

National Aeronautics and
Space Administration

Office of Inspector General
Washington, DC 20546-0001



December 6, 2007

TO: Chief Financial Officer
Assistant Administrator for Procurement
Director, Marshall Space Flight Center

FROM: Assistant Inspector General for Auditing

SUBJECT: Addendum to Final Memorandum on Audit of Marshall Space Flight
Center's Administration of Government Property Held Off-Site by
Contractors (Report No. IG-07-030, September 28, 2007)

We requested additional management comments on the subject final memorandum because we did not consider the comments on any of the four recommendations to be fully responsive. We received additional management comments on October 29, 2007 (see the Enclosure). We consider management's additional comments to be responsive; however, all four recommendations will remain open pending completion and verification of the corrective action plans. Following is a summary of management's additional comments on the recommendations and our evaluation of the comments.

Recommendation 1

In our draft memorandum, we recommended that the Marshall Space Flight Center (MSFC) Procurement Officer develop internal controls that ensure contracting officers (COs) delegate and obtain acceptance from the cognizant contract administration office (CAO) for administration of Government property in a timely manner, as required by NASA's supplement to the Federal Acquisition Regulation (FAR)—NASA FAR Supplement (NFS) 1842.202, "Assignment of Contract Administration," April 5, 2007—and NASA Procurement Information Circular (PIC) 01-19, "Guidance for Delegation of Property Administration," July 27, 2001.

NASA management stated in its September 10, 2007, response to the draft memorandum that it would conduct a training session to reemphasize the internal controls that were in place and the requirements of NFS 1842.202 and PIC 01-19 for timely delegation, acceptance of Government property, and the need for files to contain evidence of delegation and acceptance of Government property. However, NFS 1842.202 and PIC 01-19 address only the requirements and procedures for timely delegation and acceptance of Government property and do not establish internal controls to measure or ensure compliance with the requirements. Therefore, in our final memorandum evaluation of management comments, we reemphasized the intent of our

recommendation to establish internal controls and requested additional MSFC comments on how management will establish internal controls to routinely validate and ensure continuing compliance with existing regulations and directives.

Management's Additional Comments. The MSFC Associate Director concurred and stated that the MSFC Office of Procurement will implement an internal control to review the contract files with NASA-owned, contractor-held property as part of MSFC's required semiannual self-assessments and conduct a training session to reemphasize internal controls in place and the requirements of NFS 1842.202 and PIC 01-19 to ensure the proper delegation and receipt of property administration.

Evaluation of Management's Additional Comments. Management's comments are responsive. The recommendation is resolved and will be closed upon completion and verification of management's corrective action plan.

Recommendation 2

In our draft memorandum, we recommended that the MSFC Procurement Officer develop internal controls that ensure COs delineate and acquire requisite property administration so that contractors are responsible for, account for, and accurately report on Government property, as required by FAR 45.5, "Support Government Property Administration," and NFS 1852.245-73, "Financial Reporting of NASA Property in the Custody of Contractors," October 2003.

NASA management stated in its September 10, 2007, response to the draft memorandum that it would conduct a training session to reemphasize the internal controls that were in place and the requirements of FAR 45.5 and NFS 1852.245-73 for delineating and acquiring requisite property administration so that contractors are responsible for, account for, and accurately report on Government property. However, FAR 45.5 and NFS 1852.245-73 address only the requirement for the contractors to be responsible for, account for, and accurately report on Government property and do not establish internal controls to measure or ensure compliance with the requirements. Therefore, in our final memorandum evaluation of management comments, we reemphasized the intent of our recommendation to establish internal controls and we requested additional MSFC comments on how management will establish and implement internal controls that ensure continuing compliance with existing regulations and directives.

Management's Additional Comments. The MSFC Associate Director concurred and stated that the MSFC Office of the Chief Financial Officer's (CFO's) Quality Assurance and Controls Office, in conjunction with the MSFC Office of Procurement, will, in addition to following the NASA Form (NF) 1018, "NASA Property in the Custody of Contractors," process, implement an internal control to perform validations of NASA-owned, contractor-held property reported on NF 1018s and conduct a training session to reemphasize internal controls in place and the requirements of FAR 45.5 and NFS 1852.245-73 to ensure contractors are responsible for, account for, and accurately report on Government property.

Evaluation of Management's Additional Comments. Management's comments are responsive. The recommendation is resolved and will be closed upon completion and verification of management's corrective action plan.

Recommendation 3

In our draft memorandum, we recommended that the MSFC Procurement Officer develop internal controls that ensure COs implement sufficient oversight so that contractors and grantees promptly disclose excess property as required by NFS 1845.104 "Review and Correction of Contractors' Property Control Systems," and Department of Defense (DoD) 4161.2-M, "DoD Manual for the Performance of Contract Property Administration," December 1991, and COs facilitate timely disposition in accordance with FAR 45.6, "Reporting, Reutilization, and Disposal."

