

**IG-01-012**

# **AUDIT REPORT**

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## **UNITED SPACE ALLIANCE'S USE OF PROFESSIONAL AND CONSULTANT SERVICES**

**March 16, 2001**

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National Aeronautics and  
Space Administration

## **OFFICE OF INSPECTOR GENERAL**

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### **Acronyms**

CAP	Company Acquisition Procedures
DCAA	Defense Contract Audit Agency
DCMA	Defense Contract Management Agency
DoD	Department of Defense
FAR	Federal Acquisition Regulation
GAO	General Accounting Office
USA	United Space Alliance

W

March 16, 2001

TO: A/Administrator

FROM: W/Inspector General

SUBJECT: INFORMATION: United Space Alliance's Use of Professional and  
Consultant Services  
Report Number IG-01-012

The NASA Office of Inspector General has completed an audit of United Space Alliance's<sup>1</sup> (USA's) use of professional and consultant services. Professional and consultant services are services performed by persons who are members of a particular profession or possess a special skill and who are not officers or employees of the contractor.<sup>2</sup> We found professional and consultant service costs charged to NASA that did not meet Federal Acquisition Regulation (FAR) requirements for allowability and inadequate and untimely justifications for noncompetitive procurements of the professional and consultant services. Specially, we found that USA officials did not maintain evidence on the nature and scope of the furnished services; maintain adequate support for decisions to noncompetitively award the service subcontracts; and prepare written justifications for the noncompetitive awards prior to initiation of the work. As a result, the \$468,673 USA charged to NASA for the services may include unallowable costs<sup>3</sup> and the Agency has reduced assurance that USA obtained the best available source or price for professional and consultant services.

## Background

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<sup>1</sup> USA is a joint venture between The Boeing Company and Lockheed Martin Corporation.

<sup>2</sup> Federal Acquisition Regulation Part 31.205-33 provides this definition. The NASA budget includes a separately stated amount for services titled, "professional, administrative, and management advisory services." The NASA budget amount applies to services obtained by NASA under a contract and does not apply to professional and consultant services obtained by a NASA contractor under a subcontract. Therefore, the NASA budget amount does not apply to the audit objectives and scope.

<sup>3</sup> Three subcontracts that were active in 1998 were also active in 1997. The potentially unallowable costs include \$197,394 incurred in 1997 and \$271,279 incurred in 1998 and 1999.

NASA's Space Flight Operations Contract<sup>4</sup> with USA requires the contractor to comply with FAR requirements pertaining to professional and consultant service costs. The FAR

2

states that these service costs are allowable costs only when supported by documented evidence of the nature and scope of the furnished service. Support would include details of the agreement between USA and the consultant, invoices from consultants that provide sufficient detail on the nature of the actual services performed, and the consultant's work products. The Defense Contract Audit Agency (DCAA) is responsible for reviewing USA's incurred costs for allowability.

The contract also requires USA to competitively award subcontracts to the maximum extent practical. This includes documenting efforts to identify potential sources for the services and the reasons sources not selected were incapable of performing the subcontract requirements. The Defense Contract Management Agency (DCMA) is responsible for the Government's oversight of USA's purchasing system, which includes the costs for professional and consultant services.

Contracting for professional and consultant services is susceptible to problems such as noncompliance with laws and regulations related to competition and conflict of interest, circumvention of related internal controls, and potential improper use of funds. Although the costs for these services are generally low-dollar costs, they are considered sensitive costs.<sup>5</sup> Weaknesses in the procurement and contract administration processes exist in this sensitive cost area that, taken in combination, pose a risk of abuse to NASA.

## **Recommendations**

We recommended that NASA direct USA to maintain complete documentation on furnished consultant services and on decisions to award these service contracts noncompetitively. Adequate documentation provides NASA assurance that professional and consultant service subcontracts are allowable contract costs and that USA awarded the subcontracts to the best available source at a reasonable price, particularly in the absence of competition or an appearance of a conflict of interest. We also recommended NASA request that DCAA include reviews of professional and consultant services in future incurred cost audits and that DCMA incorporate such service subcontracts into reviews of USA's purchasing system. Because the

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<sup>4</sup> USA provides services for the Space Flight Operations Contract under contract NAS9-20000.

<sup>5</sup> FAR 9.5, "Organizational and Consultant Conflicts of Interest," states that organizational and consultant conflicts of interest result when other activities or relationships limit a person's ability to give impartial advice to the Government or objectively perform contract work. The U.S. General Accounting Office defined sensitive costs in publication GAO/AFMD-8.1.2, "Guide for Evaluating and Testing Controls Over Sensitive Payments," May 1993. As recent as October 2000, the Department of Defense Office of Inspector General reported that the Army and Air Force Exchange Service did not require unpaid consultants to file financial disclosure reports, which could have assisted in identifying potential conflicts of interest.

professional and consultant service subcontracts are vulnerable to improper use, additional review by the DCAA and DCMA will give NASA improved oversight of such services.

3

### **Management's Response**

NASA concurred with the findings and recommendations. The NASA administrative contracting officer, in conjunction with the DCMA, requested USA to maintain documentation identifying the nature and scope of furnished professional and consultant services. NASA also instructed USA to ensure that noncompetitive justifications (1) address efforts to identify other sources and the reasons other sources could not perform the subcontract requirements and (2) be submitted and approved prior to initiation of work. The DCAA will include professional and consultant service costs as part of the incurred cost audit for calendar year 1999.<sup>6</sup> Further, the DCMA established a process to ensure that it includes these service subcontracts in reviews of USA's purchasing system.

Details on the status of the recommendations are in the recommendations section of the report.

**[original signed by]**

Roberta L. Gross

Enclosure

Final Report on Audit of United Space Alliance's Use of Professional and Consultant Services

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<sup>6</sup> The DCAA is currently performing the 1999 incurred cost audit.

**UNITED SPACE ALLIANCE'S USE OF PROFESSIONAL AND  
CONSULTANT SERVICES**

W

March 16, 2001

TO: M/Associate Administrator for Space Flight  
JSC/AA/Director, Lyndon B. Johnson Space Center

FROM: W/Assistant Inspector General for Auditing

SUBJECT: Final Report on the Audit of United Space Alliance's Use of Professional and  
Consultant Services  
Assignment Number A0002100  
Report Number IG-01-012

The subject final report is provided for your information and use. Please refer to the Executive Summary for the overall audit results. Our evaluation of your response is incorporated into the body of the report. The corrective actions completed for recommendations 1 through 4 were responsive. Management's actions are sufficient to close those recommendations for reporting purposes.

If you have questions concerning the report, please contact Mr. Lorne A. Dear, Program Director, Procurement Audits, at (818) 354-3360; or Ms. Nora Thompson, Audit Program Manager, at (757) 864-3268; or Mr. Doug Orton, Auditor-in-Charge, at (281) 244-1159. We appreciate the courtesies extended to the audit staff. The final report distribution is in Appendix E.

**[original signed by]**

Russell A. Rau

Enclosure

cc:

B/Acting Chief Financial Officer

B/Comptroller

BF/Director, Financial Management Division

G/General Counsel

H/Associate Administrator for Procurement

JM/Director, Management Assessment Division



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## ***Contents***

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**Executive Summary, i**

**Introduction, 1**

**Findings and Recommendations, 3**

Finding A. Contractor Charges for Professional and Consultant Service Costs, 3

Finding B. Controls over Noncompetitive Procurements of Professional and Consultant Services, 8

**Appendix A - Objectives, Scope, and Methodology, 12**

**Appendix B - Consultant Subcontracts Reviewed, 13**

**Appendix C - Summary of Prior Reviews and Findings, 14**

**Appendix D - Management's Response, 16**

**Appendix E - Report Distribution, 28**

# NASA Office of Inspector General

IG-01-012  
A0002100

March 16, 2001

## United Space Alliance's Use of Professional and Consultant Services

### Executive Summary

**Background.** Under contract NAS9-20000,<sup>7</sup> USA provides Space Shuttle mission planning; vehicle processing for flight, flight operations, launch and landing operations; and orbiter and Space Shuttle vehicle engineering and modifications. NASA awarded the contract to USA on September 26, 1996, for \$6.95 billion, with a 6-year period of performance from October 1996 through September 2002. As of September 20, 2000, the contract value was \$8.7 billion.<sup>8</sup> Two contract options, if exercised, would extend the contract another 4 years through September 2006. Because USA performed work almost exclusively for NASA, substantially all the cost for USA is charged to NASA. For 1998, USA's claimed costs on NAS9-20000 totaled \$1.3 billion, and about \$266,000<sup>9</sup> of that amount was for professional and consultant services. USA acquired professional and consultant services to obtain advice, studies, training, or a liaison with Government agencies. The primary locations of performance on the contract are Johnson Space Center (Johnson) and the Kennedy Space Center (Kennedy).

