



Office of Inspector General
Washington, DC 20546-0001

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TO: A/Administrator
FROM: W/Inspector General
SUBJECT: Most Serious Management and Performance Challenges

These are our views, pursuant to the Reports Consolidation Act of 2000, of NASA's most serious management and performance challenges. These challenges include areas where Agency management is working to improve programs, financial management, controls over assets and information technology, and the utilization of NASA facilities. While not new, the challenges will need to be reconsidered in the context of the President's new vision for space exploration, which will lead to termination of some existing programs and a transition to new ones. The six challenges are listed below and summarized in the enclosure.

- Addressing the serious cultural, organizational, and programmatic deficiencies that impact the safety and effectiveness of Shuttle operations.
- Achieving U.S. Core Complete on the International Space Station considering the uncertain timing of Space Shuttle operations.
- Ensuring that the integrated financial management system: improves NASA's ability to allocate costs to programs, efficiently provides reliable information to management, and supports compliance with the Chief Financial Officers Act.
- Designing and implementing adequate internal controls so information on NASA-owned, contractor-held property is reliable and complete.
- Continuing Agency efforts that will enhance information technology security by addressing weaknesses in controls.
- Ensuring that NASA's facilities are efficiently used and contribute to fulfillment of the Agency's mission.

We deleted the following challenge that was included on our list last year: "Obtaining the personnel authorities and tools needed to sustain a workforce that can accomplish the NASA mission now and in the future." Most of NASA's concerns about human resources are currently related to the organizational and cultural changes that the Columbia accident

and return-to-flight activities necessitated. In addition, certain human resources authorities and capabilities were granted to NASA through the Department of Homeland Security appropriation.

If you have any questions, or need additional information, please feel free to call me at 358-1220.

A handwritten signature in black ink that reads "Robert W Cobb". The signature is written in a cursive, slightly slanted style.

Robert W. Cobb

Enclosure

NASA's Most Serious Management and Performance Challenges

Addressing the serious cultural, organizational, and programmatic deficiencies that impact the safety and effectiveness of Shuttle operations.

The Columbia Accident Investigation Board (CAIB) report contains numerous and significant findings, recommendations, and observations on the Shuttle Program. The report, among other things, addresses serious cultural, organizational, and programmatic deficiencies that impact the safety and effectiveness of Shuttle operations. Implementation of the recommendations will require extensive effort by the Agency.

NASA established a Return To Flight (RTF) Planning Team designed to help the Shuttle Program plan as well as implement the CAIB recommendations. Also, the Administrator established an RTF Task Group for assessing NASA's actions to implement the CAIB recommendations as they pertain to the safety and operational readiness of the next Shuttle launch, STS-114. NASA has substantial work to perform to address concerns the CAIB raised and ensure that the Shuttle is ready for a return to flight.

The Agency will also need to ensure that the reconstituted Shuttle Program maintains a focus on safety and effectiveness as the program is phased out under the President's new vision for space exploration. The safe return to flight and continued operation of the Shuttle fleet will be a critical and massive undertaking for the Agency.

Achieving U.S. Core Complete on the International Space Station considering the uncertain timing of Space Shuttle operations.

The Agency took positive steps to address problems with cost growth, cost estimating, and program management and then developed a corrective action plan for restoring confidence in NASA's ability to manage the International Space Station (ISS) Program. However, uncertainties about the timing for returning the Shuttle fleet to flight and resuming servicing missions for the ISS will pose formidable challenges for achieving U.S. Core Complete and managing the ISS Program's schedule and cost.

Because the core complete milestone slips further for each day the Shuttle fleet is grounded, the Program schedule is currently delayed more than a year, and the cost impact will likely be significant. In a September 12, 2003, report the General Accounting Office (GAO) concluded that a number of factors will likely result in increased costs—costs that include maintaining and storing station components and extending contracts. GAO also noted that important decisions affecting international partner funding and agreements were delayed. NASA officials stated that it was too soon to determine the magnitude and costs of delayed assembly and implications of the CAIB's recommendations.

The Agency will also need to ensure that the ISS Program maintains a focus on safety and effectiveness if American funding and participation is phased out as currently planned under the President's new vision for space exploration.

Ensuring that the integrated financial management system: improves NASA's ability to allocate costs to programs, efficiently provides reliable information to management, and supports compliance with the Chief Financial Officers Act.

During FY 2003, NASA implemented the Core Financial Module of the Integrated Financial Management Program (IFMP) to replace 10 different legacy accounting systems. Implementation of the module was intended, among other things, to eliminate weaknesses identified in prior year financial statement audits. However, NASA had difficulty with the preparation of the interim and year-end FY 2003 financial statements, which resulted in a disclaimed opinion on the FY 2003 financial statements by the independent auditor conducting the audit. Also, GAO identified significant problems with NASA's new financial management system. In our opinion, NASA's ability to prepare auditable financial statements and meet the Office of Management and Budget (OMB) accelerated reporting deadline of November 15, 2004, is in jeopardy.

