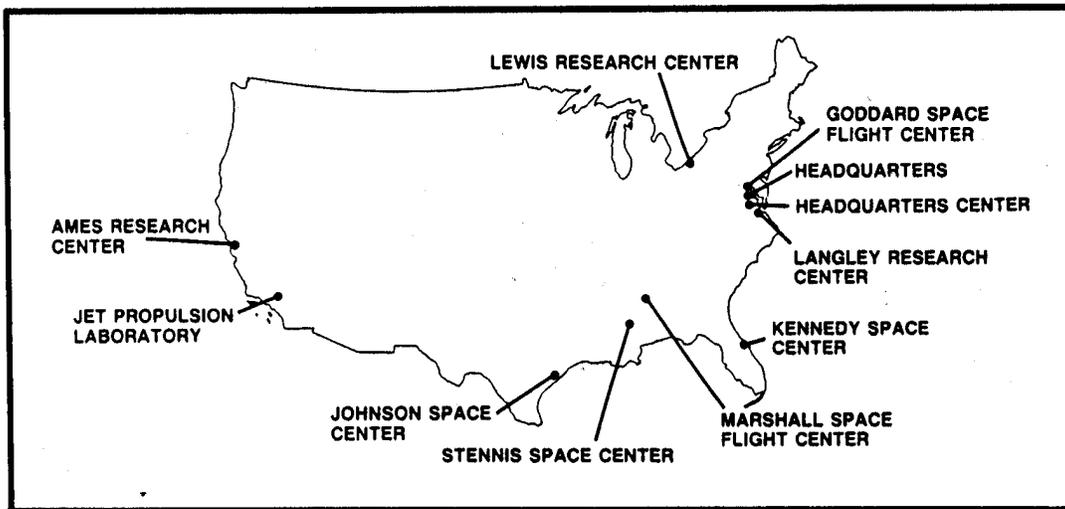


Office of Inspector General

Semiannual Report

April 1, 1994 - September 30, 1994





NASA Headquarters and Field Installations

Photographs:

- Cover:** Space Shuttle and Launch Platform Rolled Out to Kennedy Space Center's Launch Pad 39-A
- Page 11:** Mission Specialists Practice Space Walking Techniques and Evaluate Tools Used on the First Hubble Space Telescope Servicing Mission
- Page 24:** Sunlight Reflects Off Shuttle Endeavour's Aft Windows and the Shiny Hubble Space Telescope Prior to Post Servicing Deployment
- Page 35:** Maximum Shower of Leonid Meteors, November 12, 1833

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



OCT 24 1994

Reply to Attn of:

Office of Inspector General

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

Dear Mr. Goldin:

I respectfully submit to you this Semiannual Report on the activities and accomplishments of the Office of Inspector General (OIG) for the period which ended September 30, 1994. 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 by NASA organizational element to facilitate management's review of this report.

The OIG is dedicated to helping create a NASA that works better and costs less by implementing the reinvention principles contained in the Inspectors General Vision Statement. Mr. Bill D. Colvin, the NASA Inspector General since 1985, resigned in September. Under his excellent leadership and direction, the OIG has forged an effective and productive partnership with Agency management. I am confident that this partnership can be further enhanced.

While maintaining our independence and objectivity we will continue to pursue the detection and prevention of fraud, waste, and mismanagement, and will respond professionally and timely to requests for assistance. I appreciate the cooperation and consideration extended to us by you and NASA management, and look forward to addressing the challenges and opportunities which face the Agency.

Sincerely,

A handwritten signature in cursive script that reads "Lewis D. Rinker".

Lewis D. Rinker
Acting Inspector General

Enclosure

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.
-



Office of Inspector General
Semiannual Report
April 1, 1994 - September 30, 1994

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AUDITS

Activities	OIG Reports Issued	32
	DCAA Reports Referred to NASA Management by OIG	27
	Other External Reports Referred to NASA Management by OIG	2
Impact	Recommended Better Use of Funds¹	
	OIG	\$136.0 million
	DCAA4 million
	Other External	0
	TOTAL	\$136.4 million
	Questioned Costs	
	OIG	\$.4 million
	DCAA	13.0 million
	Other External	0
	TOTAL	\$ 13.4 million

INVESTIGATIONS

Activities	Cases Opened	176
	Cases Closed	224
	Cases Pending (328 criminal and 36 noncriminal)	364
	Hotline Complaints	
	Received	80
	Referred to Audits or Investigations	70
	Referred to NASA Management	5
	Referred to Other Agencies	1
	No Action Taken	4
	Impact²	Indictments/Informations
Convictions/Plea Bargains/Pretrial Diversions		17
Cases Referred for Prosecution		38
Cases Declined		28
Cases Referred to NASA Management for Action		72
Cases Referred to Other Agencies for Action		8
Suspensions/Debarments		
Individuals		0
Firms		0
Administrative Actions		
NASA Employees		32
Contractor Employees		46
Recoveries	\$26.1 million	
Funds Put to Better Use	<u>7.7 million</u>	
TOTAL OIG Investigations Dollar Impact	\$33.8 million	

¹ See Appendix IV for definition and impact of "Recommendations That Funds Be Put to Better Use."

² Includes results from joint investigations.

This semiannual report summarizes the audit and investigation activities performed by the Office of Inspector General (OIG) during the 6-month period which ended September 30, 1994, pertaining to National Aeronautics and Space Administration (NASA) programs and operations. The report is required by law for the purpose of keeping the Administrator and Congress currently and fully informed. This section highlights some of the matters which have been reported.

Audits

- Interest costs of \$9.3 million could have been avoided if adequate funding had been secured to purchase a supercomputer and storage system.
- No opinion was expressed on NASA's FY 1993 financial statements because accounting records did not adequately support a material portion of property, plant and equipment.
- NASA could potentially save \$136 million by locating the Earth Observing System data production facility at another existing facility.
- Excess funds of about \$1 million were accumulated due to excessive cost recovery chargeback rates.
- Improved equipment management practices could reduce equipment losses.
- A contractor received \$212,500 as award fees not warranted by its performance.
- Improving oversight of support contractors' quality assurance programs will reduce Orbiter hardware failures and costs.

Investigations

- The Government collected \$75 million from a contractor who misclassified overhead costs, failed to properly account for foreign direct selling costs, and mischarged hazardous waste disposal costs.
- Contractors allowed Government employees to use plagiarized Government-funded research reports to satisfy advance degree requirements in exchange for their steering contracts to the contractor.
- Deficient NASA oversight of a contractor resulted in contractor employees improperly purchasing items for personal use from a NASA-owned facility bookstore and storeroom.
- A former contractor employee accessed and misused a Center's telecommunications computer hardware and software to benefit an outside business.
- While working both at NASA and in assisting an academic institution to prepare grant-related proposals and reports, a former employee traveled at Government expense to pursue an outside employment interest.

High Risk Areas and Material Weaknesses

The OIG continues to focus attention on: (1) the NASA areas included on the Governmentwide list of "high risk" areas identified by the Office of Management and Budget (OMB), (2) material weaknesses and areas of significant concern reported under the Federal Managers' Financial Integrity Act (FMFIA), and (3) areas of material nonconformance considered by the OIG to be reportable under the FMFIA Act. During this reporting period the OIG performed work in the following categories:

Procurement and Contract Management

- Changes in the procurement process can reduce the Agency's vulnerability to potential bid protests.
- Properly planning for and justifying the procurement method on electronic data processing (EDP) equipment could lower acquisition costs.
- Improving oversight of support contractors' quality assurance programs will reduce Orbiter hardware failures and costs.
- Lessons learned from a prior supercomputer acquisition can be used to improve upcoming acquisition strategy.
- Establishing more realistic chargeback rates for spacecraft integration and testing services would eliminate future excess collections.
- Placing greater reliance on performance monitor evaluations could result in a better process for determining cost control award fees.
- The Agency needs to take a spacecraft development contractor's deficient performance into consideration in making contract decisions regarding the project.

Financial Management

- Developing a single, integrated accounting system would enable NASA to better comply with the Chief Financial Officers Act of 1990.

Contractor-Held Property Accounting and Reporting

- Improvements in the accuracy and completeness of contractor-held property reports together with consistent reporting dates would enable NASA to prepare more accurate financial statements and comply with OMB requirements.

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, nine field installations, the Jet Propulsion Laboratory, and several component installations. Research and development work managed and funded by NASA is largely executed by contractors. In fiscal year (FY) 1994, NASA employed nearly 23,300 civil servants and funded over 46,200 on-site support services contractor employees. Budget authority (to obligate Agency funds) for FY 1994 totaled approximately \$15.4 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 and investigations 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 88 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 three major units: Audits, Investigations, and Administration. OIG personnel primarily are located at NASA Headquarters and at ten NASA installations. Working under the general direction of the Inspector General (IG) and the Deputy Inspector General (DIG), the Assistant Inspectors General for Auditing (AIGA), Investigations (AIGI), and Inspections, Administration and Evaluations (AIGIAE) are responsible for the development,

implementation, and management of their respective programs. The OIG Center Directors report administratively to the DIG and are responsible for the audits and investigations conducted in their geographic territory. For all audit and investigative operations, the OIG Center Directors report directly to the AIGA and the AIGI, respectively. The OIG has its own legal counsel and personnel and budget authority. During this period, the former position of Assistant Inspector General for Management was abolished and the Assistant Inspector General for Inspections, Administration and Evaluations position was created. This reorganization will implement an inspections function within the OIG.

Membership. The IG is a member of the President's Council on Integrity and Efficiency (PCIE), and served as its vice-chair during this reporting period. He is also a member of the NASA Data Integrity Board.

Inspector General Departs. In September, Bill D. Colvin resigned as the NASA Inspector General after serving 9 years in that position. During his tenure, Colvin was instrumental in: increasing the OIG staffing and budget levels, executing a separate OIG budget appropriation, implementing requirements of the Chief Financial Officers Act of 1990, and realigning the audit focus and methodology from a functional to a programmatic approach.

For several years Mr. Colvin served as Vice Chairman of the PCIE and served on several committees. He was also an active member of a number of associations, boards, and round tables, including the Computer System Security and Privacy Advisory Panel operated by the Department of Commerce, National Institute of Standards and Technology.

COOPERATION WITH MANAGEMENT

The National Performance Review (NPR) report contained the following recommendation: Change the focus of the Inspectors General from compliance auditing to evaluating management control systems. In addition, recast the Inspectors General method of operation to be more collaborative and less adversarial.

The OIG maintains a cooperative spirit with NASA management as audits are conducted of Agency programs and operations. To the extent appropriate and permitted by law, management has been apprised of significant investigative matters. This spirit of cooperation was maintained prior to and since release of the NPR report.