The DCMA is responsible for the Government's oversight of USA's purchasing system, which includes the award and management of professional and consultant service subcontracts. The DCAA is responsible for reviewing incurred costs, including costs for professional and consultant services.

**Objectives.** The overall objective was to determine whether NASA had adequate controls over USA's use of professional and consultant services. See Appendix A for the specific audit objectives and methodology. For our review, we selected subcontracts for professional and consultant services that were active in 1998 and 1999 and had a contract value of \$15,000 or more. Nine subcontracts with a total value of \$1.9 million met our criteria for review (see Appendix B).

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<sup>7</sup> Under Contract NAS9-20000, NASA reimburses USA for costs it incurred in performing the contract. In addition, NASA pays award, incentive and performance, and program plus fees to USA. The fees represent USA's profit on the contract.

<sup>8</sup> The \$8.7 billion applies to contract actions from award through contract modification number 528.

<sup>9</sup> The \$266,000 is .02 percent of the \$1.3 billion total incurred costs for 1998.

**Results of Audit.** Controls over USA's use of professional and consultant service subcontracts need improvement. Weaknesses in the procurement and contract administration processes exist in this sensitive cost area that, taken in combination, pose a risk of abuse to NASA. Four of nine professional and consultant service subcontracts we reviewed did not meet FAR requirements for allowability. The four subcontracts had one or more of the following deficiencies:

- Inadequately described statements of work (three subcontracts)
- Incomplete invoices from consultants (four subcontracts)
- Undocumented work products (three subcontracts)

As a result, \$468,673 charged to NASA for professional and consultant services in 1998 and 1999 may include unallowable costs.<sup>10</sup> The NASA administrative contracting officer will make the final determination on the allowability of the costs (Finding A).

Further, for seven of nine professional and consultant service subcontracts we reviewed, USA buyers did not require adequate justifications for noncompetitive procurements. Written justifications for the seven subcontracts had one or more of the following deficiencies:

- Inadequate explanatory statement (six subcontracts)
- Untimely justification for noncompetitive procurement (three subcontracts)

As a result, NASA has reduced assurance that USA obtained the best available source or price for consultant services paid for under the seven subcontracts (Finding B).

**Recommendations.** We recommended that management require the Agency's administrative contracting officer for contract NAS9-20000 to (1) require USA to maintain documentation to ensure that professional and consultant service subcontracts meet FAR requirements for allowability, (2) request the DCAA to include professional and consultant service subcontracts in samples selected for future incurred cost audits at USA, (3) require USA to prepare adequate and timely justifications for noncompetitive procurements, and (4) request the DCMA administrative contracting officer to establish a process that incorporates the contractor's monthly report of professional and consultant service subcontracts into the semiannual surveillance reviews of contract NAS9-20000.

**Management's Response.** Management concurred with all the recommendations. NASA, in conjunction with the DCMA, directed USA to maintain required support for professional and consultant costs and asked the DCAA to include reviews of professional and consultant service costs in its next audit of USA's incurred costs. The Agency also directed USA to maintain additional support for decisions to award professional and consultant service subcontracts on a

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<sup>10</sup> Three subcontracts that were active in 1998 were also active in 1997. The potentially unallowable costs include \$197,394 incurred in 1997 as well as \$271,279 incurred in 1998 and 1999.

noncompetitive basis. In addition, the DCMA established a process that includes reviews of professional and consultant service subcontracts in semiannual surveillance reviews. The complete text of the response is in Appendix D.

**Evaluation of Management's Response.** We consider management's comments responsive and commend the agency for taking immediate actions to strengthen oversight of USA's professional and consultant service subcontracts.

## **Introduction**

**USA's Responsibilities in Subcontracting.** NAS9-20000 gives USA authority to subcontract for professional and consultant services and requires USA to award and administer subcontracts according to requirements in FAR, Part 44, "Subcontracting." USA must maintain a purchasing system that promotes efficient and effective use of Government funds. The purchasing system must include processes that select the best source for a subcontract and oversight controls that ensure the proper award and administration of subcontracts. Oversight controls are critical to protecting NASA's interest because most USA subcontracts for professional and consultant services involved sources not subject to Government oversight. FAR Part 44 requires USA to comply with Government policies in subcontract awards, including the Government policy of full and open competition in contracting.

**Oversight of Professional and Consultant Services.** Normally, NASA delegates oversight during contract performance to the DCMA. Due to the large size and complex scope of the USA contract, the NASA administrative contracting officer retains some oversight responsibility and works with the DCMA administrative contracting officer, when needed, to effectively perform oversight tasks.

The DCMA conducts a purchasing system review to evaluate USA's purchasing of material and services, including subcontracts. The DCMA administrative contracting officer uses the purchasing system review as a basis for approving the USA purchasing system. In September 1998, DCMA conducted a purchasing system review at USA and recommended approval of USA's purchasing system. The NASA administrative contracting officer approved the USA purchasing system on February 19, 1999.

To maintain Government oversight throughout contract performance, the DCMA administrative contracting officer conducts consent to subcontract reviews and semiannual surveillance reviews. Consent to subcontract reviews require USA officials to obtain the DCMA administrative contracting officer's consent before awarding time and materials subcontracts with costs of \$100,000 or more that are charged directly to the contract. The semiannual reviews in 1999 did not identify deficiencies in the USA purchasing system. Therefore, on March 27, 2000, the DCMA administrative contracting officer issued a letter to USA continuing the February 19, 1999, approval of USA's purchasing system.

The DCAA conducts annual audits of incurred costs for contract NAS9-20000 and determines whether costs meet contract and FAR allowability requirements. DCAA reports those costs that do not meet allowability requirements to the DCMA administrative contracting officer. The DCMA administrative contracting officer determines the allowability of the reported costs and recommends corrective action to the NASA administrative contracting officer. The NASA administrative contracting officer retains signature authority for the final determination and recoups any unallowable costs.

DCAA completed the 1998 audit of incurred costs and reported the results to the DCMA administrative contracting officer on September 29, 2000.<sup>11</sup> DCAA auditors are currently performing the 1999 audit of incurred costs.

**Prior Reviews.** During prior reviews of consultant services and subcontracts, the Department of Defense (DoD) Office of Inspector General and the NASA Office of Inspector General have found deficiencies. USA also conducted an internal review of professional and consultant services. The review concluded that USA needed to better define professional and consulting services but did not identify deficiencies in the award of consultant subcontracts. See Appendix C for a summary of the reports and findings.

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<sup>11</sup> DCAA reported the results of the 1998 audit of incurred costs in "Supplemental Advisory Report on Audit of Final Indirect Rates and Incurred Costs for Contractor Fiscal Year 1998," Audit Report No. 3521-998B10100533-S1, dated September 29, 2000.

## Findings and Recommendations

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### **Finding A. Contractor Charges for Professional and Consultant Service Costs**

For four of nine subcontracts we reviewed, professional and consultant service costs did not meet FAR requirements for allowability. Costs do not meet requirements because USA's acquisition procedures did not require contractor personnel to maintain documentation of the nature and scope of professional and consultant services. As a result, the \$468,673 charged to NASA for professional and consultant service subcontracts may include unallowable costs.

