASA contractor location, a coordinated approach for conducting audits between the OIG; the NASA Management Office (NMO); the DCAA; and a contractor's internal audit organization. When fully implemented, the process will include planning, coordinating, and monitoring audits at the contractor location to reduce audit overlap and duplication, and provide improved audit coverage.
- Consolidated Payroll Functions. NASA's payroll functions are being consolidated into one system located at the Marshall Space Flight Center. At the request of Center management, an OIG auditor is providing assistance and advice during the planning and implementation phases of the consolidated payroll system.
- Contract Language. The OIG determined that a contract for environmental testing was written to encourage a contractor to take excessive samples. We pointed out that NASA needed to protect itself in a cost plus/time and materials contract against allowing contractors the opportunity to bill NASA for excessive testing. The Center is considering ways to minimize future occurrences.
- Coordination with the NMO. The OIG has worked with the management office at a major NASA contractor location to coordinate efforts on the Combined Federal Campaign (CFC) and the required annual ethics training for all NASA employees. By selecting one employee to coordinate the CFC contributions for both offices, the time spent on this campaign was significantly reduced. Likewise, by providing ethics training to both offices at one session, the trainer's time and the time spent arranging a meeting time and location was greatly reduced.
- Data Base Access. To facilitate information retrieval, a Center gave the OIG on-line, read-only access to its mainframe data base. The data base includes financial, acquisition, accounting, equipment, and personnel data. Historically, the Center took several days to respond to the OIG's data requests; now the OIG has virtually instantaneous access to the data. There is no longer a need for Center

personnel to be involved in the data retrieval process. At another contractor location, the OIG requested and received on-line access to a contractor's accounting system. The contractor also gave us access to the management information system for a major NASA program being developed. OIG users received account numbers and passwords and have full read-only access to the system.

- Developmental Assignment of NASA Contracting Officer. A NASA contracting officer is on a 60-day developmental assignment to the OIG as part of the Women's Executive Leadership Program. She is tasked with reviewing and identifying areas of concern in the Small Business Innovation Research (SBIR) program as well as recommending approaches to address those concerns through OIG initiatives. The contracting officer will be the liaison with appropriate Center and Headquarters SBIR officials to assist the OIG in developing contacts. She will also develop training courses for OIG auditors and investigators to enhance communication skills with procurement officials and contracting officers.
- Exemption From Circular A-122 Cost Principles. As the cognizant audit agency for a NASA contractor who is subject to both the Federal Acquisition Regulation (FAR) and Office of Management and Budget (OMB) Circular A-122 cost requirements, the OIG provided guidance to NASA procurement officials on the contractor's request for exemptions from A-122 requirements. We took exception to the justifications provided by the contractor for exemption. We advised NASA procurement officials to obtain and review additional supporting data from the contractor, and to further analyze various cost and administrative issues we identified before acting on the contractor's request. We showed NASA management how the Government could be adversely affected cost-wise if an exemption was granted. Procurement representatives told us they plan to work with the contractor further to address and resolve our concerns.

- Facility Cost Recovery Policies. Managers at a NASA enterprise office indicated the enterprise could no longer afford to subsidize users of its test facilities due to significant budget reductions. To evaluate this concern, the OIG initiated an audit to evaluate the policies and procedures for recovering the operating costs of the enterprise's facilities. During the audit, NASA management requested our assistance in determining the appropriate type of agreement to use in establishing facility-use arrangements with non-NASA customers. We responded by providing an OIG-developed matrix that summarized and compared the various types of agreements used throughout NASA.
- Improved Selection and Award Process for Grants. During an audit of a specific scientific area, we noted that the selection and award process for certain grants was not being documented in accordance with Federal procurement regulations. We brought this matter to the attention of appropriate Headquarters and Center officials during the early stages of our audit. Since the selection and award of grants is an ongoing process that could not be delayed, NASA management officials wanted to initiate immediate corrective actions. Consequently, at management's request, we provided suggestions for improving the overall process and ensuring future awards are properly documented.
- International Space Station Audit Effort. Due to the dynamic nature of the Space Station program, the OIG Space Station audit team has continued to explore ways to augment auditing procedures while maintaining a balance between preserving its independence and generating a cooperative working relationship with management. To achieve this goal, the audit team approached the Space Station program office with the concept of real-time observation of critical meetings. As a result, the OIG now observes the performance management baseline surveillance review. This review verified the prime

contractor's compliance with its integrated management system. Also, the OIG attended the program's analysis of the team health survey, incremental design reviews, and Space Station control board meetings. These meetings are critical milestones in the development of the Space Station. The OIG team also provided quarterly briefings to the program manager on the status of ongoing and planned audits.

- Procurement Executives Working Group. At the request of the Deputy Director, OMB, the NASA OIG represented the IG community on the President's Management Council's Procurement Executive's Working Group. Our office coordinated the numerous and varied responses recommended by other OIGs to be included in the final report entitled "Measuring Up--Procurement Performance Measures and A Best Practices Campaign for A World Class Acquisition System," dated February 1996. The report presents a set of performance measures and establishes a plan to publicize "best practices" that can be used by Federal procurement offices to benchmark their operations.
- Revised Procedures for Use of NASA Aircraft for Mission Management. NASA management revised the procedures to ensure that travel on NASA aircraft is cost-effective. At NASA management's request, the OIG reviewed the revised procedures to ensure compliance with all applicable regulations.

- Shuttle Single Prime Effort. The OIG provided audit advisory services to the Source Evaluation Board for the Space Flight Operations Contract. The OIG's continual presence resulted in quick assessments of management's procedures in working toward the procurement action of a consolidated Shuttle operations contract. These quick assessments resulted in three management letters that provide our opinion on various issues such as: (1) the absence from the Request for Proposal of a clause referencing the Brooks Architect-Engineers Act (Public Law 92-582); (2) the absence from the Request for Proposal of provisions limiting fee on facilities projects; and (3) concerns that NASA would novate the Shuttle operations contract and the Shuttle processing contract before negotiating program efficiencies, developing clear milestones, or determining that the contractor is a responsible prospective contractor as defined by the FAR. The OIG plans to continue quick assessments of the Source Evaluation Board's actions through audit advisory services until the contract is awarded.
- Airport Courier Service. At one Center, we identified various concerns about a courier service provided to NASA employees and contractors. The concerns were that: (1) travel costs were probably higher because NASA financial management policy was not followed, (2) adequate internal controls did not exist to ensure the proper use of the courier service, and (3) security functions were not always being completed because security guards performed courier services. We issued a management letter that highlighted four ways the Center could improve the service. Management agreed to take certain actions based on our suggestions.
- Business System Development. A major NASA contractor is presently developing a

new automated system to control personnel, procurement, finance, and other business functions. NASA is paying for the development of the contractor's system. Because NASA also is developing its own agencywide financial management information system, we believe it is important that the contractor and NASA ensure that the needs of both are satisfied in the most reasonable and cost-efficient manner. We issued a management letter to NASA's Chief Financial Officer and expressed the following concerns: (1) the contractor's system should be compatible with NASA's system, (2) integration software costs should be minimized, and (3) lessons learned by the contractor should be used to benefit NASA.

- Contractor Exceeds Contract Clause Dollar Limit. A NASA contractor is constructing a neutral buoyancy laboratory under a firm fixed price contract with a specific clause that limits the contractor's liability to \$400,000 for a hyperbaric chamber. When the hyperbaric subcontractor was selected, the exposure was almost \$47,000 more than the contract limit. Neither additional funds were committed nor was the contract modified. We issued a management letter to emphasize this contract administration practice has the potential to result in an anti-deficiency law violation. NASA management responded that the contractor intends to remain within a \$34,000,000 firm fixed price.
- NASA Management Notified of a Prohibited Cost Method. A NASA contracting officer attempted to definitize an operations and maintenance contract. The contract line item numbers included a prearranged cost-plus percentage. The FAR specifically prohibits cost-plus percentage of cost method contracting. Also, the prenegotiation position was not given a legal review prior to an offer being extended to the contractor. We issued a management letter reflecting these concerns. NASA management concurred with our observations and responded that steps were being taken to resolve these issues.

Chapter 1 - Partnerships and Alliances

Faced with significant budget restrictions, NASA is expanding partnership and alliance activities to achieve its mission to advance scientific knowledge, explore space, and conduct aeronautics and space research. For more than 75 years, NASA and its predecessor organization have worked collaboratively with other Federal and state agencies, industry, and educational institutions to effectively conduct research and disseminate information. NASA's strategic plan and those of its five enterprises contain requirements for partnerships and alliances with various organizations.

Current fiscal constraints are forcing NASA to review and reevaluate how to best achieve its mission. For many years, NASA has worked collaboratively with other Federal agencies, industry, and educational institutions to conduct research and disseminate information. NASA is seeking, as well as being directed by Congress, its advisory committees, the National Performance Review, and others, mechanisms and processes to work with other entities to combine resources, technical knowledge and capabilities, and facilities to provide optimal technological and scientific return within available funding. This strategy has been integrated into the NASA Strategic Plan.

Given the importance of partnerships and alliances to the Agency, the OIG has established a new Partnership/Alliance Program to address such relationships.

The overall objectives of this program are to:

- assist NASA management, where appropriate, to foster and implement partnership and alliance initiatives;
- assess the effectiveness of partnership and alliance initiatives and programs; and
- establish partnership arrangements with OIGs of other agencies that are working with NASA management to assess programmatic issues and results.

The Partnership/Alliance Program is designed to afford the OIG the opportunity to provide proactive assistance and information to NASA managers by identifying opportunities to foster, expand, and enhance partnership activities. Using available OIG resources and partnering with other OIGs, this program will be carried out in various ways (audit, inspection, study, review, etc.) and supplemented as needed to enable a thorough analysis of the issue, program or function being examined.