We recognize that for maximum effectiveness and benefit, the OIG should work in partnership with management. As such, we are reexamining our procedures and processes to become more collaborative and less adversarial as we work with NASA management. One commitment to the initiatives of the NPR is evidenced by our emphasis on using new audit products such as management letters. These early warning letters will enable management and the OIG to identify emerging issues and to head off potential problems before they become systemic.

The OIG continues to examine ways to enhance methods of operation while implementing the reinvention principles of the OIG's vision statement. Following are examples of OIG actions during this reporting period which demonstrated our commitment to working harmoniously with NASA management.

- Multi-Year Savings on Cooperative Agreement. During an ongoing audit, an auditor determined that an applicant had improperly proposed indirect costs for a cooperative agreement. The proposal contained indirect costs not allocable to the proposed work. The auditor assisted in negotiating the 36-month agreement which resulted in reduced indirect costs amounting to about \$510,000.
- NASA Ownership of Spacelab Hardware. While conducting the audit of FY 1993 financial statements, the OIG noted that NASA may not have clear title to Spacelab hardware included in the statements. The OIG worked with NASA management to address and resolve this concern before the financial statements and audit report were issued. The cooperation and prompt action by both parties resulted in a clarification of the ownership issue and a \$3.3 billion write down of the asset value. Without this effort, ownership rights of Spacelab would have remained unclear and the Agency's hardware account would have been overstated by as much as 25 percent.
- Inefficient Use of Secretarial/Clerical Support. The OIG identified an instance where NASA was inefficiently using secretarial and clerical support from another Federal agency for NASA activities at three off-site locations. Billings for the support services cost NASA substantially more than using in-house staff. The OIG met with NASA managers who agreed to take appropriate corrective actions that could save NASA about \$100,000 annually.
- OIG Participation in Contract Administration/Audit Services Process Action Team. The OIG is participating in an Agency-wide process action team that is examining the processes for obtaining, using and monitoring contract administration and audit services. The team will be documenting the processes used and recommending changes to improve them.
- Use of Electronic Funds Transfer (EFT) Methods. While performing a review of NASA's actions to streamline and implement NPR initiatives, the OIG noted that the Agency was not processing all payments to state and local governments via EFT. As a result of working with management, NASA decided that state

withholding tax payments could use this process, and letters to establish EFT procedures were sent to 12 states.

- Electronic Data Processing (EDP) System Security. NASA Headquarters identified EDP systems that contain classified or sensitive information. While performing audit work in this area, OIG auditors identified a number of systems not included in the central listing. Management and the OIG agreed to coordinate their efforts and share information to ensure that all systems are properly identified and secured.
- Use of Spacehab. During a review of Spacehab use, OIG auditors found that Spacehab, Inc., had submitted a proposal to provide logistics support to the Space Station program. A significant savings might occur if Spacehab is used instead of Spacelab. We advised management of our concerns that NASA not miss an opportunity to realize cost savings and requested they advise us of their decision.
- OIG Participates in NASA Procurement Initiative. At NASA's request, the OIG provided a representative to serve on an independent review team to examine support service contracting at Headquarters. The team's mandate was to review each contract task and identify where an effort could be performed more efficiently in-house by existing Civil Service personnel. The analysis effort is complete and results are being finalized. Preliminary results indicate that substantial cuts can be achieved in the level of support services and associated costs.
- OIG Participates in NASA Small Purchase Reengineering Initiative. At NASA's request, the OIG is participating on a team to "reengineer" the Agency's small purchase practices. Within the NPR's spirit, the team is examining ways to streamline the small purchases process to provide better, faster and cheaper service to customers. Automated "virtual" systems and use of credit cards are being considered.
- OIG Participates on Agency Process Action Team. The OIG is represented on an Agency process action team formed to study and evaluate the equipment loss rate at Headquarters. The principal goal of the team is to identify ways to

improve management of the Agency's controlled equipment and property. The team is studying various processes and structures that impact equipment inventories. Areas of emphasis are the automated equipment data, security, property custodian responsibilities, and the board of survey process. Preliminary recommendations have been made for immediate and long-term actions.

- Business Process Reengineering of the Directive System. OIG is participating in NASA's effort to review all policy documents. This is in response to both the requirements of the NPR, and an Agency drive to streamline and improve operations. Objectives include: clarifying essential policy statements applicable to the entire Agency, reducing the level of prescriptive guidance to the field, and establishing agreed standards for performance measurement. The combined effort will focus on customer service, flexibility, timeliness, and cost control.

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 32 audit reports that addressed program and operational areas with high vulnerability in terms of risk and impact on NASA operations, internal control weaknesses, and other management deficiencies. Appendix I lists these reports. Since 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, and continued use of on-site contractors to provide support services to NASA.

Audits of NASA grants and contracts at most educational and nonprofit institutions are performed by public or state auditors under oversight of a cognizant Federal agency. Audit reports provided to the OIG are reviewed, and those containing significant issues are referred to NASA management. Appendix II lists 27 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.

Chief Financial Officers (CFO) Act. The CFO Act of 1990 (PL 101-576) requires: (1) Federal agencies to produce certain financial statements beginning with statements for 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 cadre of auditors performing financial audits.

During this reporting period, the OIG completed its audit of NASA's FY 1993 financial statements. Although NASA financial managers have greatly improved the preparation and documented support of the statements, the OIG was unable to express an opinion about them. This was primarily due to inadequate support for a material portion of property, plant and equipment for which the record keeping responsibility was delegated to NASA contractors. Along with contractor-held property, NASA's nonintegrated accounting systems were also cited as a problem in both the "Report on Internal Control Structure" and "Report on Compliance With Certain Laws and Regulations."

A management letter that will be completed during the next semiannual period will provide recommendations in the areas of contractor-held and Government-held property that were not material in relation to the financial statements, but

warrant management's attention to increase accountability over assets and enhance NASA's ability to operate effectively and efficiently.

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—nearly 74 percent resulted 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 the prevention and detection of 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 established a consistent record of positive results.

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.

Data for the 6-month period which ended September 30, 1994, were not available for this report. NASA's Financial Management Division provided the following data for the period which ended March 31, 1994: total accounts receivable, \$11,051,430; total delinquent, \$8,190,387; and amount written off, \$10,807.

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.

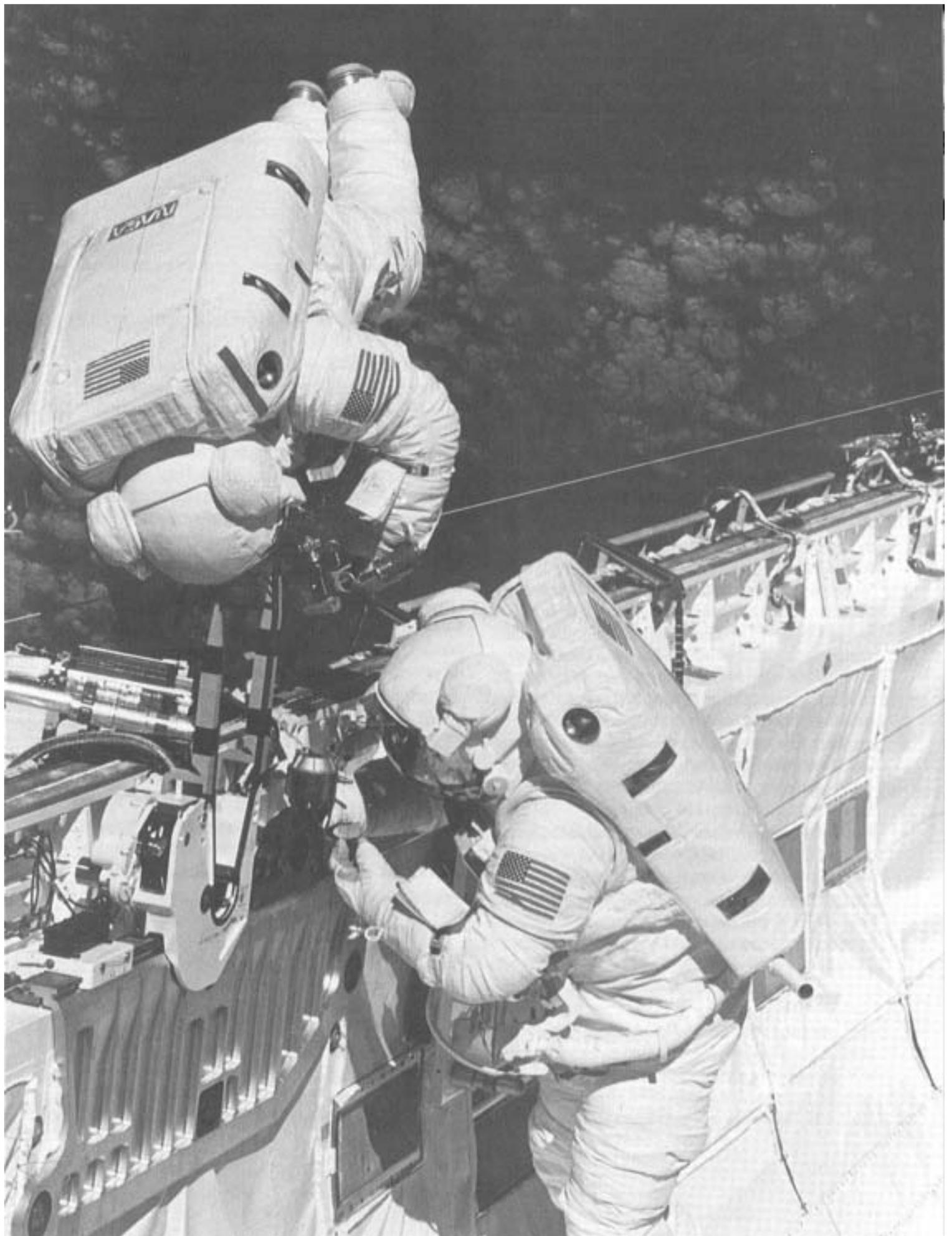
The OIG's internal administrative and support operations are directed and managed by the AIGIAE, who advises the IG and all other OIG managers and staff on administrative, budget, personnel, management, inspection and evaluation matters, and oversees OIG adherence to management policies. Under the AIGIAE's direction the OIG exercises full, autonomous personnel and budget authority. OIG technical and administrative support is provided using state-of-the-art electronic data processing and office automation equipment and capabilities.