#### **FAR, General Accounting Office, and Agency Requirements**

FAR, Subpart 31.205-33, "Professional and Consultant Service Costs," states that professional and consultant services are allowable costs only when supported by evidence of the nature and scope of the service the consultant furnished under the subcontract. FAR requires the contractor to maintain:

- Details of the agreement between the consultant and contractor (for example, work requirements and rate of compensation) and details of actual services the consultant performed.
- Invoices from the consultant with sufficient details regarding the time the consultant spent on the subcontract and the nature of the actual services the consultant performed.
- Consultants' work products and documents related to the work the consultant performed. Examples include trip reports, minutes of meetings, and collateral memoranda and reports.<sup>12</sup>

The General Accounting Office (GAO) Guide for Evaluating and Testing Controls Over Sensitive Payments provides a framework for management to evaluate the effectiveness of controls over sensitive payment areas, including professional and consultant services. The guide states that controls should prevent or detect noncompliance with related laws and regulations and the misuse of public funds. Specifically, management must ensure contract and consulting services are authorized, payment amounts are correct, and receipts support the payments for goods and services.

Although the GAO guide does not require management to follow its framework, the guide assists management in carrying out its control responsibilities under NASA Policy Directive (NPD) 1200.1A, "Internal Management Controls and Audit Liaison and Followup," June 1, 2000. NPD 1200.1A requires management to establish management controls that protect

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<sup>12</sup> Trip reports should indicate persons the consultant visited and subjects the consultant discussed during the visits.



resources, including contract funds, from improper use and to ensure actions are in compliance with laws and regulations.

### **Professional and Consultant Service Subcontracts**

USA officials did not adequately document the nature and scope of the services furnished on four professional and consultant service subcontracts. The four subcontracts did not meet FAR requirements in one or more of the following areas:

- **Inadequate statements of work.** Three subcontracts did not include details of work requirements. The three subcontracts included only broad, generally worded statements of work. Additionally, USA officials' directions to the consultants on specific work to be performed were oral and undocumented.
- **Incomplete consultant invoices.** Consultants submitted invoices for the four subcontracts that reported the time spent on the subcontract, but did not adequately describe the nature of the services the consultants performed during the reported time. USA officials paid the invoices without requiring a description of the services.
- **Undocumented work products.** For three subcontracts, USA officials could not provide consultant work products or other records evidencing the actual work performed by the consultants. Consultants provided only oral reports on the work performed to the USA officials who requested the consultant subcontracts. However, USA officials did not maintain documentation of the oral reports.

The following table shows the incurred cost for fiscal years 1997 through 1999 and the identified deficiencies on the four subcontracts. For the 3-year period, incurred costs billed to NASA for the four subcontracts totaled \$468,673. Subcontract 197A001500 included costs that could be considered lobbying costs. We discussed the subcontract with the NASA administrative contracting officer during the audit. The NASA administrative contracting officer is further evaluating the activities associated with these costs to determine their allowability.

## Professional and Consultant Subcontracts Not Meeting FAR Requirements

Subcontract	Incurring Cost for 1997	Incurring Cost for 1998	Incurring Cost for 1999	Deficiency
197A001500*	\$ 22,572	\$137,419	\$20,940	<ul style="list-style-type: none"> <li>• Incomplete statement of work</li> <li>• Incomplete invoices</li> <li>• Undocumented work products</li> </ul>
1960421353	160,080	26,670	0	<ul style="list-style-type: none"> <li>• Incomplete invoices</li> <li>• Undocumented work products</li> </ul>
P000006299	0	0	41,405	<ul style="list-style-type: none"> <li>• Incomplete statement of work</li> <li>• Incomplete invoices</li> </ul>
197A000435	14,742	39,911	4,934	<ul style="list-style-type: none"> <li>• Incomplete statement of work</li> <li>• Incomplete invoices</li> <li>• Undocumented work products</li> </ul>
Total	\$197,394	\$204,000	\$67,279	

\* The subcontract included costs that could be considered lobbying costs. NASA is further evaluating the costs.

### USA Acquisition Procedures

USA Company Acquisition Procedures (CAP) 2.421, “Consultant Service Agreements,” and CAP 12.200, “Consultant Services,” do not require contractor personnel to maintain the documentation necessary for determining whether the work performed by consultants was proper and met FAR requirements for allowability. Consequently, USA technical representatives, who requested the consultant service subcontract, did not prepare, obtain, or maintain the necessary documentation.

CAP 2.421 and CAP 12.200 specify requirements that USA buyers and technical representatives must follow when awarding professional and consultant service subcontracts. CAP 2.421 permits the buyer's technical representative, normally the USA employee requesting the consultant service subcontract, to direct the consultant's work. CAP 2.241 does not specifically require the buyers’ technical representatives to document oral directions regarding the work scope, reports of the actual work the consultant performed, or the consultant's work products. Further, CAP 2.241 and CAP 12.200 do not require consultants to describe the actual services performed for the time billed on each invoice.

## **DCMA and DCAA Oversight**

DCMA purchasing system reviews and DCAA audits of incurred costs use a risk-based approach to select individual items for review. The risk-based approach focuses a review on items for which the risk and expected benefit are greatest and balances the audit staff and time required to review an item in relation to the risk of it being unallowable and its dollar value. For years prior to 1998, DCMA purchasing system reviews and DCAA incurred cost audits did not disclose unallowable consultant costs at USA. The dollar value of individual professional and consultant service subcontracts are lower than other items of incurred costs for those years. Although professional and consultant services subcontracts are sensitive to improper use or conflict of interest, DCMA and DCAA are less likely to select the subcontracts for review because of their lower dollar value.

### **Effect on Contract Costs**

The USA charges to NASA of \$468,673 for the four professional and consultant service subcontracts may include unallowable costs. We asked DCAA to include the \$468,673 as questioned costs in the 1998 and 1999 audits of USA's incurred costs. As part of the oversight process, the DCMA administrative contracting officer will review and determine the allowability of these costs and recommend corrective action to the NASA administrative contracting officer. The NASA administrative contracting officer retains signature authority to make the final determination and recoup any unallowable costs.

The NASA administrative contracting officer is aware of the potential unallowable costs, so we are not making a related recommendation. However, the NASA administrative contracting officer should direct USA officials to ensure that the nature and scope of professional and consultant services are adequately documented. Because professional and consultant service subcontracts are vulnerable to improper use, the NASA administrative contracting officer should increase Government oversight of such services through additional review by the DCAA.

## **Recommendations, Management's Response, and Evaluation of Response**

**The Director, Johnson Space Center, should require the NASA administrative contracting officer for contract NAS9-20000 to:**

- 1. Direct USA officials to ensure company personnel maintain complete documentation of the statement of work, actual services the consultant performed, and nature of the actual services performed for the time billed on the consultant's invoice.**

**2. Request the DCAA to include professional and consultant service costs in samples selected for future incurred cost audits.**

**Management's Response.** Concur. The NASA administrative contracting officer, in conjunction with the DCMA, notified USA that the DCMA's surveillance reviews will include reviews of consultant agreements. The DCMA will review documentation maintained in support of the statement of work, actual services the consultant performed, and the nature of the actual services performed for the time billed on the consultant's invoice. Under authority delegated by Johnson, the DCMA requested the DCAA to include consultant costs in its audit of USA's claimed incurred costs for calendar year 1999. The complete text of management's response is in Appendix D.

**Evaluation of Management's Response.** Management's completed actions are responsive to the recommendations. Management's actions are sufficient to disposition recommendations 1 and 2 for reporting purposes.

## **Finding B. Controls over Noncompetitive Procurements of Professional and Consultant Services**

For seven of nine professional and consultant service subcontracts we reviewed, USA officials did not prepare acceptable justifications for noncompetitive procurements. USA procedures do not sufficiently implement FAR requirements for USA personnel to prepare acceptable acquisition justifications for noncompetitive procurements. As a result, NASA has reduced assurance that the contractor obtained the best source and price for the noncompetitive procurements.

### **Federal Contracting Requirements**

FAR, Part 6, "Competition Requirements," directs contracting officers to take specific actions that ensure compliance with Government policy on full and open competition in Government contract awards. The contracting officer must solicit offers from as many potential sources as is practical. To identify potential sources, the contracting officer conducts a market analysis, documents the analysis, and retains the documentation in the contract file. A contracting officer can award a noncompetitive procurement when only a single qualified source is available to perform the contract requirements. However, the contracting officer must prepare a written justification that explains why a competitive procurement is not appropriate. The justification must describe the market analysis and results of the analysis, list other sources that are available, explain the selected source's unique qualifications, and explain why the available sources that were not selected are unqualified.