NASA and DOD have initiated the Aeronautics and Astronautics Coordinating Board (AACB) to identify and evaluate various opportunities for both agencies to reduce costs through the sharing of resources and facilities. This partnering initiative has the potential to be a model approach for NASA to implement in its working relationships with other Federal agencies. The OIG is monitoring the actions of the AACB to determine what actions can be taken to assist NASA in achieving its objective of reducing costs and making maximum use of its facilities and technical capabilities. Where appropriate the OIG will work jointly with the DOD IG to assist and evaluate the effectiveness of this cooperative activity.

Chapter 2 - Inspections and Assessments

During this reporting period, the OIG established at NASA the office of the Assistant Inspector General for Inspections and Assessments (AIGIA). This new office will provide independent and objective inspections and analyses of the effectiveness, efficiency, and economy of the programs and operations at NASA. Transferred to this function are administrative investigations that were formerly handled by the AIGI.

Inspection and assessment activities will provide timely feedback to program managers and, in some instances, provide a foundation for audits or criminal investigations. The staff will consist of a small core of analysts from varied professions. Depending on need, the staff will be augmented by investigators and auditors within the OIG, and scientific and engineering consultants drawn from within NASA or outside the Agency, as appropriate. The Inspections and Assessments staff will also formally "team" and "partner" with NASA units and staff when joint reviews are warranted.

Current activity areas include:

- Effectiveness and Regulatory Compliance of the Workers Compensation Program
- Effectiveness and Regulatory Compliance of Advisory Councils
- Application and Compliance of Recruitment, Retention and Relocation Bonuses
- Intergovernmental Personnel Act
- Use and Misuse of American Express Travel Card
- Vulnerability of Intrusion of Telecommunications Systems
- Key Elements of the NASA Zero Base Review
- NASA's Integrated Financial Management Project

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Chapter 3 - Significant Audit and Investigative Matters

OIG AUDIT AND INVESTIGATIVE MATTERS

NASA-WIDE

COST-EFFECTIVENESS OF CONSOLIDATING AIRCRAFT AT DRYDEN

In response to decreasing Agency budgets, NASA proposed consolidating all research and support aircraft at the Dryden Flight Research Center (DFRC). NASA estimated that consolidating these aircraft will initially cost \$23 million and result in annual savings of \$9 million. NASA later revised its annual savings estimate to \$23 million. The OIG reviewed the plan's cost effectiveness and raised questions about the Agency's assumptions. As a result, we recommended that NASA discontinue consolidating aircraft at DFRC until a full cost and programmatic assessment has been completed. NASA agreed to conduct a thorough analysis of the consolidation decision and tasked the Office of the Chief Financial Officer/Comptroller to conduct an independent assessment of the consolidation decision. Our reviews and audit of this area continue.

CHIEF FINANCIAL OFFICER

UNQUALIFIED OPINION ON FY 1995 FINANCIAL STATEMENTS

The CFO Act of 1990 requires NASA to prepare annual financial statements. An OIG audit of NASA's FY 1995 financial statements determined that they present fairly, in all material respects, the financial position of the Agency at September 30, 1995 (and the results of its operation and cash flows for the year then ended), and conform to the comprehensive basis of accounting described in their footnote on accounting policies and operations. Regarding the Agency's internal control structure and compliance with laws and regulations, we determined that NASA's accounting system does not meet requirements of the CFO Act and OMB because NASA does not maintain a single integrated accounting system. NASA continues to identify its financial accounting system as a material weakness in the Agency's FY 1995 FMFIA report.

HEADQUARTERS OPERATIONS

EMPLOYEE FINED AND RESIGNS FROM AGENCY

An OIG investigation substantiated an allegation that an employee misused personnel data of Agency employees obtained during the performance of official duties to fraudulently obtain credit cards. The employee pled guilty in local court to a charge of applying for a credit card using false or fictitious

information, was fined \$100, ordered to pay \$50 court costs, and placed on probation for 1 year. The employee resigned from the Agency in lieu of termination.

PROCUREMENT

NONCOMPLIANCE WITH CAS 418 MAY INCREASE SPACE STATION COSTS BY \$33 MILLION

NASA reimbursed a contractor for indirect costs on the Space Station contract that did not benefit NASA. A fundamental requirement of Cost Accounting Standard (CAS) 418, "Allocation of Direct and Indirect Costs," is that costs are allocated to cost objectives in reasonable proportion to the beneficial or causal relationship. However, a contractor allocated certain indirect costs to the Space Station contract from two internal cost centers that did not have the same or a similar beneficial relationship to all cost objectives. As a result, NASA could reimburse the contractor about \$33 million, over the life of the contract, for activities that do not benefit the Space Station contract. We recommended the Associate Administrators for Procurement and Space Flight work with the Divisional Administrative Contracting Officer and Defense Logistics Agency to ensure an equitable allocation of the contractor's indirect costs to the Space Station contract in accordance with CAS 418.

EXPECTED SHUTTLE SAVINGS CANNOT BE DETERMINED

An audit of the Redesigned Solid Rocket Motor Enhancement project determined that expected cost savings, a key element of the project, could not be determined because NASA and the contractor had not established systems to measure and report cost savings. Additionally, the audit determined that by the time the contract ends in November 1999, NASA will have substantially amortized the contractor's investment in the project's facilities, and in so doing, may have inadvertently violated the

intent of the Berger Amendment. This Amendment states that NASA may not use appropriated funds to substantially amortize new contractor facilities. Also, the audit determined that NASA provided the contractor with property and equipment under conditions that did not fully comply with various requirements of the FAR and the NASA FAR Supplement.

FORMALIZED FOLLOW-ON PROCUREMENT PROCEDURES NEEDED

The Payload Ground Operations Contractor (PGOC) processes shuttle payloads at the Kennedy Space Center. To meet its mission requirements, the PGOC subcontracts various functions and tasks. Between July 1994 and June 1995, PGOC awarded 5,442 subcontracts valued at \$19.8 million. Our audit showed that PGOC subcontracting activities are generally effective. PGOC is complying with applicable regulations and directives. During our audit, we discussed with NASA management the need to formalize procedures for procurements that follow original competitive orders. Management agreed and implemented a procurement desk instruction that established the ground rules for this type of procurement.

PROJECT DID NOT ACHIEVE ITS STATED OBJECTIVE

A report that summarized prior audit work on the Space Systems Development Agreement and the Spacehab Commercial Middeck Augmentation Module (CMAM) Project concluded that this project did not achieve its stated objective to foster the commercialization of space. Even though the entity has completed three flights, the company has leased only one locker to a commercial customer. Due to this lack of commercial customers, NASA modified the CMAM contract to utilize the module's full capacity over four flights. We also found that certain provisions of the original agreements left the Agency in financial risk. These provisions were subsequently modified to reduce NASA's risk.

CRIMINAL AND CIVIL SETTLEMENTS RESULT IN REPAYMENT AND FINES OF OVER \$3.3 MILLION

A joint investigation by the OIG, Defense Criminal Investigative Service (DCIS), and National Science Foundation (NSF) OIG substantiated allegations that a superconductor manufacturer submitted the same research proposals and studies and bills to more than one Government agency. As a result of the investigation, the company pled guilty to a charge of mail fraud. The company paid \$600,000 in criminal restitution at the time of the guilty plea, and later paid a fine of \$150,000 and court costs of \$200. The company and two of its officials entered into a settlement agreement with the Government and paid over \$2.7 million to resolve civil claims that it had filed false statements with the Government regarding Federally funded laser and superconductor research. The false statements obscured multiple billing by the company. The company and the two officials agreed to exclude themselves from Federal contracting and grant activities for a period of 3 years.

SETTLEMENT NEGOTIATED IN SCIENTIFIC FRAUD CASE

As a result of joint investigation by the OIG, NSF OIG, DCIS, with the assistance of the U.S. Marshals Service, a company and three of its officials entered into a civil settlement agreement. Under the terms of the agreement they paid the Government \$530,000 and agreed not to claim reimbursement for costs on other contracts and grants having a value of almost \$1.5 million. The officials also agreed not to apply for future Federal contracts and grants for 3 years. The settlement resolved a complaint filed under the Federal Debt Collection Procedures Act, under which the Government had obtained court orders putting liens on real estate and bank accounts owned by the defendants.

The investigation disclosed that the defendants received contracts and grants from several different agencies for research that they had already completed and for which they had already been paid by other agencies. They also admitted that they had

improperly charged the Government for certain work performed by two of the individuals.

MANAGEMENT SYSTEMS & FACILITIES

OVER \$390,000 CAN BE SAVED BY PROVIDING ON-CENTER SPACE TO CONTRACTOR EMPLOYEES

Currently, the OIG is conducting an audit to determine whether a Center can realize cost savings by moving support service contractors on-Center. During the audit, we identified a condition that affected two requests for proposals (RFPs). As written, these RFPs will require that a significant number of contractor employees be located off-Center in leased facilities. An OIG-performed cost analysis estimated savings of more than \$390,000 through FY 2000 by providing on-Center office space to all contractor employees on the proposed contracts. We recommended revising the RFPs to stipulate that on-Center space will be provided. Management agreed and amended the RFPs.

SPACE FLIGHT

FACILITIES MAINTENANCE PROCEDURES NEED TO BE IMPROVED

NASA policy requires the cost-effective and timely maintenance and repair of facilities at a level that protects and preserves the capabilities, capital investment, and Agency missions without jeopardizing the health and safety of personnel or mission performance. During a survey of the facilities maintenance program at one Center, we found that: (1) budget requirements for facilities

maintenance were based on a percentage of the facilities current replacement value, (2) the Center had not fully implemented the NASA facilities maintenance requirements, and (3) the Center did not consistently use Functional Management System codes for accounting and reporting annual maintenance costs. We recommended that: (1) facilities maintenance budgets reflect actual assessed need rather than a metric, (2) the Center implement the requirements to improve management and controls over facility maintenance and (3) the Center seek a waiver from using the Functional Management System codes until the new NASA accounting system and Space Shuttle program restructuring are complete. Management concurred with our recommendations and initiated corrective actions.