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	36
Section 5(a)(1) Significant Problems, Abuses and Deficiencies	12-19
Section 5(a)(2) Recommendations With Respect to Significant Problems, Abuses and Deficiencies	12-19
Section 5(a)(3) Prior Recommendations Not Yet Implemented	25-28
Section 5(a)(4) Matters Referred to Prosecutive Authorities	2
Section 5(a)(5) Summary of Instances Where Information and 6(b)(2) Was Unreasonably Refused or Not Provided	None
Section 5(a)(6) List of OIG Audit Reports	39
Section 5(a)(7) Summary of Each Particularly Significant Report	12-19
Section 5(a)(8) Statistical Table on Management Decisions on Questioned Costs	23
Section 5(a)(9) Statistical Table on Management Decisions on Recommendations That Funds Be Put to Better Use	23
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	22
Section 5(a)(12) Significant Management Decisions With Which the Inspector General Disagrees	22



Chapter I - Significant Audit and Investigative Matters

OIG AUDIT AND INVESTIGATIVE MATTERS

CHIEF FINANCIAL OFFICER/ COMPTROLLER

OPINION ON ADEQUACY OF FINANCIAL STATEMENTS CANNOT BE EXPRESSED

The Chief Financial Officers (CFO) Act of 1990 requires NASA to prepare annual financial statements. An OIG audit of NASA's FY 1993 financial statements determined that accounting records did not adequately support a material portion of \$21.7 billion in property, plant, and equipment. Accordingly, we were not able to express an opinion on these statements. In addition, an evaluation of NASA's internal control structure determined amounts reported by contractors as contractor-held property were incomplete and not always accurate. Regarding the Agency's compliance with laws and regulations, auditors determined NASA's accounting system does not meet the requirements of the CFO Act of 1990 because NASA does not maintain a single, integrated accounting system. Further, inconsistent contractor reporting dates for both property and the FY 1993 statements resulted in noncompliance with OMB requirements.

ADVANCED CONCEPTS AND 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 technologies developed; and (3) reduce unreasonably high contractor salaries. We estimated salary adjustments would produce \$409,495 in savings to NASA during the contract period. Recommendations were made for NASA to provide contractors with guidance regarding foreign access to technology transfer material, ensure contractor property reviews are more thorough, and modify contracts to cover only reasonable contractor salaries. Management concurred with each recommendation except one which addressed contractor employee salaries. We requested management to reconsider its position. We received management's commitment to perform a salary review which may result in reducing costs.

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 profits of \$77,000 that subsidized the employee cafeteria. Since student housing was paid for with appropriated training funds, this practice resulted in reduced training opportunities for NASA employees. The OIG concluded this was an improper use of appropriated funds, but also questioned whether the morale activity should be providing housing services. We recommended NASA perform an analysis of the rates charged for housing services and to review whether the provision of housing services is an appropriate function of a nonappropriated fund activity. Management concurred with the recommendation to review the rates, but partially nonconcurred with the recommendation to review the appropriateness of providing these services. The NASA Comptroller is reviewing the unresolved issue.

PROCUREMENT

PROCUREMENT PROCESS CHANGES NEEDED

During the recompetition of one Center's base operations contract, protests were filed by unsuccessful

bidders with the General Services Board of Contract Appeals. An OIG audit of the recompetition determined the autonomy of the source evaluation board (SEB) was negatively affected by inappropriate actions of an ex-officio SEB member. This included changing SEB evaluation data and pressuring board members to make decisions they may not have otherwise made. We recommended using an SEB coordinator on future boards. In addition, a status briefing prepared for the NASA Administrator left the Agency vulnerable to possible protest because the briefing revealed evaluation information prior to selection and announcement of an offer for final negotiations. Accordingly, we recommended NASA Headquarters clarify its advance notification procedures. Management concurred with both recommendations, announced the establishment and staffing of an Executive Manager of SEB Operations, and plans changes to advance notification procedures.

SUPERCOMPUTER AND STORAGE SYSTEM LEASE COSTS \$9.3 MILLION

The Federal Acquisition Regulation (FAR) states that agencies should consider whether to lease or purchase equipment based on a case-by-case evaluation of comparative costs and other factors. An OIG audit of purchase methods for major purchases at one NASA Center showed that both a supercomputer and storage system were leased when a lease-versus-purchase analysis showed that direct purchase was the most economical procurement option. Center officials stated the reason for leasing was that adequate funding was not made available for direct purchase. As a result, interest costs of approximately \$9.3 million were incurred. We recommended the Center ensure all EDP equipment acquisitions are properly planned for and the procurement method justified. Further, the Center's procurement division should at least annually, report to senior management the total amount of interest paid on leases. Management concurred with the recommendation and has initiated corrective actions.

SPACE FLIGHT

ORBITER HARDWARE QUALITY ASSURANCE PROGRAMS NEED IMPROVEMENT

Approximately 250 subcontractors supply various systems and components to a major NASA contractor's plant where the individual parts, pieces, and systems are assembled and tested for use on the Space Shuttle. An OIG audit of the contractor's operation disclosed that: (1) unsatisfactory contractor quality processes have contributed to Orbiter hardware failures; (2) NASA is spending more than \$43 million annually to repair contractor-provided Orbiter hardware that has failed, malfunctioned, and/or does not conform to contract requirements; (3) approximately 23 percent of the Shuttle missions flown since the Challenger accident have been delayed due to problems with Orbiter subsystems; and (4) 30 percent of Orbiter hardware problems were open for more than a year. We recommended that NASA improve its oversight of support contractors' quality assurance programs and make the Orbiter prime contractor fiscally responsible for hardware problems that are attributed to unsatisfactory quality. Management concurred and has begun developing plans for assessing Orbiter quality effectiveness, incorporating contract provisions emphasizing quality through incentive and award fees, and reducing time and improving cost effectiveness for resolving Orbiter hardware problems.

ADVANCED SETTLEMENT OF SPACE STATION TERMINATION COSTS PLACES NASA AT RISK

Based on a Presidential initiative to redesign the Space Station, NASA decided to use a single prime contractor to complete the Space Station, rather than three as used in the initial program. An OIG audit of the novation and termination process determined NASA began final settlement

of the Space Station Freedom Work Package 2 contract before receipt of the contractor's final proposal, subcontractor proposals, and all associated audits and reviews. This expedited settlement resulted from program officials' desire to settle old contracts quickly to minimize costs. This resulted in NASA bypassing the usual contract settlement process, thereby creating an unnecessary risk of settling contractor costs that may not be allocable to the contract. We recommended NASA obtain the contractor's final cost proposal for termination and to have it audited prior to negotiation. NASA management concurred with the recommendation and completed the corrective actions.

FORMAL HOST-TENANT AGREEMENT NEEDED ON SPACE STATION PROGRAM

NASA Headquarters stated it was important to the success of the Space Station program redesign to have a formal agreement between the host Center and tenant program office. An OIG audit of the Space Station program's management structure revealed no such agreement had been executed, 6 months after it was declared essential. This occurred because Center management believed the agreement would have little value due to constantly changing requirements. The audit pointed out that requirements of the program have since stabilized, cited the benefits of formally declaring responsibilities and services to be provided, and noted the potential for disputes in not having one. We recommended NASA management develop and complete a written host-tenant agreement. NASA management concurred with the intent of the recommendation and completed the agreement on July 24, 1994.

SETTLEMENT RESULTS IN \$75 MILLION REPAYMENT

As a result of a joint investigation by the NASA OIG, DCIS, NCIS, and the DOE OIG, with audit assistance by the DCAA, a contractor entered into an agreement with the Government under the

terms of which it repaid the Government \$75 million. The settlement resolved claims that the contractor had misclassified certain costs related to overhead, failed to properly account for foreign direct selling costs, and mischarged hazardous waste disposal costs. The settlement, of which \$3 million pertained to NASA programs, was negotiated by an AUSA after criminal prosecution in the matter was declined.

SIX CHARGED WITH FRAUD

As a result of an OIG investigation, three NASA employees, one DOD employee, and two former contractors were indicted on charges that they engaged in a scheme to defraud the Government. The 31-count indictment alleged that contractors allowed Government employees to plagiarize Government-funded research reports that had been prepared by the contractors and submit them as their own to satisfy advance degree requirements. It alleges that, in return, the Government employees, who were employed in positions to monitor, influence, or award contracts, steered contracts to the contractors. Resolution of the charges is pending.

OVER \$646,000 IN COSTS AVOIDED, OVER \$16,000 REPAID

Following an OIG investigation, a former employee at a NASA Center repaid the Agency over \$16,000 in salary and travel costs. As a result of the investigation, the Agency decided not to fund follow-on research by the former employee under a grant and thereby avoided spending over \$646,000. Another Agency employee was issued a written reprimand for his role in approving the former employee's outside employment and travel and funding for the grants. The investigation disclosed that the former employee traveled at Government expense to pursue an outside employment interest. During the time he was employed by the NASA Center, he was employed by and assisted an academic institution in preparing grant-related proposals and reports. Criminal prosecution in this matter was

declined in favor of the settlement reached with the employee.

IMPROPER CHARGES TO OVERHEAD COSTS

Following an investigation by the NASA OIG and the AFOSI, with audit assistance by the DCAA, a contractor repaid the Government over \$1.4 million. The repayment was made in accordance with an agreement negotiated with the contractor by an AUSA. It settled claims that employees of the contractor had improperly charged the time spent on breaks to overhead during a 7-year period. The portion of the repayment that pertained to NASA programs was over \$153,000.

STANDARDS OF CONDUCT VIOLATIONS JEOPARDIZE PROCUREMENT PROCESS INTEGRITY

An OIG investigation assisted contractor managers in determining that one of its buyers was improperly directing business to a personal friend. The investigation determined that the employee was involved in a conflict of interest. The contractor's managers agreed that the employee had violated company policies regarding standards of conduct and the integrity of the procurement process. Their review identified several internal control weaknesses that allowed the employee to circumvent company policies in awarding purchase orders to the friend.

The contractor terminated the buyer and reimbursed the Agency over \$64,000. It also strengthened the applicable internal controls. An AUSA declined interest in prosecution in view of the remedial actions taken.

**SUPERCOMPUTER ACQUISITION
PROCEDURES COULD BE
IMPROVED**

An audit of NASA's purchase of a high speed supercomputer determined that procurement delays jeopardized program objectives. This included the ability to sustain a pathfinder role in advanced, large-scale computer systems, and to ensure U.S. leadership in computational fluid dynamics. The delay occurred because NASA tried to limit competition on the procurement to domestic manufacturers by pursuing national security exceptions to the Competition In Contracting Act. Events later determined the domestic manufacturer had the technically superior computer and that the extensive efforts to limit competition were unnecessary. Parallel influences were also present which facilitated the delay, including Agency policy considerations, congressional oversight, and external agency consultations. The delay lasted 9 months and had an associated cost of \$5 million that could have been spent operating and supporting the new computer. The audit concluded that valuable lessons could be learned from this procurement. Accordingly, we recommended that the lessons learned be incorporated into the acquisition strategy for an upcoming procurement of another supercomputer. Management concurred and assured the OIG that the acquisition strategy would reflect the knowledge gained from the procurement experience.