FAR, Part 44, "Subcontracting," requires USA to comply with Government policies in subcontract awards, including the Government policy of full and open competition. To ensure USA competitively awards subcontracts to the maximum extent practical, contract NAS9-20000 incorporated FAR Clause 52.244-5, "Competition in Subcontracting." USA implemented Procurement Functional Policy and Procedure B-03-11, "Requisitioning," dated April 2, 1999, to establish USA procurement procedures for maximizing competition in subcontract awards. The procedure requires contractor personnel requesting a noncompetitive procurement valued at more than \$2,500 to prepare a written justification describing the need to acquire goods or services from a single or sole source.

### **Justifications for Noncompetitive Procurements**

Written justifications for the seven noncompetitive procurements of professional and consultant services included one or more of the following deficiencies:

- **Inadequate explanatory statement.** For six procurements, justifications stated that the consultant was uniquely qualified and that other capable sources were not available. The justifications did not state why the other sources were incapable of performing the

subcontract requirements or describe attempts to locate other available sources. Additionally, justifications and subcontract files did not contain documentation describing attempts to identify other available sources. For two of the six procurements, USA personnel requesting the noncompetitive procurement stated they did not attempt to identify other sources. For four of the six procurements, requesters stated they attempted to identify other sources, but did not document the attempts on the justification or maintain other documentation of their attempts.

- **Untimely justification.** For three procurements, the selected sources began work before USA personnel requesting the noncompetitive procurement submitted written justifications to USA buyers. One consultant began work 5 months before the requester submitted a written justification to the USA buyer; two consultants began work 1 month before the requesters submitted written justifications to USA buyers. One of the three procurements involves a potential conflict of interest between the requesting official and the consultant. We discussed the subcontract with the NASA administrative contracting officer during the audit, and NASA is further evaluating the requesting official's selection of the consultant.

## **USA Acquisition Procedures**

USA procedure B-03-11 requires the USA requester of a noncompetitive procurement to document supporting rationale on the justification. However, the procedure does not require requesters to (1) document efforts to identify other sources on the written justification, (2) state why other sources are incapable of performing the subcontract requirements, (3) maintain documentation supporting the justifications for noncompetitive procurements, or (4) submit written justifications for buyer approval before directing the subcontractors to initiate the work. USA should ensure that requesting personnel submit acceptable and timely justifications for professional and consultant service subcontracts.

## **DCMA Oversight**

DCMA officials had limited oversight of professional and consultant service subcontracts because these subcontracts rarely met the criteria for consent established in NAS9-20000. None of the nine professional and consultant service subcontracts we reviewed were subject to the DCMA administrative contracting officer's consent.<sup>13</sup> Eight of the nine professional and consultant service subcontracts were time and materials subcontracts with total costs of less than \$100,000. However, the subcontracts did not require the administrative contracting officer's consent because the professional and consultant subcontracts were not direct charges to contract NAS9-20000.

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<sup>13</sup> NAS9-20000 requires that USA obtain the DCMA's administrative contracting officer's consent on time and materials subcontracts whose estimated costs are \$100,000 or more and whose costs will be direct charges to contract NAS9-20000.

During the 3-year period between purchasing system reviews, the NASA and DCMA administrative contracting officers conduct semiannual surveillance reviews of professional and consultant services subcontracts. The semiannual reviews alternate between reviews of sampled procurement transactions and process validations. The first semiannual review evaluates about 70 randomly selected transactions for compliance with FAR and USA procedures. For the second semiannual review, USA officials and the DCMA administrative contracting officer validate the USA purchasing process. However, because of the risk-based sampling approach, the semiannual surveillance reviews provide only limited visibility of professional and consultant services subcontracts.

As a result of our efforts during the audit, USA officials will provide an internal monthly consultant service subcontract report to the DCMA administrative contracting officer beginning in November 2000. The report will list active professional and consultant service subcontracts and include the consultant's name, subcontract dollar value, description of subcontract services, type of award (competitive or noncompetitive), and classification of cost (direct or indirect). The DCMA administrative contracting officer could improve the visibility of USA's professional and consultant service subcontracts by incorporating information on the report into the semiannual surveillance reviews at Johnson and Kennedy.

### **Effect on Competition and Oversight Reviews**

Adequate justifications and supporting documentation are needed to provide NASA assurance that USA awarded professional and consultant service subcontracts to the best available source at a reasonable price, particularly in the absence of competition or an appearance of a conflict of interest. Additionally, adequate documentation facilitates DCMA oversight reviews by describing the steps the contractor used to identify the available sources and the contractor's basis for noncompetitively selecting a single source.

## **Recommendations, Management's Response, and Evaluation of Response**

**The Director, Johnson Space Center, should direct the NASA administrative contracting officer for contract NAS9-20000 to:**

- 3. Direct USA officials to ensure company personnel requesting noncompetitive awards of professional and consultant service subcontracts (1) document efforts to identify other sources, (2) document the reasons other sources were incapable of performing the subcontract requirements, (3) maintain documentation supporting justifications for noncompetitive procurements, and (4) submit justifications to procurement personnel before work is initiated.**

- 4. Request the DCMA administrative contracting officer to establish a process that incorporates the contractor's monthly report of professional and consultant service subcontracts into the semiannual surveillance reviews of contract NAS9-20000.**

**Management's Response.** Concur. Under authority delegated by Johnson, the DCMA administrative contracting officer directed USA to ensure that noncompetitive justifications include statements addressing efforts to identify other sources and the reasons other sources are incapable of performing the subcontract requirements. The DCMA administrative contracting officer also requested that USA ensure the justifications are submitted to USA's procurement office prior to initiation of work. The DCMA will review for compliance with the directions during future purchasing system surveillance. At DCMA's direction, USA provides its monthly Consultant Contracts Report to the DCMA administrative contracting officer. The DCMA factors the information on the report into the semiannual surveillance reviews.

The complete text of management's response is in Appendix D.

**Evaluation of Management's Response.** Management's completed actions are responsive to the recommendations. Management's actions are sufficient to disposition recommendations 3 and 4 for reporting purposes.



## **Appendix A. Objectives, Scope, and Methodology**

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### **Objectives**

The overall objective was to determine whether NASA had adequate controls of USA's use of professional and consultant services. Specifically, we determined whether the contractor's professional and consultant service costs included unallowable costs.

### **Scope and Methodology**

We reviewed professional and consultant service subcontracts that were active in 1998 and 1999. During that period, USA had 13 active professional and consultant service subcontracts totaling \$1.927 million. We examined the subcontracts, statements of work, single-source justification memoranda, cost and price analyses, consultants' invoices and work products, payment approvals, and miscellaneous correspondence. We also compared each subcontract against requirements in the FAR and relevant USA policies and procedures, interviewed contractor personnel who requested the consultant services, USA procurement officials, the NASA administrative contracting officer, and the DCMA administrative contracting officer.

### **Use of Computer-Processed Data**

We obtained computer-generated data on subcontract awards and tested the data by comparing data to source documents for the sampled subcontracts. The tests showed that the computer-processed data were sufficiently reliable to be used in meeting the audit objectives.

### **Management Controls Reviewed**

We reviewed management controls over compliance with FAR allowability requirements and the award of consultant subcontracts. We determined that management controls over compliance with FAR allowability requirements and over the justification of noncompetitive procurements need improvement as discussed in Findings A and B.

### **Audit Field Work**

We performed audit field work from December 1999 through November 2000 at Johnson Space Center and at USA's facility in Houston, Texas. We performed the audit in accordance with generally accepted government auditing standards.