SHUTTLE PROGRAM CAN SAVE \$450 MILLION BY CHANGING MAINTENANCE LOCATION

An audit of the maintenance and modification of NASA's vehicles concluded that orbiter maintenance down periods could be performed more cost effectively without adverse impact to the Shuttle program. The program could save \$30 million annually, or \$450 million over the remaining life of the Shuttle program, by performing maintenance down periods at the Agency's east coast launch/landing site rather than at a contractor-operated facility on the west coast. These savings would result from the elimination of: (1) duplicate facilities and infrastructure costs, (2) orbiter ferrying costs, and (3) civil service support costs. Further, the time required to perform the associated maintenance can be shortened by as much as 4 months, thus creating greater efficiencies in orbiter processing facility operations. NASA management concurred with our recommendation to perform such activities on the east coast.

CERTIFICATES OF CONFORMANCE FALSIFIED

Following a joint investigation by the OIG and DCIS, a contractor pled guilty to one count of mail

fraud and its owner to one count of theft. They were charged with falsifying the certificates of conformance they submitted with fasteners to a prime contractor. The certificates of conformance falsely represented that the fasteners were tested according to the specifications of the subcontract. Sentencing is pending.

CRIMINAL PLEA ENTERED; CONTRACTOR PAYS OVER \$640,000

As a result of a joint OIG investigation with the DCIS, a supplier of electro-optical products agreed to a civil settlement and to pay the Government \$643,633. The investigation was predicated on a voluntary disclosure by the company and confirmed that a company facility manager and contracts manager routinely added a management contingency fee to contract proposals and billings to ensure repayment of unrecoverable overhead costs. The facility manager was terminated by the company and entered into a pre-trial diversion agreement with the Government. The contracts manager agreed to retire from the company.

OFFICIAL DUTY TIME USED TO PURSUE AN OUTSIDE BUSINESS

An OIG investigation substantiated an allegation that an employee at a NASA Center used substantial amounts of official duty time to pursue an outside business. As part of a plea agreement, the employee pled guilty to a banking violation. Prosecution for false time and attendance claims was declined in lieu of administrative action by the Agency. Further action is pending.

FASTENER SUPPLIER AND TWO EMPLOYEES PLEAD GUILTY

Following a joint investigation by the OIG and DCIS, a company, its president, and one of its employees entered guilty pleas to charges that they submitted false certificates of conformance along with fasteners supplied under contracts with

Government agencies. The employee was placed on probation for 1 year, ordered to perform 100 hours of community service, and pay fines and court costs of \$275. Resolution of the charges against the company and its president is pending.

AERONAUTICS

ACCELEROMETERS NOT TESTED; SUPPLIER REPAYS \$1 MILLION

Following a joint OIG investigation with the Air Force Office of Special Investigations, a settlement agreement was concluded with a manufacturer and supplier of liner accelerometers. Under the terms of the agreement, the company paid the Government \$1 million to resolve a civil lawsuit in the matter. The company acknowledged that it had not tested accelerometers that it had sold to NASA and other agencies.

TWO CHARGED WITH UNAUTHORIZED COMPUTER USE

As a result of an OIG investigation, the owner of a company and one of its employees were charged in a criminal information with unauthorized access to a Government-owned computer system at a NASA Center. The investigation disclosed that the owner of the company had previously been granted access to the computer system during the performance of duties under a contract with the Center. However, the individual continued to access the computer system without proper authority after the contract expired. The company owner also facilitated the other employee's access to the computer system. Resolution of the charges is pending.

CONTRACTOR AND TWO OFFICIALS CHARGED WITH PRODUCT SUBSTITUTION

Following a joint investigation by the OIG, NCIS, and U.S. Customs Service, a company and two of its officials were indicted by a Grand Jury. They were charged with improperly importing and introducing into the stream of commerce certain strainers and check valves used by NASA and the Navy. The indictment alleges that the company and its officials falsely represented the country of origin of the strainers and check valves, and that they were manufactured in accordance with the contract specifications. Resolution of the charges is pending.

SPACE SCIENCE

CASSINI PROGRAM SHOULD MEET LAUNCH DATE DESPITE RISKS

The objective of the Cassini program is to explore Saturn and its moons. Cassini is scheduled to be launched in 1997 and should reach Saturn in 2004. Total program life cycle costs, including development, launch, and operations, are \$3.26 billion. In an audit of the Cassini program, we concluded that program management is adequate for Cassini to meet its launch date. However, several risk areas exist that could affect Cassini's launch. While these risks stem largely from areas outside NASA's direct management control, steps are being taken toward solving or eliminating them. Among the risks are: (1) concerns about adverse impacts to the environment could cause environmental groups to attempt to stop the launch through the courts; (2) safety concerns could cause an outside safety panel to recommend launch disapproval; and (3) a short launch window (Cassini requires a specific alignment of planets in order to use gravity assists), if missed, could result in additional significant costs and large amounts of science being lost.

INTRUDER CHARGED

WITH COMPUTER PENETRATION

An investigation by the NCIS and FBI, assisted by the OIG, resulted in the filing of a Federal charge against a foreign national for illegally accessing computers at an academic institution, from which the intruder gained access to computers at a naval installation and two NASA Centers. A warrant has been issued for the individual's arrest.

In response to the intrusions, NASA officials took actions to terminate the intrusions and institute remedial and corrective actions. The cost to the Agency to investigate the intrusions and institute corrective actions is estimated at \$100,000.

MISSION TO PLANET EARTH

MANAGEMENT ACTION COULD RESULT IN SIGNIFICANT SAVINGS FOR THE EOS PROGRAM

The Distributed Active Archive Centers are an integral component of the Earth Observing System (EOS) Data and Information System (EOSDIS). NASA established nine archive centers to process, archive, and distribute EOS and related data to the user community. The archive centers are located in institutions or facilities that have expertise and ongoing research in specific earth science disciplines. For the period of FY 1991 through FY 2000, the archive centers have an overall budget of \$296 million. An OIG audit showed that: (1) the current configuration of the EOSDIS archive centers needs to be reevaluated, (2) the archive centers plan to acquire electronic data processing (EDP) equipment in excess of needs, and (3) NASA funds may have been used inappropriately to construct or expand archive center facilities. We also found that some EOS data holdings may be outside the area of expertise of a particular archive center. Six recommendations were made to management which, if implemented, will ensure that the EOSDIS archive

centers are operated in an efficient and effective manner. Implementation of the recommendations could also result in cost savings and funds put to better use of \$58.1 million. NASA concurred or partially concurred to all the recommendations and has either planned or initiated corrective actions.

External Audit Reports Referred to NASA Management

The OIG review of significant matters reported by the DCAA are forwarded to NASA management for appropriate resolution and OIG followup.

SPACE FLIGHT

INDIRECT COSTS OF \$445,938 QUESTIONED

DCAA questioned \$447,731 of a NASA contractor's FY 1992 proposed indirect expenses. Of this amount, NASA's share is \$445,938. The questioned costs were primarily in the areas of corporate allocations, intercompany transfers, information services allocations, and allocated legal costs. In DCAA's opinion, the proposal included significant costs that did not comply with the FAR and cost accounting standards. NASA management is working with the DOD Divisional Administrative Contracting Officer to ensure that these findings are included in the final indirect cost rates negotiations.

BETWEEN \$1.5 MILLION AND \$2.2 MILLION COST QUESTIONED

A NASA contractor's facilities and environmental operations department is responsible for all support activities at a major NASA facility. These support activities include maintenance, environmental duties, and in-house design and construction. DCAA determined that if the contractor followed the NASA Facilities Maintenance and Energy Handbook (NHB 8831.2A) for establishing engineering staffing levels, an annual cost avoidance of \$1,469,253 to \$2,247,093 could be realized.

SKILL MIX CHANGE COULD SAVE \$1.5 MILLION

DCAA determined that the labor skill mix for the production operations department at a major NASA contractor was inappropriate based on the current level of production. The audit revealed that if the contractor used the same skill mix and head count as was used in an equivalent production period (i.e. December 1985) an annual cost avoidance of \$1,527,808 could be achieved.

AERONAUTICS

\$249,000 OF INCURRED COSTS QUESTIONED

DCAA auditors reviewed FYs 1992 and 1993 incurred costs billed to NASA and questioned about \$129,000 and \$120,000 for the respective years. Questioned costs included unallowable employee stock ownership plan contributions that exceeded allowable costs. Also questioned were costs related to professional fees and the process used by the contractor to allocate fringe benefit costs to various pools. NASA management expects to arrive at a final determination on these costs by July 1996.

\$85,000 OF INCURRED COSTS QUESTIONED

DCAA auditors reviewed FYs 1990 and 1991 incurred costs claimed by a contractor and questioned about \$85,000 of labor burden and general and administrative (G&A) rates. Labor burden rates were questioned due to increased labor dollar base costs. The contractor's G&A base costs were questioned as were various pool expenses that included rent, depreciation, and home office allocations. NASA management told us no further action is required because the contractor has agreed to the questioned rates and will apply these to all similar contracts in the future.

SPACE SCIENCE

OVERTIME COSTS OF \$4 MILLION QUESTIONED

DCAA identified approximately \$4 million of questioned costs that resulted from inadequate internal controls for overtime and extended workweek charges. Specifically, weaknesses in the procedures for documenting the pre-authorization of such charges were identified. NASA management and the contractor are currently working on corrective actions to resolve internal control weaknesses.