NASA management stated in its September 10, 2007, response to the draft memorandum that it would conduct a training session to reemphasize the internal controls that were in place and the requirements of NFS 1845.104 and DoD 4161.2-M for implementing sufficient oversight that contractors and grantees promptly disclose excess property and of FAR 45.6 for facilitating timely disposition of Government property and the need for files to contain evidence of disclosure and disposition of Government property. However, NFS 1845.104, DoD 4161.2-M, and FAR 45.6 address only the requirements for the contractors to promptly disclose excess property and the COs to facilitate timely disposition and do not establish internal controls to measure or ensure compliance with the requirements. Therefore, in our final memorandum evaluation of management comments, we reemphasized the intent of our recommendation to establish internal controls and we requested additional MSFC comments on how management will establish and implement internal controls that ensure continuing compliance with existing regulations and directives.

Management's Additional Comments. The MSFC Associate Director concurred and stated that the MSFC Office of Procurement will implement an internal control to review the contract files with NASA-owned, contractor-held property as part of MSFC's required semiannual self-assessments and conduct a training session to reemphasize internal controls in place and the requirements of NFS 1845.104, DoD 4161.2-M, and FAR 45.6 to ensure property disposition requirements have been identified and addressed.

Evaluation of Management's Additional Comments. Management's comments are responsive. The recommendation is resolved and will be closed upon completion and verification of management's corrective action plan.

Recommendation 4

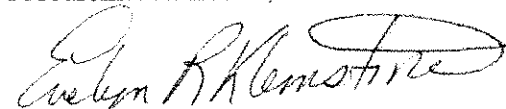
In our draft memorandum, we recommended that the MSFC CFO review internal controls to ensure that the Financial Management Requirements (FMR) NF 1018 Validation Checklist is completed for all contractor property valued in excess of \$100,000.

NASA management stated in its September 10, 2007, response to the draft memorandum that it currently has controls in place to ensure the NF 1018 information reported by the contractor is validated, that the improprieties noted in the draft report were beyond the scope of the CFO review required by the NASA FMR, and requested that we close this recommendation upon issuance of the final memorandum. However, the contractor and grantee inaccuracies reported on the fiscal year (FY) 2006 NF 1018 that we cited in the draft memorandum are not beyond the scope of the CFO review, according to NASA FMR Volume 6, Chapter 4, Appendix B, which states that the Deputy Chief Financial Officer-Financial (DCFO-F) shall validate the NF 1018 report, to include values less than \$100,000 and also determine whether variances are reasonable when ending balances change by at least 10 percent or \$10 million. Specifically, we found that the variance between a contractor's work-in-progress ending balances for FY 2006 exceeded 10 percent. Also for FY 2006, we found that a grantee had custody of capital property—i.e., valued at more than \$100,000. Consequently, the DCFO-F should have validated the contractor's and grantee's FY 2006 NF 1018 reports. Therefore, in our final memorandum evaluation of management comments, we questioned the effectiveness of management's existing internal controls, reiterated our recommendation that management review their internal control procedures related to NF 1018 data verification protocol, and requested additional MSFC management comments.

Management's Additional Comments. The MSFC Associate Director concurred, stating that the NF 1018 process, including the checklist from NASA FMR, Volume 6, Chapter 4, Appendix B, represents an internal control to facilitate assurance of proper accounting for contractor-held property. The MSFC Associate Director also stated that the MSFC Office of the Chief Financial Officer will reemphasize the requirement to follow the NF 1018 Validation Checklist for all applicable NASA-owned, contractor-held property, require the checklist be maintained in the property accountant's files, and implement an internal control to perform validations of the property accountant's files to ensure the checklist has been completed.

Evaluation of Management's Additional Comments. Management's comments are responsive. The recommendation is resolved and will be closed upon completion and verification of management's corrective action plan.

We appreciate the courtesies extended the audit staff during the review. If you have any questions, or need additional information, please contact Mr. Vincent M. Scott, Procurement Director, Office of Audits at 202-358-0546, or me at 202-358-2572.



Evelyn R. Klemstine

Enclosure

Management's Additional Comments

National Aeronautics and Space Administration
George C. Marshall Space Flight Center
Marshall Space Flight Center, AL 35812



October 29, 2007

Reply to Attn of:

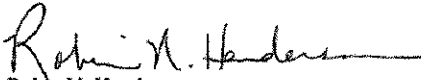
DE01

TO: NASA Office of Inspector General
ATTN: Ms. Evelyn Klemstine,
Assistant Inspector General for Auditing

FROM: Associate Director

SUBJECT: Comments on the Final Memorandum on Audit of Marshall Space Flight
Center's Administration of Government Property Held Off-Site by
Contractors (Report No. IG-07-030; Assignment No. A-07-003-00)

As requested in the subject final memorandum dated September 28, 2007, we have reconsidered our position and our revised responses to the recommendations are enclosed. If you have any questions or need additional information regarding our comments, please contact our Audit Liaison Representative, Ms. Keri Roberts at (256) 544-2953 or keri.h.roberts@nasa.gov.