## Appendix B. Consultant Subcontracts Reviewed

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Subcontract	Dollar Value	Incurred Cost (Through December 1999)	Deficiencies
P000005206 <sup>1</sup>	\$551,300	\$338,027	<ul style="list-style-type: none"> <li>• Inadequate explanatory statement on justification</li> <li>• Untimely justification for noncompetitive procurement</li> </ul>
1960421353	300,000	186,750	<ul style="list-style-type: none"> <li>• Incomplete invoices submitted by consultant</li> <li>• Undocumented work products</li> <li>• Inadequate explanatory statement on justification</li> <li>• Untimely justification for noncompetitive procurement</li> </ul>
3000082347	25,000	47,043	<ul style="list-style-type: none"> <li>• None</li> </ul>
P000009412	15,000	18,950	<ul style="list-style-type: none"> <li>• Untimely justification for noncompetitive procurement</li> </ul>
197A000435	350,000	59,587	<ul style="list-style-type: none"> <li>• Inadequate statement of work</li> <li>• Incomplete invoices submitted by consultant</li> <li>• Undocumented work products</li> <li>• Inadequate explanatory statement on justification</li> </ul>
197A001500 <sup>2</sup>	250,000	180,931	<ul style="list-style-type: none"> <li>• Inadequate statement of work</li> <li>• Incomplete invoices submitted by consultant</li> <li>• Undocumented work products</li> <li>• Inadequate explanatory statement on justification</li> </ul>
197A000838	73,000	22,603	<ul style="list-style-type: none"> <li>• Inadequate explanatory statement on justification</li> </ul>
P000006299	270,400	41,405	<ul style="list-style-type: none"> <li>• Inadequate statement of work</li> <li>• Incomplete invoices submitted by consultant</li> <li>• Inadequate explanatory statement on justification</li> </ul>
3000081973	73,500	68,086	<ul style="list-style-type: none"> <li>• None</li> </ul>
Totals	\$1,908,200	\$963,382	

<sup>1</sup> The subcontract included costs that may involve a potential conflict of interest. NASA is further evaluating the costs.

<sup>2</sup>The subcontract included costs that could be considered lobbying costs. NASA is further evaluating the costs.

## Appendix C. Summary of Prior Reviews and Findings

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**NASA Office of Inspector General (OIG) Reviews.** The NASA OIG issued a management letter report and two audit reports on subcontract management. (Copies of the audit reports are available at [www.hq.nasa.gov/office/oig/hq/issuedaudits.html](http://www.hq.nasa.gov/office/oig/hq/issuedaudits.html).)

**“Allied-Signal Subcontract Management,” Report Number IG-99-042, September 16, 1999, and “Raytheon Subcontract Management,” Report Number IG-00-002, December 21, 1999.** Purchasing department buyers for the two contractors did not maintain documentation to support justifications for noncompetitive procurements. The contractors' purchasing policies did not require contractor personnel to keep supporting documentation. Additionally, Government oversight reviews of the contractors' procurement systems did not include examinations of supporting documentation for noncompetitive procurements. As a result, NASA had reduced assurance that the contractor maximized the competition of its subcontracts. In response to our recommendations, NASA management instructed the contractors to maintain adequate documentation in support of noncompetitive procurements. NASA management also took actions to include reviews of supporting documentation in future reviews of the contractors' purchasing systems.

**“Management Letter Regarding Procurement Issues Identified in the Shuttle-Mir Rendezvous and Docking Missions and International Space Station Operational Readiness Task Forces Report,” February 18, 1998.** A NASA subcontractor providing technical support to a NASA Task Force may have lacked the impartiality needed to make independent assessments and recommendations because the subcontractor's reviews involved organizations that funded the subcontract. Also, the noncompetitively awarded subcontract and subcontract extension did not have adequate justification for a noncompetitive procurement. The contractor submitted inadequate explanatory statements for the initial award, did not conduct a market survey or submit a written justification for the subcontract extension, did not perform an adequate price analysis, and did not obtain the required approvals. Because the management letter report contains sensitive and proprietary contractor information, we are not providing additional details regarding the report's recommendations and management's response to the recommendations.

**Department of Defense (DoD) Inspector General Review.** On March 10, 2000, the DoD Inspector General (DoDIG) issued audit report No. D-2000-100, “Contracts for Professional, Administrative, and Management Support Services.” DoDIG auditors reviewed procurement procedures for professional, administrative, and management support service contracts at 15 DoD contracting activities and program offices. The report identified problems in each of 105 sampled contract actions. Problems included undefined requirements, inadequate technical reviews, inadequate negotiation memorandums, inadequate competition, and lack of cost control. The DoDIG also issued audit report No. D-2001-005, “Use of Unpaid Consultants by the DoD Exchange Services,” dated October 16, 2000. The report states that the Army and Air Force Exchange Service inappropriately engaged consultants who had financial affiliations with

the Exchange Service. The Exchange Service did not require unpaid consultants to file financial disclosure reports, which could have assisted in identifying potential conflicts of interest.

**USA Review.** In July 1998, a USA internal audit report of professional and consulting services concluded that USA needed to better define professional and consulting services. Beginning in calendar year 2001, USA plans to conduct annual internal audits of professional and consultant services.

## Appendix D. Management's Response

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



Reply to Attn of: BD5

MAR 01 2001

To: NASA Headquarters  
Attn: W/Assistant Inspector General for Auditing

FROM: AA/Acting Director

SUBJECT: Management Response to OIG's Draft Audit Report: United Space  
Alliance's Use of Professional and Consultant Services, A0002100

We have reviewed the subject draft audit report, and thank you for the opportunity to provide comments. This response was coordinated with the Office of Space Flight. The close working relationship developed during the course of the audit field work allowed JSC to take actions immediately to address your concerns. We concur with the recommendations and have already implemented actions to strengthen oversight of consultant services. Each recommendation is discussed individually in the enclosure, and specific actions taken are identified. With actions already implemented, we will consider the audit closed on issuance of the final report. If you have any questions regarding this response, please contact Ms. Pat Ritterhouse, Audit Liaison Representative, at 281-483-4220.

A handwritten signature in black ink, appearing to read "Roy S. Estess".

Roy S. Estess

Enclosure

cc:  
BV/H. Baker  
W-JS/D. Orton  
HQ/H/J. Horvath  
HQ/M/J. H. Rothenberg  
HQ/MX/G. A. Gabourel  
HQ/JM/H. A. Robbins  
JPL/W/180-300/L. Dear

**Management Response to OIG's Draft Audit Report: United Space Alliance's Use of Professional and Consultant Services, A0002100**

**Auditor's Findings**

"For four of nine subcontracts we reviewed, professional and consultant service costs did not meet FAR requirements for allowability. Costs do not meet requirements because USA's acquisition procedures did not require contractor personnel to maintain documentation of the nature and scope of professional and consultant services. As a result, the \$468,673 charged to NASA for professional and consultant service subcontracts may include unallowable costs."

**Recommendations for Corrective Action**

The Director, Johnson Space Center, should require the NASA administrative contracting officer for contract NAS9-20000 to:

1. Direct USA officials to ensure company personnel maintain complete documentation of the statement of work, actual services the consultant performed, and nature of the actual services performed for the time billed on the consultant's invoice.
2. Request the DCAA to include professional and consultant service costs in samples selected for future incurred cost audits.

**JSC Comments**

Concur with both recommendations. Based on earlier meetings between your staff, NASA and the Defense Contract Management Agency (DCMA) administrative contracting officer (ACO), we agreed with the need to strengthen oversight of the professional and consultant services costs. For Recommendation 1, the NASA ACO, in conjunction with DCMA, notified USA by letter dated October 6, 2000, of additional requirements that will be reviewed during purchasing system reviews. See attachment 1. These reviews will include documentation requirements of the statement of work, actual services the consultant performed, and nature of the actual services performed for the time billed on the consultant's invoice. The reporting of monthly consultant agreements, discussed in the response to Recommendation 4, provides a mechanism for added oversight of consultant services. On September 1, 2000, as a result of this audit, USA updated their Company Acquisition Policy (CAP 2-421) relative to Consultant Service Agreements placing increased emphasis on file documentation. See attachment 2.