MISSION TO PLANET EARTH

\$600,000 OF INCURRED COSTS QUESTIONED

DCAA auditors reviewed calendar year 1992 incurred costs billed by a major NASA contractor and questioned a total of \$3,002,200 of indirect costs. Of this amount, NASA's share is approximately \$600,400. The contractor concurred with \$500,300 of the questioned costs, and nonconcurred with the remaining \$2,501,900. The questioned costs were primarily in the areas of plant and equipment expenses, accrued relocation costs, corporate assessments, professional fees, and facility capital cost of money. NASA management is working with the DOD's Divisional Administrative Contracting Officer to resolve the costs questioned and finalize the indirect cost rates.

Management Actions on OIG Audit Reports

REVISED DECISIONS

Section 5(a)(11) of the Inspector General Act, as amended, requires a description and explanation of the reasons for any significant revised management decision made during the reporting period.

During this reporting period there were no such instances.

DISAGREEMENT ON PROPOSED ACTIONS

Section 5(a)(12) of the Inspector General Act, as amended, requires information concerning any significant management decisions with which the Inspector General is in disagreement.

During this reporting period there were no such instances.

STATUS OF MANAGEMENT DECISIONS

Sections 5(a)(8) and (9) of the Inspector General Act, as amended, require statistical tables on the status of management decisions on OIG audit reports involving questioned costs or recommendations that funds be put to better use.

The following two tables summarize the status of management decisions as of March 31, 1996.

**OIG AUDITS WITH
QUESTIONED COSTS**

Audit Reports	Number of Audit Reports	Total Questioned Costs
No management decision was made by beginning of period	1	\$1,425,000
Issued during period	0	0
Needing management decision during period	1	\$1,425,000
Management decisions made during period:	0	0
--amounts disallowed	0	0
--amounts not disallowed	0	0
No management decision at end of period:	1	\$1,425,000
--less than 6 months old	0	0
--more than 6 months old	1	\$1,425,000

**OIG AUDITS WITH
RECOMMENDATIONS THAT
FUNDS BE PUT TO BETTER USE**

Audit Reports	Number of Audit Reports	Dollar Value of Recommendations
No management decision was made by beginning of period	3	\$9,740,000
Issued during period	3	\$508,485,404
Needing management decision during period	6	\$518,225,404
Management decisions made during period:	2	\$450,390,000
--amounts management agreed to be put to better use	2	\$450,390,000
-based on proposed management action	2	\$450,390,000
-based on proposed legislative action	0	0
--amounts not agreed to be put to better use	0	0
No management decision at end of period:	4	\$67,835,404
--less than 6 months old	1	\$58,095,404
--more than 6 months old	3	\$9,740,000

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Chapter 4 - Significant Matters Disclosed in Previous Semiannual Reports

AUDIT RECOMMENDATIONS DISCLOSED IN PREVIOUS SEMIANNUAL REPORTS FOR WHICH CORRECTIVE ACTIONS ARE STILL IN PROCESS

Section 5(a)(3) of the Inspector General Act, as amended, requires an identification of audit recommendations disclosed in previous semiannual reports on which corrective actions are still in process.

Following are brief summaries of significant OIG and DCAA audits reported in prior semiannual reports for which final management actions have not been completed and closed out.

CHIEF FINANCIAL OFFICER

PROGRAM AND PROJECT COSTS EXCLUDE CIVIL SERVICE SALARIES; \$1 BILLION UNDERSTATED ANNUALLY

During an audit of Space Station program staffing, we discovered that the program's life cycle costs included expenses for support contractor personnel but generally excluded related salary costs for civil service personnel. We expanded the scope of our audit and found that it is NASA's policy to exclude civil service salary costs from the total life cycle costs of all NASA programs and projects. As a result, NASA program and project costs are understated by about \$1 billion annually. Further, without data on civil service costs, program managers do not know the actual life cycle costs of their programs. We also identified one Center that was not complying with Agency requirements to allocate multi-program support personnel costs to

benefitting programs. Consequently, an estimated \$60 million in civil service salaries was not charged against applicable NASA programs. We recommended that the NASA CFO revise Agency policy to include civil service salary costs in the life cycle cost of programs and projects. NASA management concurred with our recommendation and initiated corrective actions. We anticipate closure of this recommendation by May 1996.

HUMAN RESOURCES & EDUCATION

APPROPRIATED FUNDS SUBSIDIZE EMPLOYEE MORALE ACTIVITIES

NASA sanctions certain activities at various field locations to contribute to the morale and welfare of Agency personnel. An OIG audit at one NASA facility showed that appropriated funds were improperly used to subsidize morale activities. Specifically, this facility's morale activity was providing housing services to visiting NASA employees who were attending training classes and charging students excessive lodging rates. This earned the morale activity association profits of \$77,000 that subsidized an employee cafeteria. Since student housing costs were paid for by appropriated training funds, the practice resulted in reduced training opportunities for NASA employees. During this reporting period, NASA management continued to negotiate a new rate for housing services with the morale activity association.

MANAGEMENT SYSTEMS & FACILITIES

SAVINGS POSSIBLE THROUGH IMPROVED AIRCRAFT MANAGEMENT

The OIG participated in an audit of Federal civilian agency use of Government aircraft sponsored by the President's Council on Integrity and Efficiency (PCIE). We identified several areas where NASA could improve the management and control of its aircraft fleet: (1) using commercial aircraft to transport personnel in lieu of its own aircraft would save NASA \$5.8 million annually; (2) additional savings would result from selling seven of the eight aircraft which had a market value of about \$10.6 million and had been used exclusively for transporting personnel; and (3) by purchasing one aircraft that is being leased, another \$1.75 million could be saved. We made 19 recommendations for tighter controls over transporting personnel on NASA aircraft, performance of cost-effectiveness studies to justify the retention of aircraft assets, and reevaluation of aircraft lease versus purchase options. Management fully or partially concurred with all recommendations. Of the 19 recommendations, 10 have been closed and 9 are scheduled for closure by September 30, 1996.

SPACE FLIGHT

CURTAILING CALIBRATION SERVICES COULD SAVE \$840,000

An OIG audit disclosed that one Center is providing, through an on-site technology transfer office, commercially available calibration services to numerous private companies. The use of Government facilities and equipment to provide com-

mercially available services to private businesses is discouraged and results in misappropriated Federal funds and unnecessary labor costs. Eliminating this work would reduce NASA contract costs between \$640,000 and \$840,000 annually. The audit also determined that Center personnel did not properly approve and authorize the calibration work. We recommended the Center: (1) discontinue providing services commercially available to private companies, and (2) ensure calibration service requests are properly reviewed and approved. Although NASA management initially nonconcurred with our recommendations, the Center subsequently agreed to: (1) require the on-site technology transfer office to provide a certification that requested calibration services are not commercially available, (2) implement a full cost recovery procedure in accordance with Agency guidelines, and (3) establish stricter internal controls for reviewing and approving requests for calibration work. We are currently awaiting closure documentation from the Center.

ACCOUNTING CHANGE INCREASED GOVERNMENT COSTS BY \$3.3 MILLION

At the request of the NASA contracting officer, DCAA evaluated the cost impact of a change to a major contractor's accounting procedures. The change involved combining the overhead cost pools of two separate divisions without prior agreement with the Government administrative contracting officer. The auditors concluded that the change increased the costs chargeable to the Government by \$1,453,089 for FYs 1989 to 1991 and would increase costs by \$1,812,393 for FYs 1992 to 1994. Final negotiations have been delayed because of higher priority negotiations. According to NASA procurement officials, resolution is expected by April 1996.

CONTRACTOR COSTS OVERSTATED BY OVER \$918,000

A review of the incurred costs claimed by a NASA contractor caused DCAA auditors to question a

total of \$918,267. Of the total amount, employee payroll and fringe benefit costs of \$807,864 were considered misclassified and, when properly classified, were unallowable according to the company's disclosure statement. In addition, \$110,403 of bid and proposal costs claimed by the contractor was considered misclassified and therefore unallowable. These recommendations remain open awaiting receipt of DCAA's supplemental audit report. Action officials anticipate resolution by July 1996.

\$2 MILLION OF CONTRACTOR EXPENSES NOT PROPERLY CLASSIFIED

DCAA auditors examined expenses claimed by three different NASA contractors to establish direct and indirect expense rates. A total of \$1,962,200 was questioned by the auditors, primarily because the expenses were considered misclassified. The final agreed-upon rates, after reclassification of the expenses by the contractors, will be used to determine costs to close out the contracts. Issues that were resolved with two contractors resulted in \$1,704,787 of the \$1,795,720 questioned being sustained by contracting officers. During this period, the DCAA was unable to complete the audit of the incurred costs for FY 1992 because the contractor had been unable to locate the general ledger or accounting records. As a result, there is not a projected completion date for resolution.

OVER \$877,000 OF BID AND PROPOSAL COSTS QUESTIONED

DCAA auditors questioned \$877,215 of bid and proposal costs claimed by a contractor because the costs exceeded the bid and proposal ceiling as provided for in the FAR. During this period, the contractor submitted additional data to the contracting officer. Resolution is expected in June 1996.

MISCHARGES OF \$3 MILLION TO NASA CONTRACTS

DCAA identified about \$3 million in mischarges resulting from misallocated common support overhead costs to two major NASA contracts. The contractor's allocation process did not comply with cost accounting standards. The DOD Divisional Administrative Contracting Officer received a cost impact statement and will begin negotiations for settlement. The contractor revised its overhead rate structure to prevent future standards violations of this nature.

INDIRECT COSTS OF \$4.5 MILLION QUESTIONED

A DCAA review of a contractor's FYs 1990 and 1991 proposed indirect cost rates questioned \$4,525,963 of indirect expenses. Of this amount, NASA's share is approximately \$410,100. The questioned costs were primarily in the areas of corporate allocations, information services allocations, leases, intercompany transfers, travel and relocation, fringe benefits, and other indirect costs. In DCAA's opinion, the proposals included significant costs that did not comply with the FAR and cost accounting standards. Negotiations for FY 1990 proposed indirect expenses ended in February 1996 and resulted in sustained questioned costs of \$714,000 of the \$1,973,000 for that year. Negotiations for FY 1991 indirect cost rates are scheduled for August 1996.