**FORMER CONTRACTOR
EMPLOYEE CHARGED WITH
COMPUTER FRAUD**

As a result of an OIG investigation, which was assisted by the United States Secret Service, NASA and contractor managers, and local law enforcement officials, a former contractor employee at a NASA Center entered into a pre-

trial diversion agreement with local prosecutors. The agreement stipulated that the evidence against the employee was sufficient to prove the employee guilty on two counts of computer fraud. The charges were alleged in a four-count indictment handed down by a local Grand Jury. The indictment alleged that the former contractor employee accessed and misused the Center's telecommunications computer hardware and software in furtherance of an outside business. The court agreed to withhold sentencing for 1 year.

**CONTRACTOR EMPLOYEE PLEADS
GUILTY TO FALSE CLAIMS**

Following a joint investigation by the NASA OIG, DCIS, and NCIS, with audit assistance by the DCAA, a contractor employee was sentenced to 6 months home confinement and 2 years supervised probation. The employee was also ordered to make restitution in the amount of \$37,205. The investigation disclosed that the employee falsely certified that materials provided to NASA and the DOD met purchase order specifications. Resolution of a civil lawsuit in the matter is pending.

**GRATUITY ACCEPTED TO
INFLUENCE OFFICIAL ACTS**

A joint investigation by the NASA OIG and the DCIS, with audit assistance by the DCAA, resulted in a guilty plea by a former DOD employee to a charge that he accepted a gratuity from a contractor. The investigation disclosed that the former employee accepted a gratuity to influence his official acts as a contracting officer's technical representative on Government contracts. The former employee performed monitoring responsibilities for contracts with the contractor that were funded in part by NASA.

CONTRACTOR REPAYS \$69,800

An OIG investigation confirmed a disclosure by a contractor that one of its employees had embezzled travel funds, mischarged direct labor costs, and misappropriated Government equipment and services totaling \$69,800. The contractor terminated the employee. An AUSA declined criminal prosecution in favor of administrative action. The contractor repaid NASA the \$69,800 that it had inappropriately billed to the Agency because of the activities of the former employee.

SPACE SCIENCE

IMPROVED MANAGEMENT PRACTICES COULD REDUCE EQUIPMENT LOSS

At the request of NASA, the OIG conducted an audit of equipment management at a major NASA facility. The audit determined that the percentage of equipment losses at this facility was greater than at two other NASA Centers with similar inventory practices. The equipment losses, which amounted to approximately \$3.2 million in 1992, resulted primarily from contractor personnel not following established internal control procedures. We recommended that NASA emphasize with the resident contractor the need for timely reporting of equipment losses, reinforce procedures to reduce equipment losses, and establish responsibility for lost equipment. NASA management concurred with the intent of the recommendations and the contractor agreed to establish a process action team to address the report recommendations. NASA management will verify the responsiveness of the contractor's corrective actions.

ABOUT \$1 MILLION IN EXCESSIVE CHARGEBACK RATES COLLECTED

At one NASA Center, the organization which performs spacecraft integration and testing services uses a job cost accounting system to collect, by individual job, the costs incurred for labor and materials. These costs are then allocated using standard chargeback rates to customers for whom integration and testing services are provided. An OIG audit showed that chargeback rates were higher than required for cost recovery and have resulted in the accumulation of approximately \$1 million in excess funds. These funds were used to augment the servicing organization's budget for maintenance and repair, equipment replacement, and facilities improvement. This practice did not comply with applicable NASA guidance and could contribute to project overruns. We recommended that the chargeback rates be established by the organization providing the services and agreed to by the engineering directorate and the comptroller's office. We also recommended that the engineering directorate and the Center comptroller determine the disposition of the excess funds. Management concurred with the recommendations and has initiated actions which should ensure that excess collections do not occur in the future.

ITEMS IMPROPERLY PURCHASED FOR PERSONAL USE

An OIG investigation assisted contractor managers in determining that contractor employees at a NASA-owned facility were improperly purchasing items for personal use from the facility's bookstore and storerooms. A related audit by the OIG determined that the contractor was not complying with internal control procedures, and that NASA's oversight of the contractor was deficient. As a result of recommendations arising from the audit and investigation, the contractor strengthened controls over the purchase of items through the facility's bookstore and storerooms, took disciplinary action against 24 employees, and

obtained over \$23,000 in restitution from employees who made improper purchases.

MISSION TO PLANET EARTH

EOS DATA PRODUCTION FACILITY RELOCATION COULD SAVE \$136 MILLION

The Earth Observing System (EOS) will observe earth from space, collect and process data, and distribute global change data to scientists around the world. An OIG audit of EOS program planning showed that locating the EOS data production facility in Fairmont, West Virginia, would be inefficient and without technical merit. The audit showed that NASA could save approximately \$39 million through FY 2000 and \$97 million beyond 2000 by locating the facility at the existing White Sands Complex near Las Cruces, New Mexico. The cost savings are primarily due to eliminating duplicate data storage, reducing software requirements, eliminating duplicate operations and management personnel, and reducing maintenance costs on eliminated hardware. In addition, if located in Fairmont, EOS Data and Operation System (EDOS) operations may be vulnerable to security risks and space may be insufficient. We recommended the facility be located at the White Sands Complex and not at Fairmont as planned. Management agreed that a possible consolidation of EDOS functions could achieve savings by reducing the cost of communications, operations, software, and hardware. However, management did not believe it would be appropriate to change the plans for the EDOS functions at both Fairmont and White Sands. Instead, management stated it will continue to study and pursue lower cost and innovative approaches to providing EDOS services.

CONTRACTOR RECEIVED OVER \$200,000 IN EXCESS AWARD FEES

The Earth Observing System Data and Information System (EOSDIS) will enable the scientific community to have quick and easy access to data about the earth system. An OIG audit of the \$766 million cost-plus-award-fee contract to design and operate the EOSDIS showed that the contractor has received award fees for cost control in excess of those warranted by performance. These excess fees have been awarded because NASA did not adequately consider contractor performance evaluations provided by Agency performance monitors. As a result, the contractor received approximately \$212,500 in excess award fees. We recommended that NASA justify significant deviations from performance monitor evaluations when recommending or determining award fees. We further recommended that award fee officials take into consideration any failure on the contractor's part to adequately control costs when determining the cost control award fee. Management generally concurred with the recommendations and has initiated or planned responsive corrective actions.

SCIENCE PROJECT FACED WITH COST GROWTH AND SCHEDULE DELAYS

An objective of the Global Geospace Science (GGS) project is to enhance scientific understanding of solar and plasma physics by measuring and assessing the effects of the sun on the earth. Using two instrumented spacecraft, the project was originally estimated to cost between \$390 to \$440 million. An OIG audit showed that the GGS spacecraft development contractor has neither met critical milestones in technical performance nor performed within the contracted cost. Poor performance appears to have been a result of a company merger, inadequate control of resources, and insufficient oversight of personnel. Consequently, NASA will sustain more than a \$100 million cost growth on the contract, and launch of the spacecraft will occur more than

2 years late. This delay will preclude the GGS from fully achieving its science objectives and has caused NASA to consider canceling the project. We recommended that the Center's procurement officer alert all Center contracting officers and the NASA Associate Administrator for Procurement to the spacecraft development contractor's deficient performance for immediate consideration in all responsibility determinations, and if applicable, in evaluating the capability of competing offerors. Management concurred with the recommendation and initiated corrective actions.

FICTITIOUS COMPANY ENABLED MISDIRECTED PURCHASING

Following an OIG investigation, a former employee at a NASA Center was sentenced to 12 months incarceration to be followed by 3 years of supervised probation. The employee was also ordered to make restitution in the amount of \$50,000. The employee elected to resign after learning of the investigation. The investigation disclosed that the employee created a fictitious company and directed purchase orders valued at \$114,000 to the company. The former employee accepted the terms of a plea agreement, and entered a guilty plea to a charge of theft of Government property.

EMPLOYEE INDICTED ON FALSE STATEMENT AND THEFT CHARGES

An OIG investigation resulted in the indictment of an employee at a NASA Center. The indictment charged the employee with 3 counts of false statements and 1 count of theft of Government property. It alleged that the employee falsified over 200 hours on time and attendance records. The investigation disclosed that after the employee's supervisor signed the time cards, the employee altered them to reflect a duty status when, in fact, leave had been taken. Resolution of the charges is pending.

FORMER CONTRACTOR EMPLOYEE INDICTED ON UTTERING CHARGES

As a result of an OIG investigation, with assistance from local law enforcement officials, a former employee of a contractor at a NASA Center was indicted by a local Grand Jury. The indictment charged the former employee with four counts of uttering. The investigation disclosed the employee drafted checks to herself on the employer's health benefits account. After forging the names of two company officials to the checks, the employee cashed them and diverted the cash to personal use. Resolution of the charges is pending.

External Audit Reports Referred to NASA Management

SPACE FLIGHT

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. The recommendation remains open awaiting additional data from the contractor.

TERMINATION COSTS OF \$200,000 QUESTIONED

DCAA auditors reviewed a termination settlement proposal for a NASA cost-plus-fixed-fee subcontract and questioned \$220,702 of a \$2,545,469 proposed settlement. The questioned costs were primarily due to differences in booking and provisional billing rates, questioned relocation expenses, and questioned subcontract termination costs. A settlement was negotiated on August 9, 1994, for \$2,293,000.

AERONAUTICS

OVER \$9.8 MILLION OF INCURRED COSTS QUESTIONED

DCAA auditors reviewed costs a contractor billed to NASA for reimbursement in FY 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. The contracting officer has requested additional information from the prime contractor before reaching a decision.

\$1.1 MILLION IN SUBCONTRACT COSTS SUSPENDED

DCAA auditors reviewed a contractor's billing system and its procedures for preparing reimbursement claims. As part of the review, a subcontractor's billing system was reviewed and found to maintain no supporting accounting system. As a result, DCAA suspended all \$1.1 million in costs incurred by the subcontractor until documentation is provided and a billing system is implemented.

SPACE SCIENCE

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 has withdrawn the \$329,000 charged to NASA while it evaluates the

questioned costs.