\*

For Recommendation 2, under authority delegated by JSC, the DCMA requested the Defense Contract Audit Agency (DCAA) to include consultant services as part of the incurred cost audit for Calendar Year 1999 as shown by letter dated July 7, 2000. See attachment 3. As stated in your report, the costs you identified as potential unallowable costs for 1998 have already been included in the DCAA's audit report of 1998 incurred cost and the 1999 potential unallowable cost will be included in the DCAA's 1999 incurred cost audit. The actual amount of unallowable costs will be resolved during the final negotiation of the indirect rates for those years. As agreed to with your office, this response does not address the actual dollar value of those questioned costs. Based on

Enclosure

\* The attachment is not included in the report, but can be provided upon request.

the actions taken, and our discussions with your staff regarding those actions, we consider Recommendations 1 and 2 closed.

### **Auditor's Finding's**

"For seven of nine professional and consultant service subcontracts we reviewed, USA officials did not prepare acceptable justifications for noncompetitive procurements. USA procedures do not sufficiently implement FAR requirements for USA personnel to prepare acceptable acquisition justifications for noncompetitive procurements. As a result, NASA has reduced assurance that the contractor obtained the best source and price for the noncompetitive procurements."

### **Recommendations for Corrective Actions**

"The Director, Johnson Space Center, should direct the NASA administrative contracting officer for contract NAS9-20000 to:

3. Direct USA officials to ensure company personnel requesting noncompetitive awards of professional and consultant service subcontracts (1) document efforts to identify other sources, (2) document the reasons other sources were incapable of performing the subcontract requirements, (3) maintain documentation supporting justifications for noncompetitive procurements, and (4) submit justifications to procurement personnel before work is initiated.
4. Request the DCMA administrative contracting officer to establish a process that incorporates the contractor's monthly report of professional and consultant service subcontracts into the semiannual surveillance reviews of contract NAS9-20000."

### **JSC Comments**

Concur with both recommendations. For Recommendation 3, USA was requested to ensure that all noncompetitive justifications: include a statement addressing efforts to identify other sources, state why other sources are incapable of performing the subcontract requirements, and be submitted and approved prior to subcontract award and initiation of work as shown by letter dated October 6, 2000. USA's Company Acquisition Policy 7.120 requires that documentation relating to source development (including sole source justifications and brand name justifications) be included in the contract file. See attachment 4. It should be pointed out that in the previous Contractor Purchasing System Reviews and during continual surveillance of the purchasing system, the sole/single source justification issue has been identified as an area needing improvement. \*

For Recommendation 4, the DCMA has established a process to ensure that consultant services are reviewed. In response to DCMA direction, USA provides an internal monthly Consultant Contracts Report to the DCMA administrative contracting officer. Information from this report is reviewed by DCMA and will be factored into the semiannual surveillance reviews. An example of the reporting is shown in attachment 5. Based on the actions already taken, we consider Recommendations 3 and 4 closed. \*

\* The attachment is not included in the report, but can be provided upon request.



DEFENSE CONTRACT MANAGEMENT AGENCY  
 DEFENSE CONTRACT MANAGEMENT SAN ANTONIO  
 DCM UNITED SPACE ALLIANCE  
 600 GEMINI AVE.  
 HOUSTON, TX 77058

IN REPLY  
 REFER TO

DCM USA (GEOHC)

October 6, 2000

United Space Alliance  
 Mr. Mike H. Jones  
 Director of Procurement  
 1150 Gemini Ave.  
 Houston, TX 77058

Dear Mr. Jones:

This office is in receipt of your response (00USA0414 dtd September 1, 2000) to our Semi-Annual Purchasing System Surveillance Review for the period January through June 2000. Your response portrayed a proactive approach to providing "acquisition" personnel clear direction on procurement matters. Some of the efforts considered noteworthy were the beneficial training provided in many key areas, the full review of Company Acquisition Procedures (CAP) and revisions thereto, and the review and overhaul of the lead-time matrix. Although the expected improvement was not entirely evident during the July 2000 semi-annual file review, the additional steps USA has taken this year, and has stated will be taken, are expected to produce positive measurable results in the future.

The purchasing surveillance team at DCMA, Kennedy Space Center, and Marshall Space Flight Center will continue to evaluate the noted areas of weakness for USA East and West during continual purchasing system surveillance in the future. For those weaknesses not addressed in your September 1<sup>st</sup> letter or where the Government did not necessarily agree with your response or the approach taken, further discussion with your company will take place during reviews of the following: subcontract consents, CAP revisions, Procurement Lead-time Status Reports, and process validations. A summary of recommendations to your CAP based on prior surveillance and reviews of your CAP revisions is enclosed. Although this summary is not to be construed as an all-inclusive listing of recommended changes, it is a consolidated listing at this point in time. Similar submissions will be provided in the future to provide immediate feedback when specific areas are noted for improvement.

Furthermore, **focused emphasis will be placed on single/sole source justifications and consultant agreements** based on purchasing surveillance and other audit agency attention. The requested single/sole source process validation should provide sufficient detail to address this area of concern. **In regards to consultant agreements, this office requests the following:**

1. **To be added to the distribution list for USA's monthly "Current Consultant Contracts Report", and**
2. **To be kept apprised of the status of the team being established to evaluate USA's policies and procedures on consultants, purchased time, and support services, and/or allow DCMA or DCAA participation on that team.**

Attachment 1



## Appendix D

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Lack of measurable progress in these areas and other areas where weaknesses continue to be noted will be considered subcontract management weaknesses in the future.

This office provided Ms. Penny White a summary of our expectations regarding the seven requested process validations, and had the opportunity to discuss each, on September 15<sup>th</sup>. As such, respectfully request that your schedule for those reviews/briefings at a rate of approximately three per month be provided no later than October 13, 2000. The following information is provided to clarify our expectations regarding your Make or Buy Program in order to complete that process validation:

1. For applicable subcontracts, request that case file documentation include the dates that the Make or Buy Decision was approved by the Board and NASA.
2. Request that this office be kept informed of status regarding USA's efforts to update the SFOC Make or Buy Plan, Attachment J-13, at the weekly Compliance meeting or by copying us on correspondence with NASA.

If you have any questions, contact Ms. Karen Pennington at (281) 282-3074 or the undersigned at (281) 282-3065.

Sincerely,

**ORIGINAL SIGNED BY**

VICTORIA A. ARMIJO  
Administrative Contracting  
Officer

Enclosure

cc:  
NASA/JSC/BV Correspondence Control  
NASA/JSC/BV/Ron Lentz  
NASA/KSC/OP-MS/C. Hurst  
NASA/KSC/OP-MS/J. Fasula  
NASA/MSFC/GP40/E. L. Posey  
NASA/MSFC/GP40/D. Seborg  
USA/Systems & Compliance/Jeff Corn  
USA/Systems & Compliance/Penny White  
USA/Internal Audit/Harold McCracken  
DCAA/G. Mack  
DCAA/R. Perez  
DCMA Pasadena/Larry Tyler  
DCMA (USA)/Read File

### COMPANY ACQUISITION PROCEDURE (CAP) RECOMMENDATIONS

The following recommendations are provided based on prior purchasing system surveillance reviews, subcontract consent reviews, CAP revision reviews, and the Make or Buy process validation:

*NOTE: Regardless of whether USA elects to incorporate the recommended CAP change for each of the asterisked items (\*), the stated information will be required in files submitted for subcontract consent prior to signature, and will be reviewed in files sampled during future purchasing system surveillance.*

#### 1. CAP 1.210 - Authorizing Procurement Transactions

CAP 2.414, para. 6, requires written approval from Procurement Management @ Director level prior to entering into letter contract, whereas CAP 1.210 still states approval is required by level 5a, which is Project Leader I & II, as well as Compliance. Recommend this discrepancy be resolved in a future CAP revision.

The "Delegation of Authority Table II" (reference para. 5.2 "Q. Letter Contracts") in CAP 1.210 does not address approval requirements when funds are increased in excess of 40% of work, although CAP 2.414 specifies Director level approval is required in this instance. Recommend this be added to the Table as a result.

#### 2. CAP 2.230 - Set-Aside Program

\*Recommend that the CAP require that case file documentation state whether a SB/SDB/WOSB was solicited, and why award was not made to a small business, if applicable (reference para. IV.L. of USA's July 2000 Master Subcontracting Plan).