INDIRECT COSTS OF \$1.9 MILLION QUESTIONED

DCAA auditors questioned \$1,863,520 of indirect costs related to a NASA contractor's FYs 1990 and 1991 proposed indirect cost rates. The questioned costs were primarily in the areas of information services allocations, intercompany transfers, corporate allocations, travel and relocation and other indirect expenses. Approximately 99 percent of the contractor's effort is attributable to NASA programs. NASA management is working with the DOD Divisional Administrative Contracting Officer

to finalize these indirect cost rates; negotiations are now scheduled for May and October 1996.

AERONAUTICS

\$958,000 OF INCURRED COSTS QUESTIONED

DCAA auditors reviewed calendar years 1991 and 1992 incurred cost billings and questioned about \$538,000 and \$420,000 for the respective years. Amounts for meeting expenses, professional fees, relocation costs, and vehicle leases were questioned because the costs were either not allowable according to the FAR or inadequately supported. The contractor has provided additional information for review. The contracting officer expects to make a final determination on the allowability of these costs by June 30, 1996.

NEARLY \$1.3 MILLION OF CLAIMED DIRECT LABOR AND RELATED COSTS QUESTIONED

DCAA auditors reviewed the direct labor, overhead, and related costs billed by a NASA contractor for calendar years 1987 and 1988. The auditors questioned \$1,268,419 of the total \$13.2 million claimed. Most of the questioned costs involved a subcontractor that could not produce auditable documents to support the claimed costs. Discussions between NASA, the contractor, and DCAA culminated with DCAA agreeing to perform additional audit work related to questioned and unsupported costs. NASA management established a target date of December 1996, for resolution of contract costs.

OVER \$9.8 MILLION OF INCURRED COSTS QUESTIONED

DCAA auditors reviewed costs a contractor billed to NASA for reimbursement in FYs 1990 and 1991. They questioned over \$9.8 million of the \$20.7 million claimed, most of which related to a subcontract type (cost plus a percentage of costs) that is prohibited by the FAR. NASA management expects to make a final determination regarding allowable costs by December 1996.

SPACE SCIENCE

UNREASONABLE EARLY RETIREMENT BENEFITS AT A NASA-FUNDED FACILITY

A major NASA contractor instituted an early retirement option (ERO) plan that provides up to 3 years of benefits to selected early retirees. An audit of this plan revealed that the benefits were unreasonable when compared to early retirement plans offered by similar facilities and to OMB guidance. This appears to have been caused by the lack of clear understanding and formal approval of the ERO plan by NASA. Based on our review of eight individuals drawing early retirement benefits during FYs 1991 and 1992, we estimated that NASA's share of the ERO costs was about \$1,425,000, or an average of \$178,000 per retiree. In addition, seven of the eight retirees were rehired as consultants or "on call" employees, at an additional cost of about \$550,000, while they received ERO benefits. We recommended that NASA management question the allowability of the ERO costs pending formal NASA approval of an ERO plan. The audit also suggested that the approved ERO plan include time-limits for election and a rehire policy. Based on the results of this audit, NASA management requested an audit of individuals drawing early retirement in FYs 1993 and 1994. NASA management plans to discuss the results of both audits with the contractor to develop an acceptable ERO plan.

TRAVEL COSTS INAPPROPRIATELY CHARGED TO NASA

An audit of travel policies, procedures, and practices of a NASA contractor showed that although its policies and procedures were generally adequate, the contractor did not follow or consistently apply them. As a result, the contractor inappropriately charged NASA with travel costs of about \$660,000. We also identified over \$450,000 of cost savings opportunities. Through improved procedures and their enforcement, we estimated future cost savings of approximately \$3,100,000 are attainable through September 1998. Before we issued the final report, the contractor paid \$415,000 to NASA to offset inappropriate travel costs charged during the audited period. In January 1996, the contractor paid NASA an additional \$250,000 to correct inappropriate travel costs charged to NASA because the conditions reported in the audit report continued beyond the audited period. NASA management concurred with the report's recommendations for improving travel operations, promoting cost savings opportunities, and recovering travel costs inappropriately charged. NASA management is currently working the open recommendations with the contractor.

\$13.7 MILLION OF UNALLOWABLE AND QUESTIONED COSTS IDENTIFIED

A review of a major contractor for FY 1992 by the Defense Contract Management District West (DCMD-West) identified \$13.7 million in unallowable and questioned pension, insurance, and disability costs. These costs were incurred in apparent violation of cost accounting standards and OMB Circular A-21. The OIG presented these issues to NASA management and recommended that the Agency coordinate with the Office of Naval Research, the cognizant Federal agency, to resolve the unallowed and questioned costs. The DCMD-West resolved in the contractor's favor \$12.2 of the \$13.7 million of unallowable and questioned costs. The remaining \$1.5 million, relating to cost accounting standards and OMB Circular A-21 issues, was referred to the NASA contracting officer for final resolution. During this period, NASA

management and the Office of Naval Research recovered \$225,000 and are currently working toward resolution of the remaining questioned costs.

MEALS AND REFRESHMENT COSTS OF \$329,000 QUESTIONED

DCAA questioned about \$329,000 of contractor meals and refreshment costs charged either directly or indirectly to NASA in FYs 1991 and 1992. DCAA questioned these costs because: (1) the expenses were determined to be unallowable or unreasonable under requirements of OMB Circular No. A-21, (2) the contractor did not comply with its own policies and procedures, and/or (3) the expenses were not supported by essential documentation. Further, DCAA found weaknesses in the contractor's accounting system for segregating expenses for meals and refreshments from other expenses as well as segregating unallowable costs from Government billings. The contractor withdrew the \$329,000 charged to NASA while it evaluated the questioned costs. During this period, fact-finding was conducted by NASA management for planned negotiations in April 1996. In addition to the \$329,000 questioned for FYs 1991 and 1992, the NASA contracting officer plans to expand the period covered in the settlement negotiations to meals and refreshment costs for FYs 1984 through 1993.

SPACE ACCESS & TECHNOLOGY

TECHNOLOGY TRANSFER ACTIVITIES NEED IMPROVEMENT

NASA has a major initiative to improve public access to and use of technology developed from Agency programs. To accomplish this, NASA supports and funds six technology transfer centers. An OIG audit of the transfer program disclosed a need to: (1) improve controls over NASA

equipment, (2) prevent unauthorized foreign access to developed technologies, and (3) reduce unreasonably high contractor salaries. We estimated salary adjustments would save NASA \$409,495 during the contract period. Two recommendations are closed; the third remains open awaiting final results from DCAA's review of contractor compensation rates. This work is expected to be complete by June 1996, and NASA plans to complete its actions shortly thereafter.

Subsequently, in July 1995, the NASA Administrator asked the House Committee on Science to clarify language in the FY 1994 Appropriations Conference Report regarding the use of NASA funds for "construction" of the archive center facility. We are awaiting the response from the House Committee on Science.

MISSION TO PLANET EARTH

NASA FUNDS APPEAR TO BE AUGMENTING CONSTRUCTION OF NON-NASA FACILITY

The Distributed Active Archive Centers are a component of the EOSDIS. NASA established nine archive centers to process, archive, and distribute EOS and related data to the user community. The archive centers are located at institutions or facilities that have expertise and ongoing research in specific earth science disciplines. An OIG audit showed that NASA funds may have been used to augment construction of an archive center facility addition at another Government agency's site. However, Congressional intent prohibits using NASA funds to finance the construction of non-NASA facilities. The audit concluded that NASA's adherence to restrictions expressed in the legislative history could result in potential cost recoveries of \$600,000 and potential cost avoidances of \$4.2 million. We recommended that NASA management: (1) recover any funds expended to augment construction of the facility, (2) reverse its decision to provide \$4.2 million to augment construction of the facility addition, and (3) notify management at the archive center that NASA funds of \$4.2 million are no longer available for construction of the facility addition. NASA management nonconcurred with the report's recommendations, stating that the funds were used for facility outfitting, which is a permitted use of NASA funds, and not for construction.

UPDATES ON SELECTED
INVESTIGATIONS REPORTED IN
PREVIOUS SEMIANNUAL REPORTS

Following are brief summaries of significant OIG investigations, reported in prior semiannual reports, for which resolution is not complete.

SPACE FLIGHT

**INDICTMENTS RETURNED AGAINST
7 INDIVIDUALS AND 7 FIRMS**

Following a joint investigation by the NASA OIG, Small Business Administration OIG, FBI, Department of Labor's Office of Racketeering and Pension and Welfare Benefits Administration, U.S. Postal Service, and the Internal Revenue Service, a Federal Grand Jury returned a 13-count indictment against a NASA subcontractor, its owner, the owner's spouse, six related companies, and five other individuals. The indictment charged the defendants with money laundering, false claims, mail fraud, embezzlement, theft from employees' benefits plans, obstruction of a Federal audit, contempt of court, false statements, false claims, conspiracy, and thefts from programs receiving Federal funds. It alleged that they fraudulently billed costs to a NASA prime contractor supporting the Space Shuttle program. The prime contractor passed the fraudulent costs on to NASA. The Agency suspended those indicted from contracting with the Government pending resolution of the charges.

Following the indictment, the prime contractor cancelled the subcontract and assumed responsibility for the work, resulting in a savings of approximately \$6.5 million over the life of the contract. More than \$760,000 in additional costs were avoided when the prime contractor declined to purchase some equipment being used by the subcontractor.

A superseding indictment was returned against the same individuals and companies. The 285-count

indictment alleged that they conspired to and did present to NASA false claims totaling \$4 million, committed income tax violations, and stole and embezzled assets from a company employee benefit plan.