**IMPROVED HIRING COULD
SAVE OVER \$420,000 ANNUALLY**

A review of a major NASA contractor by DCAA identified over \$420,000 in annual savings possible by improving its process of matching temporary secretarial help requirements to the needs of the vacancy filled. DCAA disclosed weaknesses in the contractor's procedures for requesting and placing temporary secretaries. Specifically, there was a lack of job descriptions and analyses of grade levels for the secretaries secured. This resulted in paying more for temporary secretarial support than the jobs required. DCAA is currently resolving questions raised by the contractor to its report.

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 September 30, 1994.

**OIG AUDITS WITH
QUESTIONED COSTS**

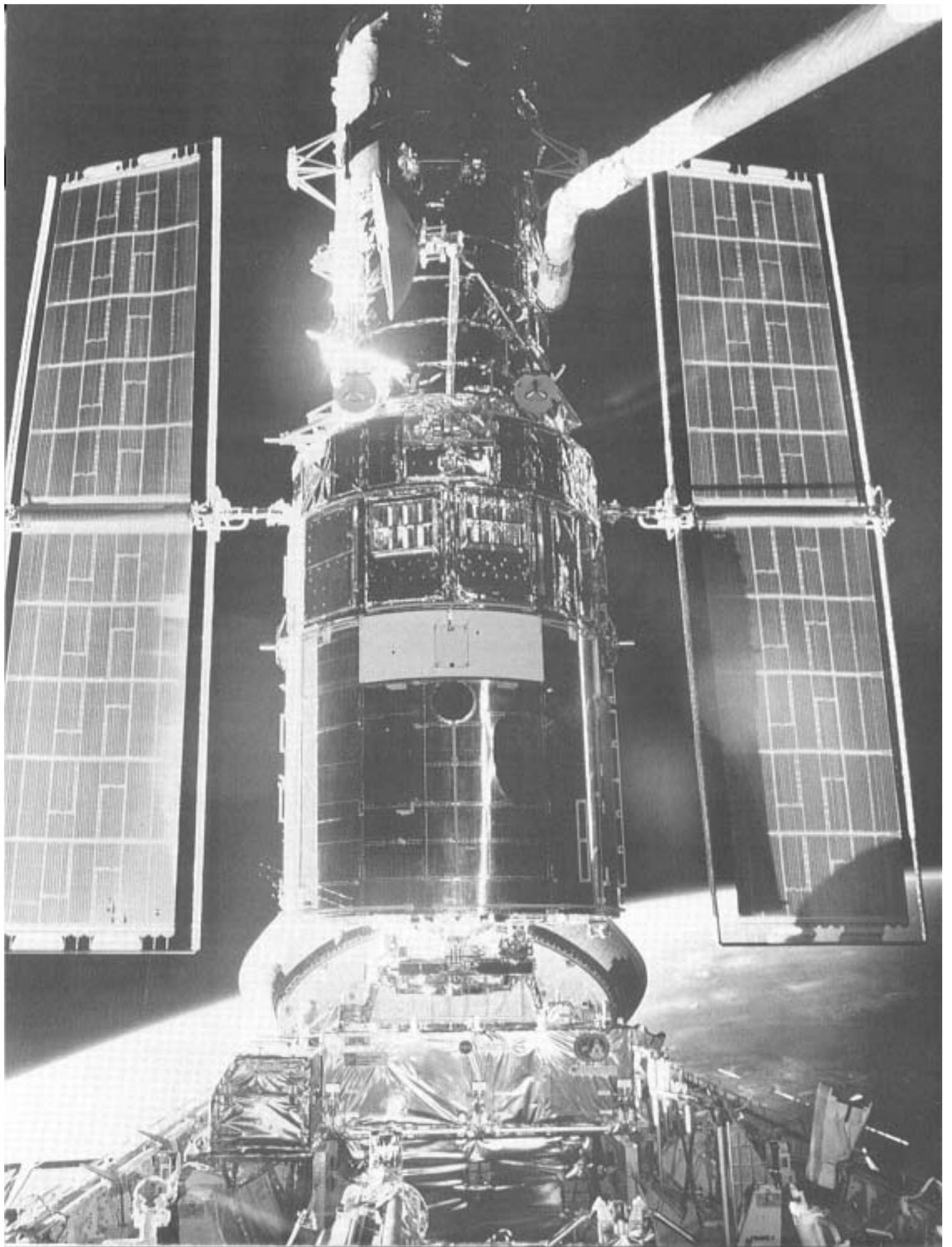
Audit Reports	Number of Audit Reports	Total Questioned Costs
No management decision was made by beginning of period	0	0
Issued during period	3	\$441,431
Needing management decision during period	3	\$441,431
Management decisions made during period:	3	\$441,431
--amounts disallowed	2	\$31,936
--amounts not disallowed	1	\$409,495
No management decision at end of period:	0	0
--less than 6 months old	0	0
--more than 6 months old ¹	0	0

**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	0	0
Issued during period	1	\$136,000,000
Needing management decision during period	1	\$136,000,000
Management decisions made during period:	1	\$136,000,000
--amounts management agreed to be put to better use	0	0
--based on proposed management action	0	0
--based on proposed legislative action	0	0
--amounts not agreed to be put to better use	1	\$136,000,000
No management decision at end of period:	0	0
--less than 6 months old	0	0
--more than 6 months old ²	0	0

¹ Required by the Appropriations and Rescissions Act of 1980 (PL 96-304).

² Required by the Appropriations and Rescissions Act of 1980 (PL 96-304).



Chapter II - 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.

SPACE FLIGHT

OVER \$238,000 IN DIRECT COSTS QUESTIONED

DCAA auditors reviewed direct costs incurred by a major contractor for CY 1986 and billed to NASA for reimbursement. They questioned over \$238,000 of the direct costs claimed, most of which related to corporate costs for their employee stock purchase plan. These costs were questioned because the same issue had been raised by auditors for earlier year costs and had not been resolved in negotiations between the Government and the contractor. The recommendation remained open during this reporting period while awaiting negotiation and settlement by the corporate administrative contracting officer.

ACCOUNTING CHANGE INCREASED GOVERNMENT COSTS BY \$3.3 MILLION

At the request of the NASA contracting officer, DCAA evaluated the cost impact of a major contractor's change to its 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 in FYs 1992 to 1994. Meetings were held this period between the NASA Center's Director of Procurement, the contracting officer, and the contractor. Resolution is expected by the end of December 1994.

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 negotiation and settlement at the contractor's corporate level. Action officials anticipate resolution by December 1994.

\$3.8 MILLION DEFECTIVE PRICING ON NASA CONTRACTS

DCAA performed a postaward review of the costs proposed and negotiated on two NASA contracts. The negotiated price for the contracts reviewed was based upon estimated costs and supporting data that the contractors certified as being complete, current, and accurate. Auditors determined that \$3,771,943 of the negotiated costs were not supported by data that were current, complete and accurate as of the certification date. This situation is considered defective pricing, and under provisions of the Truth in Negotiations Act, NASA can seek to recover from the prime contractors the amount considered defectively priced. For one contract audited, contracting officers sustained \$802,861 of the \$4,622,612 questioned. The other audit identified \$149,331 in defective costs. A settlement is being finalized between the administrative contracting officer and the contractor.

\$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 and 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 contracting officer for the one remaining contract issued to the contractor a draft determination letter upholding the DCAA findings to which the contractor disagreed. Negotiations are continuing.

REIMBURSEMENTS FOR SHUTTLE USE DO NOT RECOVER BASIC COSTS

An audit of amounts paid to NASA for non-Government use of the Shuttle disclosed reimbursement rates did not recover significant "out-of-pocket" expenses associated with Shuttle launches. A reimbursement rate was set at \$130 million per flight, based upon 12 flights per year. Subsequent flight estimates dropped to eight or nine per year, but reimbursement rates were not adjusted accordingly. Auditors noted that fewer flights would increase standard charges to \$139 million under the current "out-of-pocket" pricing policy, and to \$332 million under full-cost pricing policy. In total, a potential shortfall in reimbursements from non-Government users would be between \$10.8 million and \$242.4 million below NASA's costs, depending upon the pricing policy applied. We recommended that NASA revise the standard price charged to non-Government users of the Shuttle to recover all costs. NASA agreed to take action to ensure the most current cost-per-flight information is used and has developed a milestone schedule to meet NASA's coordination/concurrence process in revising the pricing policy. The anticipated closure date is December 1994.

RELOCATION COSTS OF \$1.4 MILLION QUESTIONED

During a review of two subcontractors' relocation costs of \$7.4 million, DCAA identified \$1.4 million as questionable. The costs primarily included household goods shipment costs, closing costs on residence sales/purchases, and per diem costs. DCAA recommended the procuring contracting officer suspend the amount on future billings to recapture these costs previously paid to the contractor. DCAA received additional contractor data on August 25, 1994, and is evaluating the material. Resolution is expected by the end of December 1994.

**\$1.9 MILLION OF
PROPOSED TERMINATION COSTS
QUESTIONED**

The DCAA questioned \$1.9 million of a NASA contractor's \$115 million termination proposal. The questioned costs were primarily in the areas of direct materials, indirect costs, and settlement expenses. In DCAA's opinion, the termination proposal was not prepared in accordance with cost accounting standards and appropriate provisions of the FAR and the NASA FAR Supplement. During this period, NASA prepared a pre-negotiation plan in preparation for final negotiations with the contractor.

AERONAUTICS

**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 CYs 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. The contracting officer anticipates completing a negotiated settlement by March 1995.

SPACE SCIENCE

**\$13.7 MILLION OF
UNALLOWABLE AND/OR QUESTIONED
COSTS IDENTIFIED**

A review of a major contractor for FY 1992 by Defense Contract Management District West (DCMD-West) identified \$13.7 million in unallowable and/or questioned costs related to operating a NASA facility. 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) in resolving these unallowed and/or questioned costs. During this period the DCMD-West resolved in the contractor's favor \$12.2 of the \$13.7 million of unallowable and/or 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.

HUMAN RESOURCES & EDUCATION

**COST AVOIDANCES OF \$170,000
POSSIBLE THROUGH BETTER
OVERTIME MANAGEMENT CONTROLS**

An audit at NASA Headquarters showed that internal controls were not effective to ensure that overtime was reasonable and used in accordance with NASA policy. We found that overtime incurred by various offices at Headquarters was not properly justified, documented, or approved. In some instances, overtime was paid to employees when existing NASA policy indicated that compensatory time was more appropriate. As a result, approximately \$250,000 in overtime for

CY 1992 was not properly justified or supported. We estimated that approximately \$170,000 in overtime costs possibly could be avoided through improved controls. We recommended that NASA implement procedures for monitoring overtime and develop a more effective overtime policy. Management concurred and stated that Headquarters payroll and personnel offices would coordinate and integrate overtime monitoring requirements. All corrective actions are expected to be completed by November 1994.