#### 3. CAP 2.310 - Determining Noncompetitive Acquisitions (and/or FPP B-03-11 REV 1 - Requisitioning)

\*Recommend that the CAP require the requestor's title to be identified on the Noncompetitive Acquisition Justification, and that all signatures on the justification (requestor, buyer and procurement manager) be dated (reference CAP para. 4).

**\*Recommend that Noncompetitive Acquisition Justifications state why other sources are incapable of performing the subcontract requirements, and include a statement addressing efforts made to identify other sources.**

**Recommend that the CAP specifically require submission and approval of Noncompetitive Acquisition Justifications prior to subcontract award and initiation of work.**

Recommend that the CAP clarify to whom requestors are to submit their Noncompetitive Acquisition Justifications (reference FPP B-03-11 para. 3.b.).

#### 4. CAP 2.413 - Labor Hour and Time and Material

\*Recommend that USA clarify that case file documentation for LH and T&M contracts show the breakdown of the not-to-exceed price, i.e. calculations and basis of estimated hours, negotiated rates, and the breakout of other direct costs (ODCs).

## Appendix D

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5. **CAP 2.414 - Letter Contracts**

\*Recommend that the CAP require documentation in definitization case files as to whether the 40% of work completion and 180 day thresholds were met, and the rationale if either one of the thresholds was not met. See also CAP 1.210.

6. **CAP 2.421 - Consultant Service**

\*Recommend that the CAP require the subcontract file to be documented with rationale whenever procurement personnel change the contract form to other than consultant agreement when "consultant" is designated as the requisitioning code (reference CAP 2.421 para. 3).

7. **CAP 2.810 - Selecting Evaluation Teams and Criteria**

Recommend that the CAP require the weighted evaluation procedures identified within to be referred to as "Best Value" criteria.

USA's policy (reference Price bullet under the heading "Establishing Evaluation Criteria") requires award to the offeror with the highest total score when price is included in the weighted evaluation criteria. Recommend that USA revise that policy to require the buyer to analyze whether the benefit received by the higher scoring offeror justifies the additional cost, if applicable. See also CAP 5.810.

8. **CAP 3.115 - Preparing Solicitations**

Recommend that the solicitation specify the relative weights of the various evaluation criteria under a "Best Value" procurement (reference CAP 2.810). For example, state whether all evaluation factors other than price, when combined, are significantly more important than, approximately equal to, or significantly more important than price.

9. **CAP 5.310 - Cost Accounting Standards Requirements**

\*Recommend that the CAP require the buyer to verify that the subcontractor's Disclosure Statement is "adequate" with the cognizant ACO in accordance with FAR 44.202-2(a)(12), 30.202-6 and 30.202-8, and to annotate the subcontract file appropriately.

10. **CAP 5.320 - Reviewing Subcontracting Plans**

Recommend that the CAP require the Case File to state why a Subcontracting Plan has not been submitted if the subcontract is subject to such requirements, i.e. no subcontracting possibilities exist.

11. **CAP 5.330 - Requesting Equal Opportunity Preaward Clearance**

Recommend that the CAP coincide with administrative modification S/A 539 dtd 10/3/00 , which updated SFOC Equal Employment Opportunity (EEO) clauses to the latest versions of the FAR. This change provides the procedures for the contractor to review the Office of Federal Contract Compliance Programs National Pre-Award Registry (web page <http://www.dol-esa.gov/preaward/>) and include a copy of that approval in the contract file. Requests to the cognizant ACO for EEO Pre-Award Compliance Reviews will only be necessary if the subcontractor is not on the web listing.

**12. CAP 5.810 - Price Analysis**

Recommend that the CAP require the following in regards to "Best Value" procurements:

- Specify that when the low offer is not the awardee in a "Best Value" procurement, the price analysis should include the rationale used to equate cost and qualitative merit. (Note: Benefits received should be based on the stated evaluation criteria, including factors and subareas -reference CAP 2.810.)
- Provide additional guidance on price analysis techniques for "Best Value" procurements when price is not a substantial factor in source selection.

Recommend that USA clarify and emphasize as part of the price analysis/estimate how the total price was derived, including ODCs.

**13. CAP 7.120 - Contract File Documentation**

\*Recommend that the CAP require the Case File to include reference to the Make or Buy Decision, indicating the date approved by Board and NASA, if applicable (reference CAP Attachment 1, para. 3 "Source Selection").

\*Recommend that subcontractor acceptance documentation in accordance with CAP 9.120 be added to the "Contract File Documentation" listing in CAP 7.120.

**14. CAP 8.120 - Providing Advance Notification, Requesting Consent or Authorization**

Recommend that, if and when USA has advance notification/consent requirements in other Government contracts, those requirements be added to this CAP similar to the NAS9-20000 requirements in paragraph 4.

**15. CAP 9.120 - Issuing Purchase Orders**

\*Recommend that, when subcontractor acceptance occurs based on delivery or performance, a requirement be imposed to document the file accordingly. See also CAP 7.120.

**16. CAP 9.140 - Processing Ratification Actions**

\*Recommend including an additional bullet under para. 4 to require an explanation of the urgency of the buy and of the circumstances which prevented normal processing.

**17. CAP 10.610 - Processing Modifications**

Recommend that the CAP state USA's goal for definitization of change orders, i.e. 180 days.

**18. General**

Recommend that the CAPs require ALL signatures to be dated and identified by position/title.

Recommend that the CAPs include the need to clearly identify both the cost/price breakdown between direct and indirect on a combined procurement, as well as the applicable clauses/statements that apply to each designation within the order.

### 19. Change Process Agreement (CPA)

Recommend that a CAP be established to address the following:

- CPA procedures including, but not limited Procurement Internal CPA Process and other planned modifications as a result of the Estimating System audit,
- Deviations to the normal procurement process,
- USA's goal for definitization of change orders, and
- Applicable company policies, procedures and desk instructions



DEFENSE CONTRACT MANAGEMENT AGENCY  
DEFENSE CONTRACT MANAGEMENT SAN ANTONIO  
DCM UNITED SPACE ALLIANCE  
600 GEMINI AVE.  
HOUSTON, TX 77058

IN REPLY  
REFER TO

DCM USA (GEOHC)

July 7, 2000

Mr. Gary Mack  
Supervisory Auditor  
Defense Contract Audit Agency  
8876 Gulf Freeway, Suite 500  
Houston, Texas 77017-6544

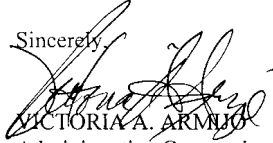
Dear Mr. Mack:

This office requests your audit assistance in the review of United Space Alliance's (USA) Final Indirect Cost Claim for Calendar Year 1999, which the contractor forwarded to your office on June 30, 2000 electronically and in hardcopy.

An initial review to determine the adequacy of the claim is requested by July 25, 2000, as previously agreed upon. We request your audit report be issued on or before June 30, 2001, including information on each of the audit leads provided in the enclosed listing. Please refer to NASA Control No. SFOC 00-02/DCM Pricing Case No. 8F01021 in your audit report.

Please notify this office of any delays in obtaining supporting documentation or other information required from the contractor during performance of your audit. We will support your office in obtaining the data needed to avoid delays in the audit completion date.

If you have any questions concerning this request, please contact Ms. Karen Pennington at (281) 282-3074.