Four individuals and five companies pled guilty to charges filed against them. One of the individuals was placed on probation for 1 year. Charges against one individual were dropped. Sentencing of the other individuals and the companies is pending. In a separate civil lawsuit in the matter, a judgment in the amount of \$10 million was entered in favor of the Government.

Charges against two companies were dropped. Because the two companies were determined to be inseparable from one of the individuals in this case, the court ordered that the companies be liquidated. A trustee was appointed by the court to oversee liquidation of the two companies and the other five companies charged in this matter. Sentencing of the four individuals and five companies that have entered pleas has been deferred pending resolution of the charges against the two other individuals.

UPDATE: One individual was sentenced to 2 years in prison, placed on 3 years probation, fined \$15,000, ordered to make \$4,472,900 in restitution, and ordered to pay a special assessment of \$8,950. A company was ordered to make restitution in the amount of \$7,496,458. Five defunct companies were assessed a fee of \$200 each. Another individual pled guilty to making a false statement to the Small Business Administration, and was placed on probation for 1 year and ordered to pay \$50 court costs. Charges against another individual are being held in abeyance pending appeal of a court ruling in the matter.

**CRIMINAL INFORMATION
FILED AGAINST 9 INDIVIDUALS
AND 1 CORPORATION**

A joint investigation by the FBI, NASA OIG, and DCIS resulted in filing of six criminal informations that charged nine individuals and one corporation with Federal kickback and bribery offenses. Two of the individuals were NASA employees. A company

that employed two of the individuals agreed to pay the Government \$1 million to cover the cost of the investigation. Eight individuals and the company pled guilty to charges against them.

Criminal charges were filed against four additional individuals (including one identified above, against whom a criminal information had been filed) and one company. One individual was terminated from employment. Fines totaling \$24,500 have been levied.

As part of their plea agreements, the two NASA employees resigned their positions with the agency and agreed to not seek civil service employment again. One of the two NASA employees, pled guilty to all six counts of an indictment charging one count of conspiracy, three counts of bribery, one count of violating a Federal procurement statute, and one count of accepting a gratuity. The employee was sentenced to 5 months in prison, fined \$3,000, ordered to make restitution in the amount of \$8,000, and ordered to pay court costs of \$300. The employee was also placed on probation for 3 years after release from prison.

The other NASA employee was placed on probation for 2 years and ordered to pay court costs of \$100. A contractor employee pled guilty to two counts of bribery and was placed on probation for 2 years and assessed court costs of \$100. A criminal information was filed against another contractor employee, charging the employee with one count of unlawfully converting NASA documents to personal use. Five individuals were suspended from Government contracting pending the disposition of a proposal that they be debarred.

The contractor employee pled guilty to the charge of unlawfully selling NASA documents, was sentenced to 6 months probation, fined \$100, and ordered to perform an unspecified amount of community service on national holidays. The trial of another individual resulted in a hung jury. The prosecution decided not to retry the case and dropped the charges. Sentencing of one individual and a company is pending.

UPDATE: A contractor employee was sentenced to 6 months home confinement and placed on 3 years probation. A company was sentenced to

1 year probation and ordered to pay a \$200 court assessment. One of the former NASA employees was debarred for a period of 3 years.

TASK FORCE INVESTIGATION RESULTS IN 2 INDICTMENTS AND 7 CRIMINAL INFORMATIONS

A joint investigation by the NASA OIG, FBI, NCIS, AFOSI, Department of Transportation OIG, and the Army Criminal Investigations Command resulted in two indictments and the filing of seven criminal informations. The indictments and informations charged three companies and seven individuals with fraudulently misrepresenting that the fasteners and fittings they sold to Government customers met the specifications of the contracts and purchase orders under which they were purchased. DOD personnel responsible for supply and purchasing assisted in the investigation.

A related civil complaint against an individual and his company resulted in the forfeiture of \$2.2 million in assets plus one luxury and one sports vehicle. The individual pled guilty to two charges of wire fraud and entered similar pleas on behalf of his company. The individual was sentenced to 5 years in prison and fined \$75,000.

Another company and its president entered a guilty plea to a charge of conspiracy. The company president was sentenced to 4 months in jail, placed on probation for 3 years, and fined \$10,000. The company president also agreed to make restitution in the amount of \$170,000. The company was fined \$10,000.

UPDATE: As a result of continuing prosecutive activities, the president of another company pled guilty to one count of mail fraud. The president was sentenced to 4 months home confinement, placed on 3 years probation, fined \$13,000 and assessed a \$50 court fee. The company was ordered to pay a \$200 fee.

FASTENER SUPPLIER AND THREE OFFICIALS CHARGED; FOUR EMPLOYEES ENTER INTO PRETRIAL DIVERSION AGREEMENTS

Following a joint investigation by the OIG and DCIS, a Grand Jury returned an indictment against a fastener supplier and three of its officials. The indictment charged them with wire fraud, mail fraud, conspiracy, and making false statements in connection with their roles in selling substandard fasteners to NASA and other Government agencies and contractors. The investigation disclosed that NASA uses the fasteners in the Shuttle program. The DOD uses the fasteners in helicopters, other aircraft, and ships. The indictment alleges that the defendants falsely certified that the fasteners they sold to the agencies and contractors met all applicable specifications. Prior to the indictment, four employees of the company entered into pretrial diversion agreements.

UPDATE: The company officials pled guilty to lesser charges. The other individual and the company pled guilty to all charges against them. Sentencing is pending.

CONTRACTOR EMPLOYEE CHARGED WITH THEFT

As a result of an OIG investigation, a former contractor employee was charged in local court with the theft of a credit card that belonged to an employer. The investigation disclosed that the employee misused the credit card to make personal purchases totaling over \$2,500. The charges were then billed to his employer as expenses under a NASA contract.

UPDATE: The individual has become a fugitive from justice, and an arrest warrant has been issued.

COMPANY AND ONE OFFICER ENTER GUILTY PLEAS

Following an investigation by a multiagency task force, a company and its vice president of sales each entered guilty pleas to charges of mail fraud concerning their roles in selling substandard fasteners to

a large aerospace contractor. The contractor acquired the fasteners for use on contracts with NASA and other agencies. They were charged in a criminal information with overriding quality control rejections of aerospace fasteners and falsely representing that the fasteners met contract specifications.

UPDATE: The company and the vice president were ordered to pay fines, penalties, and restitutions totaling over \$3.1 million. The vice-president was also sentenced to 6 months home confinement and ordered to perform 150 hours of community service.

AERONAUTICS

INDICTMENT RETURNED IN FALSE STATEMENT CASE

An OIG investigation resulted in an indictment against a company and its president. The indictment alleged that the defendants submitted five statements of business expenses, including insurance costs, to NASA knowing that the costs reflected thereon were false, fictitious, and fraudulent. One trial ended in a hung jury.

UPDATE: Following a second jury trial, the company president and the company were convicted on all five counts of false statements contained in the indictment. Sentencing is pending.

CONTRACTOR EMPLOYEE CHARGED WITH THEFT

Following an OIG investigation, which was conducted with the assistance of a local police department, a contractor employee was arrested and charged with theft of property. The charges were made under state statutes after the investigation disclosed that the contractor employee had stolen telephones and electronic equipment from a NASA Center.

UPDATE: The individual made alleged threatening statements to a potential witness and was arrested and charged with a misdemeanor violation of a state statute pertaining to interference in the administration of justice. A state court found the former contractor employee guilty of possessing stolen property. The former contractor employee was sentenced to 6 months in jail and 2 years probation. The jail sentence was suspended. The charge of interfering with the administration of justice was dropped.

FORMER EMPLOYEE PLEADS GUILTY TO CONFLICT OF INTEREST

As a result of a joint investigation by the OIG and the FBI, a former employee pled guilty to a conflict of interest charge. A one-count criminal information charged the employee with directing contracts to a company in which the employee had a financial interest while employed at the Center. During the investigation, the employee retired from NASA employment.

UPDATE: The former employee was fined \$2,500, placed on probation for 1 year, ordered to perform 8 hours of community service, and pay \$25 court costs.

CONTRACTOR PLEADS GUILTY TO CHARGE OF COPYRIGHT INFRINGEMENT

Following a joint investigation by the OIG and the FBI, a contractor pled guilty to a copyright infringement charge. The employee was charged in a one-count criminal information with reproducing and distributing copies of copyrighted computer software for commercial advantage and financial gain. The employee was a supplier of software to a NASA Center.

UPDATE: The contractor employee was arrested and charged with removing property against which the Government had placed a lien. The property had been forfeited to the Government as a result of the

plea agreement. The contractor employee was sentenced to 5 years probation, ordered to serve 300 hours of community service and pay restitution to the impacted clients. The charge stemming from the property removal was dropped.

MISSION TO PLANET EARTH

INFORMATIONS FILED IN BRIBERY AND GRATUITIES SCHEME

As a result of a joint investigation conducted by the OIG, FBI, and DCIS, criminal informations were filed against a NASA employee and two contractor employees. The NASA employee and one of the contractor employees were each charged with one count of bribery. The investigation substantiated allegations that the three participated in a scheme to fraudulently award purchase orders to one contractor employee. The informations allege that one contractor employee, who performed no work on the purchase orders, split the proceeds from the scheme with the NASA employee after being paid by the Center. The other contractor employee was charged with one count of offering a gratuity for his role in purchasing a computer at a contractor's expense and then providing the computer to the NASA employee for his personal use.

The Government employee retired from the Agency. The individual pled guilty to the charge and was sentenced to 6 months home confinement, placed on probation for 3 years, fined \$2,000, and ordered to make restitution of \$10,000. The contractor employees also pled guilty to the charges against them. One was sentenced to 3 months home detention, placed on probation for 2 years, fined \$5,000, and ordered to pay a \$50 court fee.