MANAGEMENT SYSTEMS AND FACILITIES

OPERATION OF ADMINISTRATIVE AIRCRAFT NOT COST EFFECTIVE

OMB Circular A-76 describes a commercial activity as one which is operated by a Federal executive agency, and which provides a product or service which could be obtained from a commercial source. An OIG audit showed that one NASA Center was using administrative aircraft to perform a Government-operated commercial service which could be performed more economically using commercial airlines. The audit found: (1) cost comparisons prepared for using the aircraft were based on an outdated per flight hour cost, and (2) flights used to transport NASA officials were being incorrectly justified as "mission required" travel. We recommended that management accurately capture and report all costs associated with operating the aircraft to ensure that cost comparisons were correct. Management concurred with the recommendation and initiated corrective actions. The recommendation remains open. We expect that during the next reporting period management will prepare its annual report detailing all costs associated with operating the aircraft.

MISSION TO PLANET EARTH

\$13 MILLION BUDGET REDUCTIONS OBTAINED THROUGH REDEFINED GRANTEE MISSION

An audit of grant funds showed that the grantee's mission had expanded into areas outside the scope of NASA's earth science expertise. As a result, FY 1994 Congressional legislation redefined the scope of the grantee's work with a subsequent budget reduction of \$13 million in operating funds. The grantee was also appropriated \$37 million in FY 1993 to design and construct a new facility. Construction was scheduled to begin in July 1994. Our audit showed that the facility's pre-design plans were outdated and we recommended that requirements be re-evaluated. In response to our recommendations, NASA instructed the grantee to stop all work on the facility which is currently in the design phase. Currently, the need for the building is being reevaluated because the grantee's business volume has become uncertain.

Updates on Selected Investigations Reported in Previous Semiannual Reports

PROCUREMENT

OVER \$407,000 REPAID

During a joint investigation by the OIG and the Naval Investigative Service (NIS), an academic institution credited NASA over \$407,000 for grant funds that had been improperly billed to the Agency. The grant funds were among more than \$57 million already allotted or to be allotted to the institution by Federal agencies for scientific research. Over \$17 million of that amount was awarded by NASA. A DCAA audit disclosed numerous accounting deficiencies and determined that the institution had an inadequate cost accounting system. DCAA recommended that all Federal agencies withhold payments and advances to the institution.

The investigation substantiated allegations that the institution charged the Government for the costs of research tests that were never conducted, billed costs that exceed the level of costs recorded in its books, misclassified subcontract and equipment costs to absorb additional indirect costs, and billed payroll costs to the Government for employees who had terminated their employment. The investigation also disclosed that \$3 million in Government-owned equipment could not be accounted for by the institution.

A concurrent investigation by the state's attorney general resulted in the indictment of two officials on fraud charges.

UPDATE: Further investigation disclosed that the criminal charges were dismissed. It disclosed \$54,586 in additional costs that were mischarged by the institution when it transferred cost overruns

to unrelated contracts and/or grants. The institution repaid the Government the additional amount.

SPACE FLIGHT

OVER \$1.2 MILLION RECOVERED AND MORE THAN \$3.5 MILLION IN COSTS AVOIDED

An OIG investigation into alleged defective pricing involving a leasing arrangement for a supercomputer resulted in the recovery of over \$1.2 million and a cost avoidance of more than \$3.5 million. A DCAA audit found that a contractor did not inform NASA negotiators that it was planning to buy and then assign the computer equipment to a subcontractor. The DCAA audit found that the contractor received excessive profits because the interest rate it quoted to the Government was higher than that which it was charged by the subcontractor.

NASA officials calculated the damages to the Agency as \$2.9 million including overpayments, interest and penalties. A modification was made to the contract which resulted in a recovery of over \$1.2 million in overpayments and interest. Future payments were scheduled at the lower interest rate which will result in an estimated \$1 million cost avoidance by contract end.

The former vice president of the company was indicted by a Federal Grand Jury. The indictment charged that he was responsible for causing the company to withhold accurate cost and pricing data from NASA. It charges him with 10 counts

of fraudulently causing the contractor to bill costs to and obtain payment from NASA, 9 counts of mail fraud, and 2 counts of filing false statements. He was suspended from contracting with the Government pending resolution of the charges.

UPDATE: Following a jury trial, the vice-president was found guilty on all 21 counts in the indictment. Sentencing is pending. An agreement was reached between the contractor and NASA under the terms of which the company agreed to pay the Agency an additional \$2.2 million to settle the remaining issues. The agreement also recognized that the contractor had implemented actions to preclude recurrence of the mischarging.

INDICTMENTS RETURNED AGAINST 7 INDIVIDUALS AND 7 FIRMS

Following a joint investigation by the NASA OIG, FBI, SBA OIG, Department of Labor Office of Racketeering and Pension and Welfare Benefits Administration, USPS, and the IRS, a Federal Grand Jury returned a 13-count indictment against a NASA subcontractor, its owner, his wife, 6 related companies, and 5 other individuals. The indictment charges 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 alleges 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.

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. NASA management suspended those indicted from contracting with the Government pending resolution of the charges.

UPDATE: 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. It also alleged that they committed income tax violations and stole and embezzled assets from a company employee benefit plan. Resolution of the charges is pending.

CRIMINAL INFORMATIONS FILED AGAINST 9 INDIVIDUALS AND 1 CORPORATION

A joint investigation by the FBI, NASA OIG, and DCIS resulted in the 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 plead guilty to charges against them.

UPDATE: Continued investigation of this matter resulted in criminal charges against four additional individuals and one company. One individual was terminated from his position with his company. Fines totaling \$24,500 have been levied. Resolution of the additional charges is pending.

TASK FORCE INVESTIGATION RESULTS IN 2 INDICTMENTS AND 7 CRIMINAL INFORMATIONS

A joint investigation by the NASA OIG, FBI, NCIS, AFOSI, DOT OIG, and Army CID resulted in two indictments and the filing of seven criminal informations. The indictments and informations charge three companies and seven individuals with fraudulently misrepresenting that the fasteners and fittings which 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 plead guilty to two charges of wire fraud and entered similar pleas on behalf of his company.

UPDATE: The individual was sentenced to 5 years in prison and fined \$75,000. Resolution of the remaining charges is pending.

GUILTY PLEAS RESULT IN FINES AND PENALTIES

As a result of an investigation conducted by a multi-agency task force, including the OIG, a contractor pled guilty to a criminal information charging it with 35 counts of preparing and submitting false statements regarding the testing of electronic relays used in the aerospace industry. It paid fines and penalties totaling \$17.5 million. A former vice president of the company pled guilty to two counts relating to the falsification of tests. The charges alleged that the company sold commercial-grade relay switches and certified that they met rigorous testing requirements. The relays have been used in the Space Shuttle and other spacecraft.

The DOD debarred the company for a period of 1 year. The former vice president was fined \$10,000, sentenced to 90 days confinement in his residence, and placed on probation for 3 years. The company was assessed a special court fee of \$7,000.

UPDATE: An agreement was reached with the company under the terms of which it agreed to pay the Government \$112.5 million to settle the issues in this case except one which remains under negotiation. Of the \$112.5 million, \$85 million pertained to the issue of false statements submitted by the company regarding testing of electronic relays. An additional \$55,343 was paid by the company for expenses incurred in the negotiations. NASA's share of the

settlement amount was 15 percent, or over \$13 million.

CONTRACTOR CHARGED WITH FALSE STATEMENTS

As a result of an OIG investigation, a subcontractor at a NASA facility was charged in a one count indictment with filing a false statement. The indictment charged that the owner had certified that she had not, within a 3-year period, been convicted of committing fraud or a criminal offense in connection with obtaining, attempting to obtain, or performing on a public contract. However, it charged that she knew that she had been convicted of a theft from employment and training funds involving a program administered by the Department of Labor.

UPDATE: Following a jury trial, the individual was convicted on one count of false statement. She was sentenced to 15 months in prison to be followed by 3 years of supervised probation. She was also ordered to pay a special assessment of \$1,000.

AERONAUTICS

THREE CHARGED WITH FRAUD

A joint investigation by the OIG, FBI, and DCIS, with assistance from the DCAA, resulted in a four-count indictment against a contractor's former chairman and chief executive officer. A Federal Grand Jury charged the former chairman with one count of conspiracy and three counts of making false statements to the Government. The former executive vice president of the contractor was charged in a criminal information with two counts of making false statements. He entered a guilty plea to the two counts. A current employee of the contractor was charged in a criminal infor-

mation with one count of conspiracy. The charges stemmed from their scheme to fraudulently charge over \$1 million in expenses associated with personal business interests to a NASA contract.

The former executive vice president was sentenced to 6 months in prison and fined \$100. The current employee pled guilty to one count of conspiracy and was sentenced to 5 years probation, fined \$10,000 and ordered to perform 750 hours of community service. The former chief executive officer was arrested by the FBI after a fugitive investigation and pled guilty to one false statement count and one conspiracy count. He was sentenced to 2 years in prison and fined \$100. The company paid the Government \$813,000 to settle claims it was responsible for these activities.

UPDATE: After lengthy negotiations, the company agreed to plead guilty to a one-count information charging it with false claims in connection with the mischarging of costs. The company admitted that it had improperly claimed the fees paid to former corporate officials as costs under Government contracts. It was fined \$10,000 and placed on probation for 1 year. It also entered into an agreement with the Government under the terms of which it will pay a minimum of \$6 million and a maximum of \$15.5 million over the next 5 years. This agreement settles all civil and administrative issues. The total that will be repaid is fixed as a percentage of its sales. Compliance with the agreement is a condition of probation.

GUILTY PLEA ENTERED

As a result of a joint OIG/FBI investigation, an individual pled guilty to one count of false statements after the investigation disclosed that he had filed an affidavit of individual surety to claim ownership of assets worth over \$41 million that were, in fact, worthless in support of a performance bond on a construction contract. The individual was sentenced to 1 year in prison and 2 years supervised probation to be served

consecutively. As a result of the worthless bond issued on the basis of the false affidavit and that of another individual, NASA incurred over \$5.3 million in procurement costs when the construction company for which the individuals held performance bonds defaulted.

Additional investigation and a subsequent jury trial resulted in the conviction of a second individual on one false statement count for providing worthless individual surety payment and performance bonds to the prime contractor. The investigation disclosed that the assets listed on the individual's affidavits in support of the bonds were either nonexistent or overvalued. Civil suits seeking damages and repayment of costs incurred were filed against the two individuals and others.