The FY 2003 year-end financial statements were not provided to the independent auditor until December 10, 2003, nearly 6 weeks after the original deadline. Despite the delay, the financial statements contained obvious errors and raised questions that management could not readily answer. One significant question involved the accuracy of the amount reported as the Agency's Fund Balance with the Treasury. Detailed testing in the area found that the Agency could not readily demonstrate that reconciliations were performed correctly or adequately reviewed by NASA financial management staff. The Fund Balance with the Treasury issue, problems with data conversion from the 10 legacy accounting systems, issues associated with prior period adjustments to contractor-held property, along with the delay in providing the financial statements, caused the independent auditor to conclude that significant weaknesses existed in the overall control environment and that the financial statement audit could not be completed by the required OMB deadline of January 30, 2004.

We completed three audits of the Agency's IFMP core financial system. In those audits we reported that NASA had not developed a plan to resolve complex accounting issues and configure its Core Financial Module to adequately support full cost accounting. We also reported that the Agency had not planned to test and resolve all transactions, reports and testing discrepancies prior to full, NASA-wide implementation of the Core Financial Module.

In a series of reports issued in November 2003, GAO concluded that the IFMP is at risk of schedule delays and cost growth because of the uncertain reliability of NASA's costs estimates, optimistic schedules, and an insufficient process for ensuring the adequacy of funding reserves. GAO stated that (1) the IFMP's life-cycle cost estimate did not include the full costs likely to be incurred, and (2) program challenges may impact the scheduled FY 2006 implementation of the remaining modules. GAO also concluded the IFMP does not provide many key external financial reporting capabilities. Specifically, NASA had not converted the system to support full cost accounting and deferred implementation of key Core Financial Module capabilities for making adjustments to prior year obligations and recording property and materials. In addition, NASA's implementation approach created problems in recording accounts payable, accrued costs, and obligation transactions.

Designing and implementing adequate internal controls so information on NASA-owned, contractor-held property is reliable and complete.

NASA's controls over contractor-held property, plant, and equipment are weak and do not ensure that information provided for inclusion in the financial statements is reliable and complete. NASA's independent auditor cited for the third year in a row the lack of adequate controls over contractor-held property as a material weakness in internal controls in the audit of the FY 2003 financial statements. GAO also identified weaknesses in NASA's controls over property and materials.

Year-end reporting by the contractors resulted in adjustments to the current and prior year property and equipment amounts. Significant adjustments to amounts previously reported in FY 2003, along with adjustments to FY 2002 amounts, indicate that controls still need substantial improvement. Controls at the contractors must be enhanced to ensure accurate and complete property reporting and to keep adjustments for all reporting periods to a minimum. To ensure that contractors' reports are accurate, complete, and consistent with Agency policies and procedures, NASA must improve its controls.

In November 2003, GAO reported that NASA has not reengineered processes to account for property and materials held by contractors. Despite completing installation of the new Core Financial Module in June 2003, GAO found contract costs related to property and materials were not captured at the transaction level. Instead, NASA continues to rely on summary level reports, manual reviews, and journal entries to update the general ledger. As a result, NASA cannot link expenditures and accrued costs with specific equipment being constructed. GAO recommended that NASA implement a corrective action plan to record activity related to contractor-held property at the transaction level.

Continuing Agency efforts that will enhance information technology security by addressing weaknesses in controls.

NASA's leadership has implemented several information technology security (ITS) improvements and is formulating plans to address many of the ITS weaknesses that were identified by our audits and assessments. We believe that these positive changes should help improve NASA's overall ITS posture. While management has recognized various concerns, many ITS challenges remain. We found significant recurring internal control weaknesses related to ITS, including inadequate compliance with Federal and NASA ITS requirements including system administrator training, host and network security, physical security, contingency plan testing and alternate processing facilities, and incident response capability.

In addition, the independent auditor for NASA's FY 2003 financial statements identified several ITS deficiencies relating to the general control environment over the IT architecture that processes financial applications. The independent auditor's FY 2002 financial statement audit identified similar ITS deficiencies.

Ensuring that NASA's facilities are efficiently used and contribute to fulfillment of the Agency's mission.

NASA owns more than 5,400 buildings and other structures and more than 40,000 hectares of land. Many facilities are aging, and funding has not been sufficient to keep the facilities in good repair. To address these issues, NASA formed a Facilities Tiger Team. The Team determined that the current condition of NASA facilities is poor and deteriorating and that the current process for funding facility construction, maintenance, and repair needs improvement. The Team made recommendations for improving the funding process for facilities management. The Team also recommended that an analysis be performed that compares NASA program and mission requirements to existing real property and identifies opportunities for consolidations, facility disposals, and other facility uses. A contractor is helping develop a real property business plan for the Agency. The plan lists numerous opportunities for NASA to improve the management of its facilities and land.

Implementation of the Facilities Tiger Team recommendations and serious consideration of the opportunities identified in the real property business plan are important steps in ensuring that adequate facilities exist to meet Agency needs.