UPDATE: The other contractor employee was sentenced to 4 months home confinement, 3 years probation, and ordered to make restitution in the amount of \$3,600.

[Note: This page in the original document contains a photograph. For size of transmission purposes, this page is not included in this electronic copy.]

Chapter 5 - Legislation, Regulations, and Legal Matters

LEGISLATION

Draft FY 1997 NASA Authorization Bill. Comments were provided on this draft bill, which includes a provision that would give NASA additional authority to suspend or reduce certain payments to contractors when there is reason to believe the Agency has been victimized by fraudulent billing practices. This authority already exists for many other Federal agencies.

H.R. 2196, National Technology Transfer and Advancement Act of 1995. This office has expressed concerns over certain provisions of this bill which would loosen the restrictions in the Fastener Quality Act on commingling of fasteners. The bill would remove some controls on commingling lots of aerospace fasteners and would make it more difficult for the Government to trace substandard or nonconforming fasteners.

H.R. 3078, Federal Agency Anti-Lobbying Act. This bill would prohibit spending public moneys for any activity which is intended to promote public support or opposition to a legislative proposal. This office has commented upon the difficulty in proving intent. Secondly, under the bill the Comptroller General could request the diversion of resources of an independent IG to investigate these violations. In an era of declining Federal resources, we are concerned whether scarce investigative IG assets should be diverted by GAO to investigate these issues.

LITIGATION

On March 5, 1996, the Department of Justice, on behalf of NASA and the NASA OIG, filed a Petition for Review in the U.S. Court of Appeals for the 11th Circuit, in *National Aeronautics and Space Administration and National Aeronautics and Space Administration, Office of Inspector General v. Federal Labor Relations Authority (FLRA)*, Nos.

95-6630 & 95-6690. This case grew out of an unfair labor practice charge filed by a union local at the Marshall Space Flight Center in 1993.

The issues in this case involve application of the so-called *Weingarten* rule, 5 U.S.C. §7114(a)(2)(B). Under that provision, a bargaining unit employee fearing disciplinary action is entitled to union representation at an interview by "a representative of the agency." At issue is whether an OIG investigator is "a representative of the agency" in light of the independent authority granted to IGs under the IG Act. A second issue is whether the NASA Administrator can be held responsible for the investigative activities of NASA's IG under the labor law.

The FLRA petitioned the 11th Circuit for enforcement of its order. NASA Headquarters and the OIG filed a petition for review in the U.S. Court of Appeals for the D.C. Circuit. Both petitions were subsequently consolidated in the 11th Circuit.

TRAINING

During this reporting period, the OIG launched an in-house training program on legal issues pertinent to the work of OIG staff. Training was provided to OIG personnel at LaRC and GSFC. Topics included access to records, the Privacy Act, use of the IG subpoena, grand jury secrecy, and various fraud remedies. Training was also provided to all investigative staff on *Weingarten* rights, the Right to Financial Privacy Act, and various whistleblower protection statutes and cases.

FREEDOM OF INFORMATION ACT REQUESTS

During this reporting period the OIG processed 22 FOIA requests, of which 4 were appealed.

SUBPOENAS

During this reporting period the OIG issued 19 subpoenas *duces tecum* in support of ongoing investigations.

Appendix I - Audit Reports Issued by NASA OIG

Section 5(a)(6) of the Inspector General Act, as amended, requires a listing of each audit report issued by the OIG during the reporting period and for each report, where applicable, the total dollar values of questioned costs (*), including separate identification of unsupported costs, and recommendations that funds be put to better use (**).

For this period, a total of 11 reports identified \$508,485,404 in recommendations that funds be put to better use.

<u>Report</u>	<u>Report Title & Monetary Amount</u>	<u>Report</u>	<u>Report Title & Monetary Amount</u>
AR-96-001	RSRM Enhancement Project	KE-96-001	Impacts of Performing Orbiter Maintenance Down Periods at KSC Versus Palmdale (**\$450,000,000)
GO-96-001	EOS Data and Information System (EOSDIS) Distributed Active Archive Centers (DAACS) (**\$58,095,404)	KE-96-002	Spacehab Commercial Middeck Augmentation Module (CMAM) Project
HA-96-001	Consolidation of Aircraft at the Dryden Flight Research Facility	KE-96-003	Facilities Operations and Maintenance
HA-96-002	Audit of NASA's FY 1995 Financial Statements	KE-96-004	Payload Ground Operations Subcontracting
JP-96-001	Cassini Program Management	LA-96-001	Moving Support Service Contractors On-Center (**\$390,000)
JS-96-001	Boeing Indirect Cost Allocations to Space Station Contract		

Appendix II - External Audit Reports on NASA Contractors and Grantees

Referred by OIG to NASA Management

This appendix lists all DCAA and other external audit reports (e.g., OMB Circular A-128 or A-133, Defense Contract Management Command) referred by the OIG to NASA management for appropriate corrective action. For each audit report of this category issued during this period, the total dollar values are indicated for questioned costs following the report titles. For this period, a total of 19 reports identified \$9,400,406 in questioned costs.

	<u>Report</u>	<u>Report Title & Monetary Amount</u>
DCAA Reports	X-GO-96-001	Audit of Fiscal Year 1990 Expense Claim (\$148,019)
	X-GO-96-002	Billing System Review
	X-GO-96-003	Review of Timekeeping Policies and Procedures
	X-GO-96-008	Timekeeping Practices
	X-GO-96-009	FY 1992 and 1993 Incurred Costs (\$40,050)
	X-GO-96-010	Timekeeping System
	X-GO-96-011	Timekeeping Practices
	X-GO-96-016	Audit of Calendar Year 1992 Incurred Cost (\$600,400)
	X-GO-96-018	Billing System
	X-JP-96-001	Overtime & Extended Work Week Internal Controls (\$4,000,000)
	X-JP-96-002	FY 1992 Indirect Cost Rates (\$445,938)
	X-LA-96-001	Financial Management Report-NASA 533M
	X-LE-96-001	Incurred Costs - FY 1992 & 1993 (\$248,734)
	X-LE-96-002	Incurred Costs - FY 1991 & 1992 (\$84,930)
	X-LE-96-003	Termination Settlement Proposal (\$57,434)
	X-MA-96-001	Review of Facilities & Environmental Operations (\$2,247,093)
	X-MA-96-002	Review of Production Operations & Product Assurance (\$1,527,808)
Other External Reports	X-GO-96-013	FY 1994 A-133 Review
	X-GO-96-014	FY 1994 A-133 Review

Appendix III - DCAA Audits of NASA Contractors

DCAA provides various types of audit services to NASA on a reimbursable basis. The types of audits performed include: proposal evaluations which are used to negotiate the contract price; incurred cost reviews which verify amounts billed to the Government; reviews of contractor estimating, accounting, and purchasing systems; defective pricing reviews; and reviews for compliance with cost accounting standards. The resulting audit reports are sent to the NASA or Government contracting official having cognizance over the contract or contractor involved. The following sections summarize information provided during this period by DCAA on reports involving NASA activities, results of NASA actions on those reports, and significant reports that have not been completely resolved.

A. AUDIT REPORTS ISSUED

During the period, DCAA issued 761 audit reports (excluding preaward contractor proposal evaluations) on contractors doing business with NASA. The types of audits performed and the results of these audits are shown in DCAA provided figures shown here. (Dollar figures are in thousands.)

Type of Audit	Number of Audit Reports	Total Costs Questioned	Total Costs Avoided	Total
Incurred Costs	632	\$30,450	\$345	\$30,795
Defective Pricing	3	0	0	0
Cost Accounting Standards	126	\$1,477	0	\$1,477
Other Direct Effort	0	0	0	0
TOTALS:	761	\$31,927	\$345	\$32,272

DCAA also issued 351 reports on audits of NASA contractor proposals totaling \$1.96 billion, which identified cost exceptions totaling about \$28 million. These figures include proposals from several contractors bidding on the same contract; therefore, the total amount of exceptions is larger than the amount of potential savings to NASA.

B. NASA ACTIONS

Corrective actions taken on DCAA audit report recommendations usually result from negotiations between the contractor and the Government contracting officer. A total of 244 audit reports requiring action by procurement officials or contractors were resolved during the period which ended March 31, 1996. As shown here, contracting

Exceptions Sustained From:	Incurred Costs	Proposal Activity	Other	Total
Costs Questioned	\$6,345	\$41,138	0	\$47,483
Cost Avoidance	0	0	0	0
TOTALS:	\$6,345	\$41,138	0	\$47,483

officers sustained \$47.5 million of exceptions included in these reports. Of the exceptions sustained, DCAA categorized \$10.8 million as net savings to NASA. Net savings represent costs for which expenditures would have been made if the exceptions were not sustained. (Dollar figures are in thousands.)

C. UNRESOLVED DCAA AUDIT REPORTS

NASA's policy is to make optimum use of contract administration and related support functions, including audit resolution, available from DOD and other Government agencies. However, NASA management retains responsibility for the resolution of audits of direct costs and, in those cases where NASA is the major customer, for indirect costs and operations audits.

As of March 31, 1996, there were 25 DCAA audit reports totaling \$60.2 million in questioned costs or funds recommended for better use that were unresolved. This figure includes costs subject to negotiation and to determination of allowability. Therefore, all of these costs may not be collectible. The table above provides a breakout of reports for which NASA had resolution responsibility and that were unresolved during the period. (Dollar figures are in thousands.)