The second individual was sentenced to 30 months in prison. The two individuals who were brokers of the individual sureties were each sentenced to 51 months in prison in U.S. District Court on one count of conspiracy to defraud the Government in connection with submitting fraudulent sureties. They were also sentenced to concurrent 51-month terms on false statement charges, and placed on 2 years supervised probation at the expiration of their prison terms. The court found both defendants destitute and ordered no fines or restitution, but required them to pay special assessments totaling \$350.

UPDATE: The civil suits against the individuals were dismissed when it was discovered that they had no disposable assets. An out-of-court settlement was negotiated with the financial institution that submitted a Certificate of Sufficiency in support of one of the individual sureties. Under the terms of the agreement, the institution paid the Government \$110,000 to settle the remaining issues.

INDICTMENT RETURNED IN FALSE CLAIMS CASE

An OIG investigation resulted in an indictment against a company and its president. The indictment alleged that the defendants submitted to

NASA five statements of business expenses, including insurance costs, knowing that the costs were false, fictitious, and fraudulent.

UPDATE: A trial ended in a hung jury. Retrial on the charges is pending.

CIVIL JUDGEMENT AWARDED, CRIMINAL CHARGES FILED

A joint OIG investigation with the AFOSI, NCIS, Army CID, and Department of the Interior OIG, resulted in a civil judgement of \$52,595 against a surety company and its president for costs associated with the default of a contractor for which they had provided a bogus performance bond. A criminal information was filed in another jurisdiction charging them with eight counts of filing false statements to the Government involving similar allegations. The criminal information was dismissed.

UPDATE: As a result of continuing investigation, three companies and six individuals were indicted on charges that they falsified documents submitted in support of surety bonds on contracts. Two individuals, one of whom was indicted at another time as a result of a related investigation, and one company have pled guilty to the charges against them. Resolution of the charges against the others is pending.

INDICTMENT RETURNED IN THEFT CASE

An OIG investigation resulted in the indictment of an employee of a visitor's center at a NASA Center charging her with converting uniforms purchased at NASA's expense for use by employees at the visitor's center to her own use. The investigation disclosed that the employee ordered the uniforms, was paid for their cost, but never delivered them to the visitor's center.

UPDATE: After the indictment was returned, the employee became a fugitive from justice for an extended period. However, she surrendered to

authorities, pled guilty, and was sentenced to 6 months in prison.

INDICTMENT RETURNED IN PLAGIARISM MATTER

Following an OIG investigation, a Federal Grand Jury returned an indictment against a professor at a university that performed work for NASA under a grant. The indictment alleged that under the grant the professor submitted a plagiarized report which contained original research previously reported. It charged the professor with seven counts of mail fraud in connection with submissions to NASA.

The indictment alleged that the professor submitted an unsolicited proposal to a NASA Center knowing that he was going to plagiarize a previously published report and submit it as his own. The NASA Center had awarded the professor a grant valued at \$108,000 for the work.

UPDATE: Following a jury trial, the professor was found not guilty. Investigation of this matter continues.

MISSION TO PLANT EARTH

EMPLOYEE INDICTED ON THEFT, FALSE STATEMENT, AND CONFLICT OF INTEREST CHARGES

A joint OIG/FBI investigation resulted in the indictment of an employee at a NASA field Center. The indictment charges the employee with 2 counts of conflict of interest, 3 counts of conversion of Government property, and 1 count of filing a false statement.

The indictment alleged that he entered into financial relationships with contractors over whom

contract monitoring responsibilities were exercised. He was the technical monitor on a NASA contract which developed computer-related equipment and software that he allegedly sold for personal gain. The equipment and software were exclusive to NASA at the time he offered them for sale and were not available elsewhere.

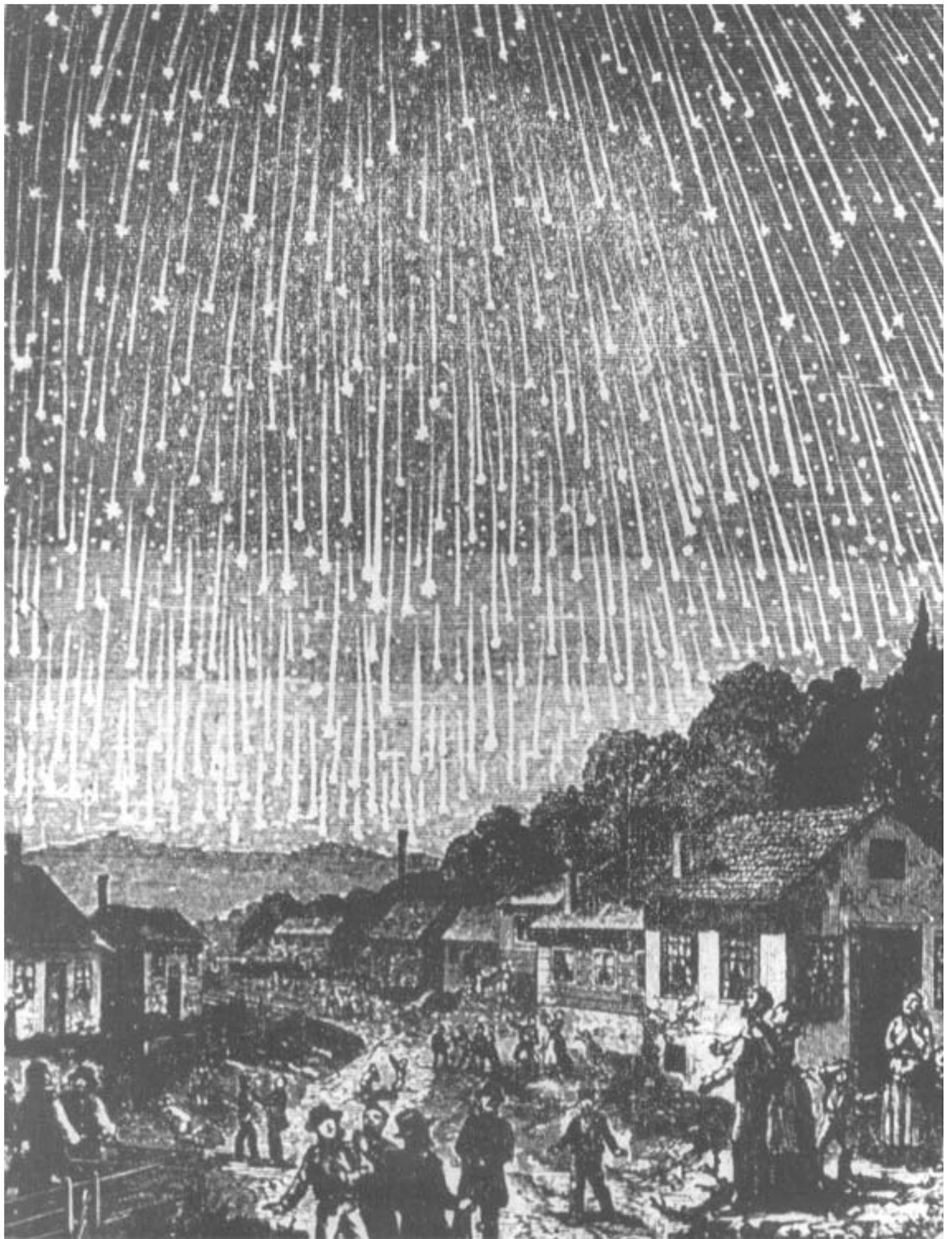
The indictment also alleged that he used Government facilities, schematic drawings, testing equipment, and Government and contractor personnel to deliver the equipment that was sold. It also alleged that false statements were made on an application to engage in outside employment to avoid drawing attention to personal financial transactions.

UPDATE: The employee retired from his Government position. After plea negotiations, he entered a plea of guilty to a charge of conflict of interest, one of two such counts in the indictment, and was sentenced to 3 years probation, with special conditions of 1 month in a halfway house followed by 2 month's home detention. He was also fined \$5,000.

CONTRACTOR EMPLOYEE CHARGED WITH POSSESSION OF DRUGS

As a result of a joint investigation with local law enforcement officials, a contractor employee at a NASA facility was indicted by a local Grand Jury and charged with possession of marijuana. The investigation disclosed that the employee had the marijuana in his locker at a NASA facility.

UPDATE: An AUSA determined that the NASA facility was under exclusive Federal jurisdiction, and accepted the case for prosecution. Following plea negotiations, the contractor employee entered a guilty plea to a misdemeanor violation of Federal drug statutes. He was fined \$500, placed on probation for 2 years, and terminated from his position at the facility.



Chapter III - Legislation, Regulations, and Legal Matters

LEGISLATION

IG Reform Act of 1994, H.R. 4679. This bill would take a number of steps to expand the mission of the IGs, in some respects give them greater independence, and in other respects impose additional mandates and oversight controls. In addition to audits and investigations, the IGs would be required to conduct evaluations, inspections, vulnerability assessments, strategic plans, and implementation strategies to achieve those plans. This office recommends that these new initiatives be permissive rather than mandatory, to give the IGs needed flexibility to organize the resources and workload of the office as the IG sees fit. The conflict of interest provision contained in the current version of the bill is unworkable and unnecessary. We suggest that closer supervision can remedy any perceived impediments to the integrity of audit and investigative work products. The OIG is concerned over the new reporting requirements for criminal investigations which might jeopardize ongoing cases. Also, we have reservations over the rigid 15-day referral policy and subsequent 5-day report to Congress requirements which may strain the working relationship between the field agent and staff prosecutor.

Whistleblower Protection Enhancement Act of 1994, H.R. 4680. This bill would make it a prohibited personnel practice if one takes reprisals against an employee because of disclosure of gross mismanagement, gross waste, fraud or abuse of authority, when the disclosure is made to Congress or a Congressional committee. Such disclosures already may be protected under 5 USC 2302(b)(8)(A), thereby obviating the need for this legislation. The bill would also make it a prohibited personnel practice for an IG agent to unlawfully disclose the identity of a protected whistleblower. This office believes that any

problems which may arise in handling protected sources should be dealt with through proper supervision and the progressive system of discipline internal to the agency. The Office of Special Counsel should not be brought in to investigate this issue, which should be left to the IG internal affairs component, absent some demonstrated need for outside review.

Federal Acquisition Reform, S. 1587. Of particular interest to the IG community is a provision of this bill at section 6102 which permits a contractor employee who believes that he/she was subject to a prohibited whistleblower reprisal for disclosing information about a substantial violation of law related to an agency contract to file a complaint with the IG. The IG would be required to investigate the complaint and submit the findings to the agency head, the contractor, and the employee. The agency head would have authority to order a remedy, including back pay, where a reprisal was found to have taken place. In the event of noncompliance with the agency order, the agency head could bring an action for enforcement, including a request for injunctive relief and exemplary damages, in Federal district court.