Robin N. Henderson

Enclosure

ENCLOSURE

**Comments to the OIG Final Memorandum,
“Audit of Marshall Space Flight Center’s Administration of
Government Property Held Off-Site by Contractors”
(Report No. IG-07-030; Assignment No. A-07-003-00)**

General Comments

As part of the NASA Procurement Management Surveys, Centers are required to perform semi-annual self-assessments to focus on the implementation of corrective action plans which were developed to remedy weaknesses identified during the latest procurement management survey. In addition, the self-assessments are used as a periodic review of procurement processes to identify and assess potential areas of concern resulting from audit findings or regulatory changes. The procurement surveys serve as an element of the Agency's requirement to maintain internal control and review operations. The MSFC Office of Procurement, as part of internal control procedures, will include the corrective actions in recommendations 1-3 below as part of the self-assessments.

Recommendations

1. The MSFC Procurement Officer should develop internal controls that ensure COs delegate and obtain acceptance from the cognizant CAO for administration of Government property in a timely manner, as required by NFS 1842.202 and PIC 01-19.

MSFC Response: Concur. The MSFC Office of Procurement will implement an internal control to review the contract files with NASA-owned, contractor-held property as part of the self-assessments described in the general comments above to ensure the proper delegation and receipt of property administration. We will also conduct a training session to reemphasize internal controls we have in place and the requirements of NFS 1842.202 and PIC 01-19 for timely delegation, acceptance of Government property, and the need for files to contain evidence of delegation and acceptance of Government property.

Corrective Action Official: Marshall Procurement Officer
Corrective Action Closure Official: Marshall Associate Director
Projected Closure Date: April 25, 2008

2. The MSFC Procurement Officer should develop internal controls that ensure COs delineate and acquire requisite property administration so that contractors are responsible for, account for, and accurately report on Government property, as required by FAR 45.5 and NFS 1852.245-73.

MSFC Response: Concur. The NF 1018 process represents an internal control already in place to facilitate the assurance of contractor-held property being properly accounted.

ENCLOSURE

The MSFC Office of the Chief Financial Officer's (OCFO) Quality Assurance and Controls Office, in conjunction with the MSFC Office of Procurement, will implement an additional internal control to perform validations of NASA-owned, contractor-held property reported on NF 1018s to ensure continuing compliance with applicable regulations and directives. These validation reviews will initially focus on local contractors with priority given to those contracts reporting significant amounts of NASA property. We will also conduct a training session to reemphasize internal controls we have in place and the requirements of FAR 45.5 and NFS 1852.245-73 for delineating and acquiring requisite property administration so that contractors are responsible for, account for, and accurately report on Government property.

Corrective Action Official: Marshall Procurement Officer
Marshall Chief Financial Officer
Corrective Action Closure Official: Marshall Associate Director
Projected Closure Date: April 25, 2008

3. The MSFC Procurement Officer should develop internal controls that ensure COs implement sufficient oversight that contractors and grantees promptly disclose excess property as required by NFS 1845.104 and DoD 4161.2-M and COs facilitate timely disposition in accordance with FAR 45.6.

MSFC Response: Concur. The MSFC Office of Procurement will implement an internal control to review the contract files with NASA-owned, contractor-held property as part of the self-assessments described in the general comments above to validate that property disposition requirements have been identified and addressed. We will also conduct a training session to reemphasize internal controls we have in place and the requirements of NFS 1845.104 and DoD 4161.2-M for implementing sufficient oversight that contractors and grantees promptly disclose excess property and of FAR 45.6 for facilitating timely disposition of Government property and the need for files to contain evidence of disclosure and disposition of Government property.

Corrective Action Official: Marshall Procurement Officer
Corrective Action Closure Official: Marshall Associate Director
Projected Closure Date: April 25, 2008

4. The MSFC CFO should review internal controls to ensure that the FMR NF 1018 Validation Checklist is completed for all contractor property valued in excess of \$100,000.

MSFC Response: Concur. The NF 1018 process, including the checklist from the NASA FMR, Volume 6, Chapter 4, Appendix B, represents an internal control already in place to facilitate the assurance of contractor-held property being properly accounted. The MSFC OCFO will reemphasize the requirement to follow the NF 1018 Validation Checklist for all applicable NASA-owned, contractor-held property and additionally require the checklist be maintained in the property accountant's files.

ENCLOSURE

Further, the MSFC OCFO Quality Assurance and Controls Office will implement an internal control to perform validations of the property accountant's files to ensure the checklist has been completed.

Corrective Action Official: Marshall Chief Financial Officer
Corrective Action Closure Official: Marshall Associate Director
Projected Closure Date: April 25, 2008