Age of Audits	Over 12 Months	6 to 12 Months	Less Than 6 Months	Total
Number of Audits	15	10	0	25
Recommended for Better Use/Costs Questioned	\$16,189	\$43,993	0	\$60,182

Glossary

DISALLOWED COST	A questioned cost that management, in a management decision, has sustained or agreed should not be charged to the Government.
EXCEPTIONS SUSTAINED	(DCAA Definition) Costs which were questioned by auditors and which agency management has agreed, are ineligible for payment or reimbursement. Ineligibility may occur for any number of reasons such as: (1) a lack of satisfactory documentation to support claims, (2) contract provisions, (3) public law, and (4) Federal policies or regulations.
FINAL ACTION†	The completion of all actions management has concluded, in its decision, that are necessary with respect to the findings and recommendations included in an audit report; and in the event that management concludes no action is necessary, final action occurs when a management decision has been made.
INVESTIGATIVE RECOVERIES	Investigations by the OIG that may result in the recovery of money or property of the Federal Government. The amounts shown represent: (1) the recoveries which management has committed to achieve as the result of investigations during the reporting period; (2) recoveries where a contractor, during the reporting period, agrees to return funds as a result of investigations; and (3) actual recoveries during the reporting period not previously reported in this category. These recoveries are the direct result of investigative efforts of the OIG and are not included in the amounts reported as the result of audits or litigation.
INVESTIGATIVE REFERRALS	Cases that require additional investigative work, civil or criminal prosecution, or disciplinary action. These cases are referred by the OIG to investigative and prosecutive agencies at the Federal, state, or local level, or to agencies for management or administrative action. An individual case may be referred for disposition in one or more of these categories.
MANAGEMENT DECISION†	The evaluation by management of the findings and recommendations included in an audit report and the issuance of a final decision by management concerning its response to such findings and recommendations, including actions concluded to be necessary.
NET SAVINGS	(DCAA Definition) Costs determined by DCAA for which expenditures would have been made if the exceptions were not sustained. For incurred costs, this category represents the Government's participation in costs questioned sustained. For successful fixed-price contractor proposals, it represents costs questioned sustained plus applicable profit. For successful cost reimbursement contractor proposals, net savings represents only the applicable estimated fee associated with the costs questioned sustained.
PROSECUTIVE ACTIVITIES	Investigative cases referred for prosecution which are no longer under the jurisdiction of the OIG, except for cases on which further administrative investigation may be necessary. This category represents cases investigated by the OIG and cases jointly investigated by the OIG and the FBI (or other law enforcement agencies), with the OIG initiating the case and reporting on its disposition.

Prosecuting agencies will make decisions to decline prosecution, to refer for civil action, or to seek out-of-court settlements, indictments, or convictions. Cases declined represent the number of cases referred which are declined for prosecution (not including cases which are settled without prosecution). Indictments and convictions represent the number of individuals or organizations indicted or convicted (including pleas and civil judgments).

QUESTIONED COST†

A cost that is questioned by the OIG because of: (1) an alleged violation of a provision of a law, regulation, contract, grant, cooperative agreement, or other agreement or document governing the expenditure of funds; (2) a finding that, at the time of the audit, such cost is not supported by adequate documentation; or (3) a finding that the expenditure of funds for the intended purpose is unnecessary or unreasonable.

QUESTIONED COSTS FOR WHICH A MANAGEMENT DECISION HAS NOT BEEN MADE

Costs questioned by the OIG on which management has not made a determination of eligibility for reimbursement, or on which there remains disagreement between OIG and management. All agencies have formally established procedures for determining the ineligibility of costs questioned. This process takes time; therefore, this category may include costs that were questioned in both this and prior reporting periods.

RECOMMENDATIONS THAT FUNDS BE PUT TO BETTER USE†

A recommendation by OIG that funds could be more efficiently used if management took actions to implement and complete the recommendation, including: (1) reductions in outlays; (2) deobligation of funds from programs or operations; (3) withdrawal of interest subsidy costs on loans or loan guarantees, insurance, or bonds; (4) costs not incurred by implementing recommended improvements related to the operations of the establishment, a contractor or grantee; (5) avoidance of unnecessary expenditures noted in preaward reviews of contract or grant agreements; or (6) any other savings which are specifically identified. (Note: Dollar amounts identified in this category may not always allow for direct budgetary actions, but generally allow the agency to use the amounts more effectively in accomplishment of program objectives.)

UNSUPPORTED COST†

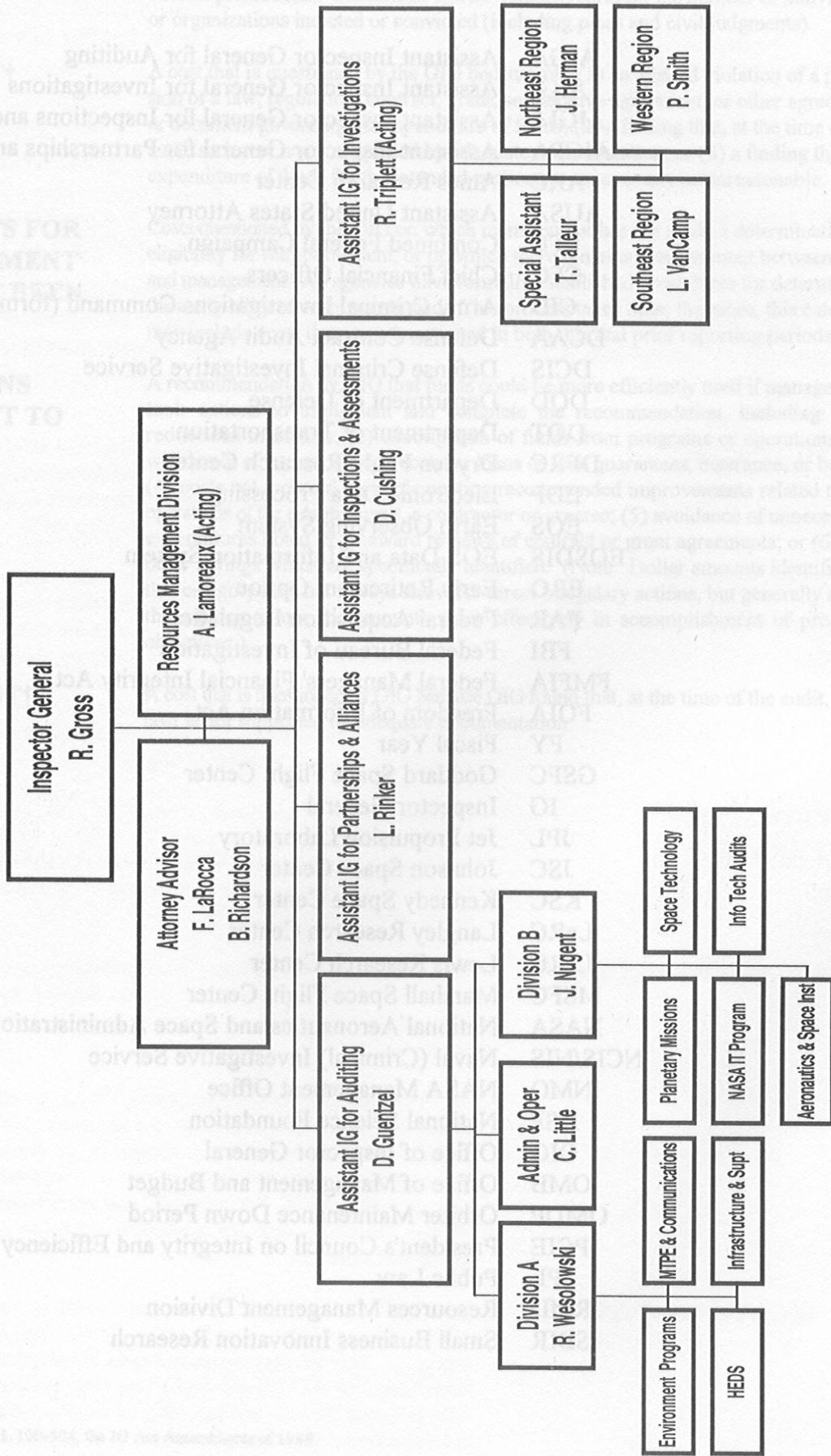
A cost that is questioned by OIG because OIG found that, at the time of the audit, such cost is not supported by adequate documentation.

†These definitions are derived from PL 100-504, the IG Act Amendments of 1988.

Acronyms

AIGA	Assistant Inspector General for Auditing
AIGI	Assistant Inspector General for Investigations
AIGIA	Assistant Inspector General for Inspections and Assessments
AIGPA	Assistant Inspector General for Partnerships and Alliances
ARC	Ames Research Center
AUSA	Assistant United States Attorney
CFC	Combined Federal Campaign
CFO	Chief Financial Officers
CID	Army Criminal Investigations Command (formerly Division)
DCAA	Defense Contract Audit Agency
DCIS	Defense Criminal Investigative Service
DOD	Department of Defense
DOT	Department of Transportation
DFRC	Dryden Flight Research Center
EDP	Electronic Data Processing
EOS	Earth Observing System
EOSDIS	EOS Data and Information System
ERO	Early Retirement Option
FAR	Federal Acquisition Regulation
FBI	Federal Bureau of Investigation
FMFIA	Federal Managers' Financial Integrity Act
FOIA	Freedom of Information Act
FY	Fiscal Year
GSFC	Goddard Space Flight Center
IG	Inspector General
JPL	Jet Propulsion Laboratory
JSC	Johnson Space Center
KSC	Kennedy Space Center
LaRC	Langley Research Center
LeRC	Lewis Research Center
MSFC	Marshall Space Flight Center
NASA	National Aeronautics and Space Administration
NCIS/NIS	Naval (Criminal) Investigative Service
NMO	NASA Management Office
NSF	National Science Foundation
OIG	Office of Inspector General
OMB	Office of Management and Budget
OMDP	Orbiter Maintenance Down Period
PCIE	President's Council on Integrity and Efficiency
PL	Public Law
RMD	Resources Management Division
SBIR	Small Business Innovation Research

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Roberta L. Gross
Inspector General

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