Availability Pay. Senator DeConcini has proposed premium pay for Federal law enforcement officers, known as availability pay, at section 634 of the Treasury, Postal Service and General Government Appropriations Act for FY 1995. Although generally supportive of the provision, this 25 percent pay differential for our criminal investigators is an unanticipated funding requirement. However, it was enacted into law with a 1-year phased-in approach which will allow IG offices to plan for the differential amount in future budget calculations.

Electronic Freedom of Information Improvement Act of 1994, S. 1782. The OIG still opposes enactment of this measure. This Senate-passed version contains a provision for expedited access. This bill adds onerous administrative appeal requirements which exacerbate the heavy burden imposed by the expedited access provision. These provisions do nothing more than create an unworkable system that would take agency resources away from processing Freedom of Information Act requests.

REGULATIONS

During this reporting period the OIG reviewed 17 Agency regulations and instructions.

SUBPOENAS

During this reporting period the OIG issued 12 subpoenas *duces tecum*.

FREEDOM OF INFORMATION ACT (FOIA) REQUESTS

During this reporting period the OIG processed 54 FOIA requests, of which 2 were appealed.

Appendices

Appendix I - Audit Reports Issued by NASA OIG

April 1, 1994 - September 30, 1994

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 32 reports, identified \$441,431 in questioned costs, and \$136,000,000 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-94-003	Government Entitled Discounts	HQ-94-010	NASA Technology Transfer Activities (*\$409,495)
AR-94-004	Financial Systems and Reporting of 8(a) Contractors (*\$4,718)	HQ-94-011	NASA Headquarters Parking Fee Collection Process
AR-94-005	Numerical Aerodynamic Simulation Program	IT-94-001	Audit of NASA's FY 1993 Financial Statements
GO-94-005	Wallops Exchange and Morale Association (WEMA)	JP-94-004	Quality Assurance Testing of Printed Circuit Boards for the Multi-Angle Imaging Spectroradiometer (MISR)
GO-94-006	Subcontract Management of the EOSDIS Core System Contract Award Fee Determinations	JP-94-005	Equipment Management at the Jet Propulsion Laboratory
GO-94-007	Purchase Methods for Major Procurements	JP-94-006	NASA's Property Control System at Rockwell's Space System Division
GO-94-008	Earth Observing System (EOS) AM Spacecraft Planning and Management	JS-94-004	Consolidation of Institutional Support Service Contracts
GO-94-009	Global Geospace Science (GGS) Project	JS-94-005	Contractor Quality Assurance Programs
GO-94-010	On-site Spacecraft Integration and Testing Operations	KE-94-004	Transportation and Traffic Management
HA-94-002	Space Station Program Deletions	KE-94-005	Base Operations Contract Recompetition Demonstrates Need for Changes to Source Evaluation Process
HA-94-003	Space Station Contract Novations and Terminations	LA-94-004	Efficient Use of Personal Computer Local Area Network Resources
HA-94-004	Space Station Program Management Structure	LA-94-005	Earth Observing System (EOS) Program Planning for the Fairmont Facility (**\$136,000,000)
HA-94-005	Space Station Cost Estimating and Reporting	LE-94-004	Quick Closeout Procedures
HA-94-006	Funding for Space Station Contract Terminations	LE-94-005	Grants Administration at Case Western Reserve University (*\$27,218)
HQ-94-007	Mission to Planet Earth Support Services Contract	MA-94-005	Survey of Research and Technology Objectives and Plans
HQ-94-008	Disposition of Technical and Management Information System Equipment and Applications		
HQ-94-009	NASA Audit Followup Process		

Appendix II - External Audit Reports on NASA Contractors and Grantees Referred by OIG to NASA Management

April 1, 1994 - September 30, 1994

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 29 reports identified \$12,950,605 in questioned costs (*) and \$420,000 in funds which could be put to better use (**).

<u>Report</u>	<u>Report Title & Monetary Amount</u>
DCAA Reports	
X-AR-94-004	Termination Settlement Proposal (*\$220,702)
X-GO-94-014	Miscellaneous Expenses (*\$38,332)
X-HQ-94-002	FY 1991 Incurred Costs (*\$41,565)
X-HQ-94-003	FY 1989 Incurred Costs (*\$178,853)
X-HQ-94-004	FY 1990 - 1992 Incurred Costs (*\$8,138)
X-JP-94-003	Meals and Refreshment Costs (*\$329,000)
X-JP-94-004	Unallowable Costs Controls
X-JP-94-005	Unallowable Costs Controls
X-JP-94-006	Estimating System Survey
X-JP-94-007	Secretarial Services (**\$420,000)
X-KE-94-001	FY 1989 Bid & Proposal Costs (*\$877,215)
X-LA-94-001	Timekeeping System
X-LA-94-002	Estimating System Survey
X-LA-94-003	Accounting System Survey
X-LA-94-004	Noncompliance with CAS 410
X-LE-94-001	Billing System (*\$9,822)
X-LE-94-002	Billing System
X-LE-94-003	Material and Labor Charging Practices
X-LE-94-004	Labor Charging Practices
X-LE-94-005	FY 1991 Incurred Costs (*\$5,029,248)
X-LE-94-006	FY 1990 Incurred Costs (*\$4,799,295)
X-LE-94-007	Suspension of Costs (*\$1,136,780)
X-LE-94-008	FY 1990 Incurred Costs (*\$50,612)
X-LE-94-009	FY 1991 Incurred Costs (*\$80,787)
X-LE-94-010	FY 1990 Incurred Costs (*\$47,866)
X-LE-94-011	FY 1991 Incurred Costs (*\$56,116)
X-LE-94-012	FY 1992 Incurred Costs (*\$46,274)
Other External Reports	
X-AR-94-003	FY 1993 Organizationwide Audit
X-GO-94-013	FY 1991-92 Organizationwide Audit

Appendix III - DCAA Audits of NASA Contractors

April 1, 1994 - September 30, 1994

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 1,856 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
Incurring Costs	1,616	\$236,043	\$350	\$236,393
Defective Pricing	10	0	0	0
Cost Accounting Standards	228	606	0	606
Other Direct Effort	2	0	0	0
TOTALS:	1,856	\$236,649	\$350	\$236,999

DCAA also issued 570 reports on audits of NASA contractor proposals totaling \$16.8 billion, which identified cost exceptions totaling about \$198.1 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 368 audit reports requiring action by procurement officials or contractors were resolved during the period which ended September 30, 1994. As shown here, contracting officers sustained \$133.4 million of exceptions included in these reports. Of the exceptions sustained, DCAA categorized \$36.1 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.)

Exceptions Sustained From:	Incurring Costs	Proposal Activity	Other	Total
Costs Questioned	\$18,194	\$115,226	0	\$133,420
Cost Avoidance	0	0	0	0
TOTALS:	\$18,194	\$115,226	0	\$133,420

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 September 30, 1994, there were 92 DCAA audit reports totaling \$95 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	46	14	32	92
Recommended for Better Use/Costs Questioned	\$67,116	\$3,852	\$23,999	\$94,967

Appendix IV - Glossary and Acronyms

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†

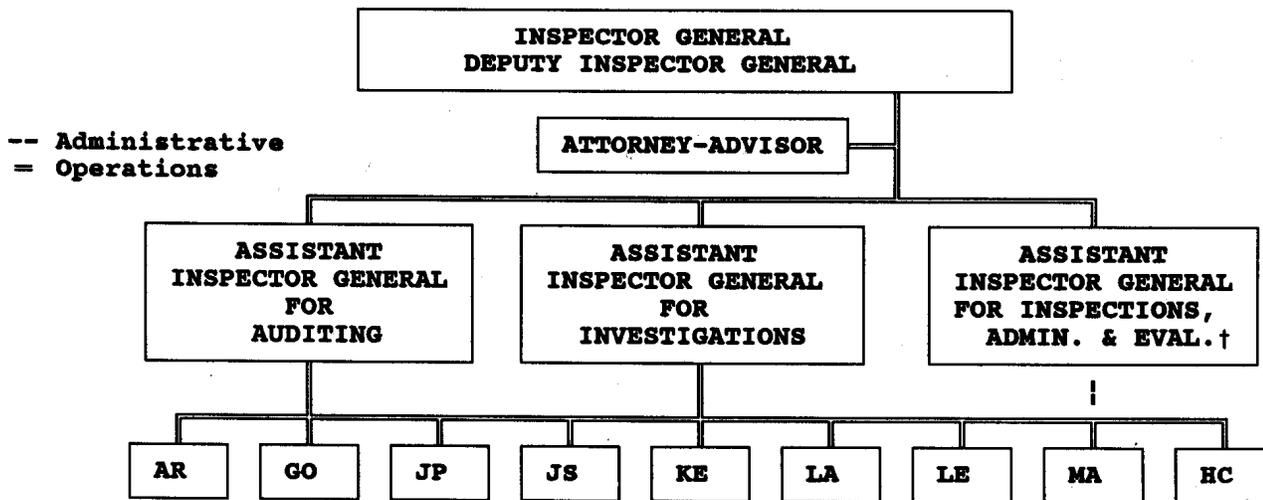
A cost that is questioned by OIG because OIG found that, at the time of the audit, such cost is not supported by adequate documentation.

†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
AIGIAE	Assistant Inspector General for Inspections, Administration and Evaluations
ARC	Ames Research Center
AUSA	Assistant United States Attorney
CFO	Chief Financial Officers
CY	Calendar Year
DCAA	Defense Contract Audit Agency
DCIS	Defense Criminal Investigative Service
DIG	Deputy Inspector General
DOD	Department of Defense
DOJ	Department of Justice
EDOS	Earth Observing System (EOS) Data Operation System
EDP	Electronic Data Processing
EFT	Electronic Funds Transfer
EOS	Earth Observing System
EOSDIS	EOS Data and Information System
FAR	Federal Acquisition Regulation
FBI	Federal Bureau of Investigation
FMFIA	Federal Managers' Financial Integrity Act
FOIA	Freedom of Information Act
FY	Fiscal Year
GGG	Global Geospace Science
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
NPR	National Performance Review
OIG	Office of Inspector General
OMB	Office of Management and Budget
PCIE	President's Council on Integrity and Efficiency
PL	Public Law
SEB	Source Evaluation Board

NASA Office of Inspector General Organization



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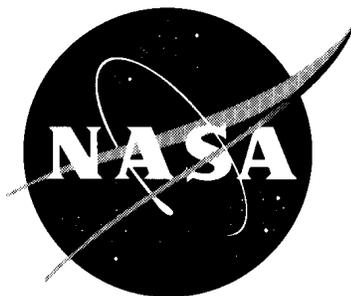
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