Sincerely,  
  
VICTORIA A. ARMIO  
Administrative Contracting  
Officer

Enclosure

Attachment 3

cc:  
JSC BV/R.B. Lentz  
DCAA/R. Perez  
DCM Pasadena/L. Tyler

## Appendix D

### **NASA/DCMA AUDIT LEADS FOR USA CY99 INCURRED COST CLAIM AUDIT**

- 1) **Employee Incentive Plan (EIP)** - Ensure that Oct. - Dec. 99 costs relating to individuals not covered by the Plan in effect at that time were put into an unallowable account.
- 2) **Adoption Benefits** -
  - a) How much was paid out IAW USA's Adoption Policy C-05-03 dtd 1/26/99?
  - b) Are these costs considered reasonable?
- 3) **Purchase Discounts and Rebates etc.** (reference Accounting System Audit/Internal Audit and Purchasing System Audit) -
  - a) Has USA's corrective action improved problem with discounts not taken?
  - b) Are the dollar amounts of purchase discounts lost reasonable given the volume of the company's purchases?
  - c) Does USA have adequate supporting data for not taking advantage of these discounts & rebates?
- 4) **Consultant Services!!!** – Since the assist audit review has already been completed, provide the basis for questioned consultant costs and calculations of penalties, if applicable. If USA classified these costs to an unallowable account, request that your report include such a comment, as well as the total \$ amount involved.
- 5) **Non-productive labor** -
  - a) Are the pool costs considered reasonable?
  - b) Are these costs properly allocated to final cost objectives?
- 6) **Fringe Benefits** -
  - a) A comprehensive review is requested of the costs in the areas of Pension, Insurance and Healthcare, such as Medical, Dental and Retiree Medical.
  - b) According to USA, Post Retirement Medical and Pension Cost Credits were made in 1999. Verify whether appropriate adjustments for these credits are reflected in the claim.
  - c) Incorporate results of the CAS 412/413 compliance reviews, especially in regards to all the transfers of pension assets in 1999 (i.e. parent companies and USBI).
- 7) **Company Aircraft Costs** -
  - a) Verify USA billed IAW Company Aircraft Advance Agreement dtd 4/7/98, i.e. \$1,590 per person/per flight (if purpose of trip is allowable).
  - b) Verify \$752,070 was amount billed to G&A, as indicated in the aircraft data submitted by USA.
  - c) Verify \$1,294,930 (\$2,047,000 aircraft operating expenses less \$752,070 billed to G&A) was billed to unallowable account.
- 8) **Executive Travel** -
  - a) Verify USA billed IAW Executive Travel Advance Agreement dtd 6/16/99 (effective 1/2/99), i.e. 75% of first class airfares for authorized executives.
  - b) Verify CY99 data provided by USA for the annual review (\$174,478 allowable/\$58,159 unallowable) matches claimed amounts for executive travel.
  - c) Verify the amount of \$10,098 for the retroactive period from Jan-June 99 was included in the above unallowable amount.
- 9) **Travel (General)** - Provide the direct and indirect total travel costs claimed in CY99.

- 10) **Limitation on Executive Compensation** - Ensure that costs in excess of the CY 1999 executive compensation ceiling were charged to the unallowable account.
- 11) **Other Professional Costs/Fees** (i.e. Legal & other purchased services costs) - Comprehensive review requested of the costs in these areas, including settlement costs.
- 12) **Building Leases in Houston and Florida, including subleases** - Is USA making appropriate adjusting entries for sublease credits received from Boeing and other subs that are occupying USA leased buildings?
- 13) **Business System** -
  - a) Reasonableness of Computer costs (i.e. PeopleSoft Upgrade to version 7.5; upgrade to Microsoft 2000)
  - b) Appropriateness of costs in pool based on mistakes identified in Monthly Rates Meetings, i.e. classification of direct/indirect.
- 14) **Mentoring costs** (labor account # 0087300) -
  - a) How is USA charging these costs (direct or indirect?).
  - b) Are the costs reasonable?
- 15) **Reasonableness of increased costs related to Service Contract Act (SCA) compliance.** Incorporate results of the auditor's review of USA's contract value adjustment proposal on same subject, if applicable.
- 16) **Subcontractor credits** - Are subcontractor credits passed on to the Government?
- 17) **Misc. Events** - How are these type costs (labor and associated costs) treated?
  - Brown Bag Luncheons
  - Open Houses
  - Government Safety Day
  - "Bring your Child to Work Day"
- 18) **New Home Office Costs**, if any
- 19) **"Directs charging indirect"** - Are the costs referenced in the Site Overhead (East and West) pages of the Monthly Rates briefing reasonable for this type effort?
- 20) **Sales Tax Credits** - Verify whether appropriate adjustments for 1999 sales tax credits are reflected in the claim.



## **Appendix E. Report Distribution**

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### **National Aeronautics and Space Administration (NASA) Headquarters**

A/Administrator  
AA/Chief of Staff  
AI/Associate Deputy Administrator  
B/Acting Chief Financial Officer  
B/Comptroller  
BF/Director, Financial Management Division  
G/General Counsel  
H/Associate Administrator for Procurement  
HK/Director, Contract Management Division  
HS/Director, Program Operations Division  
J/Associate Administrator for Management Systems  
JM/Director, Management Assessment Division  
L/Acting Associate Administrator for Legislative Affairs  
M/Associate Administrator for Space Flight

### **NASA Centers**

Chief Counsel, John F. Kennedy Space Center

### **Non-NASA Federal Organizations and Individuals**

Assistant to the President for Science and Technology Policy  
Deputy Associate Director, Energy and Science Division, Office of Management and Budget  
Branch Chief, Science and Space Programs Branch, Energy and Science Division, Office of Management and Budget  
Director, Acquisition and Sourcing Management Team, General Accounting Office  
Professional Staff Member, Senate Subcommittee on Science, Technology, and Space  
Director, Defense Contract Management Agency  
Director, Defense Contract Audit Agency

### **Chairman and Ranking Minority Member – Congressional Committees and Subcommittees**

Senate Committee on Appropriations  
Senate Subcommittee on VA, HUD, and Independent Agencies  
Senate Committee on Commerce, Science, and Transportation  
Senate Subcommittee on Science, Technology, and Space

**Chairman and Ranking Minority Member – Congressional Committees and Subcommittees (Cont.)**

Senate Committee on Governmental Affairs

House Committee on Appropriations

House Subcommittee on VA, HUD, and Independent Agencies

House Committee on Government Reform and Oversight

House Subcommittee on Government Management, Information, and Technology

House Subcommittee on National Security, Veterans Affairs, and International Relations

House Committee on Science

House Subcommittee on Space and Aeronautics, Committee on Science

**Congressional Member**

Honorable Pete Sessions, U.S. House of Representatives

**NASA Assistant Inspector General for Auditing  
Reader Survey**

The NASA Office of Inspector General has a continuing interest in improving the usefulness of our reports. We wish to make our reports responsive to our customers' interests, consistent with our statutory responsibility. Could you help us by completing our reader survey? For your convenience, the questionnaire can be completed electronically through our homepage at <http://www.hq.nasa.gov/office/oig/hq/audits.html> or can be mailed to the Assistant Inspector General for Auditing; NASA Headquarters, Code W, Washington, DC 20546-0001.

**Report Title:** United Space Alliance's Use of Professional and Consultant Services

**Report Number:** \_\_\_\_\_ **Report Date:** \_\_\_\_\_

*Circle the appropriate rating for the following statements.*

	<b>Strongly Agree</b>	<b>Agree</b>	<b>Neutra l</b>	<b>Disagre e</b>	<b>Strongl y Disagre e</b>	<b>N/A</b>
1. The report was clear, readable, and logically organized.	5	4	3	2	1	N/A
2. The report was concise and to the point.	5	4	3	2	1	N/A
3. We effectively communicated the audit objectives, scope, and methodology.	5	4	3	2	1	N/A
4. The report contained sufficient information to support the finding(s) in a balanced and objective manner.	5	4	3	2	1	N/A

*Overall, how would you rate the report?*

- **Excellent**
- **Very Good**
- **Good**
- **Fair**
- **Poor**

*If you have any additional comments or wish to elaborate on any of the above responses, please write them here. Use additional paper if necessary.* \_\_\_\_\_

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*How did you use the report?* \_\_\_\_\_

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*How could we improve our report?* \_\_\_\_\_

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*How would you identify yourself? (Select one)*

• **Congressional Staff**

• **Media**

NASA Employee

Public Interest

Private Citizen

Other: \_\_\_\_\_

Government: \_\_\_\_\_ Federal: \_\_\_\_\_ State: \_\_\_\_\_ Local: \_\_\_\_\_

*May we contact you about your comments?*

**Yes:** \_\_\_\_\_

**No:** \_\_\_\_\_

**Name:** \_\_\_\_\_

**Telephone:** \_\_\_\_\_

Thank you for your cooperation in completing this survey.

## **Major Contributors to the Report**

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