



April 24, 2009

TO: Assistant Administrator for Procurement

FROM: Assistant Inspector General for Auditing

SUBJECT: Final Memorandum on the Audit of NASA's Implementation of Defense Contract Audit Agency Audit Recommendations during the Administration of Cost-Reimbursable Procurement Actions (Report No. IG-09-014; Assignment No. A-08-013-00)

The Office of Inspector (OIG) conducted an audit to assess NASA's implementation of the Defense Contract Agency's (DCAA) audit recommendations to recoup questioned costs¹ from NASA contractors. NASA contracts with DCAA to provide contract audit services. In fiscal years (FYs) 2005–2007, DCAA issued 50 audit reports with at least \$100,000 of questioned costs on NASA's cost-reimbursable procurement actions. Implementing DCAA's recommendations should help to ensure that NASA pays only allowable, allocable, and reasonable costs to contractors. NASA also contracts with the Defense Contract Management Agency (DCMA) to provide contract administration functions. DCMA administrative contracting officers dispositioned 36 of the reports and NASA contracting officers dispositioned 14 of the reports.

The overall objective of this audit was to determine the extent to which NASA implemented DCAA's audit recommendations during the administration of cost-reimbursable procurement actions. Specifically, we determined whether NASA contracting officers and DCMA administrative contracting officers sustained DCAA-questioned costs and promptly implemented and maintained accurate records of actions resulting from DCAA recommendations, as required by Federal and Agency requirements. We also reviewed internal controls as appropriate. (See Enclosure 1 for details on the audit's scope and methodology.)

Executive Summary

NASA contracting officers sustained² the costs DCAA questioned at a rate of 87 percent, significantly above the DCAA average of 61 percent; whereas DCMA administrative contracting officers sustained questioned costs at a rate of 44 percent, well below the

¹ Questioned costs can be costs that are questioned because of (1) an alleged violation of law, regulation, or contract; (2) lack of support by adequate documentation; or (3) a finding that an expenditure is unnecessary or unreasonable.

² Sustained costs are the portion of questioned costs that the contractor and agency agree should not have been charged to the Government.

DCAA average. While their sustention rate was lower, we determined that DCMA's decisions were adequately supported by documentation maintained in their contract files.

When NASA contracting officers performed contract administration duties, they promptly implemented DCAA recommendations and maintained accurate records on the status, resolution, and disposition of findings in the contract files. However, when NASA delegated contract administration to DCMA, the contracting officers did not always maintain sufficient oversight on the status, resolution, and disposition of significant audit findings and recommendations. This occurred because NASA contracting officers did not always comply with NASA guidance to communicate with DCMA administrative contracting officers before or during contract negotiations or subsequent to the resolution of DCAA recommendations.

In addition, while DCMA maintained a system for tracking, monitoring, and reporting the resolution status of DCAA recommendations, NASA did not have sufficient oversight or tools in place to determine whether all reportable contract audits dispositioned by NASA or DCMA were promptly implemented or resolved. Without adequate visibility over dispositioning, NASA cannot be sure that DCAA's recommendations were resolved in NASA's best interests or that recommendations were promptly implemented. Increased monitoring of both NASA's and DCMA's audit resolution activities would allow NASA to monitor the status of all significant audit recommendations and determine the appropriateness of audit resolution actions taken by NASA and DCMA personnel.

In our March 24, 2009 draft of this memorandum, we recommended that the Assistant Administrator for Procurement issue a memorandum directing NASA contracting officers to communicate with DCMA administrative contracting officers on the resolution and disposition status of DCAA findings and recommendations and to enter and update the information on reportable contract audit reports in NASA's Corrective Action Tracking System (CATS II) until the audit recommendations are resolved and dispositioned. We also recommended that the Assistant Administrator for Procurement revise NASA guidance to clearly state that all reportable contract audit reports DCMA dispositions are to be entered into CATS II or request that DCMA provide periodic status reports on the resolution of DCAA audit recommendations to the Office of Procurement.

The Assistant Administrator for Procurement concurred with our recommendations and stated that a letter will be issued reemphasizing the Agency's guidance, Procurement Management Surveys will be used to monitor compliance with the Agency's guidance, and policy will be amended to clarify that all reportable audits that NASA resolves and dispositions will be input and updated at least quarterly in CATS II. In addition, the Office of Procurement will discuss a periodic status reporting process with DCMA for reportable audits that are tracked by DCMA. The corrective actions described by management are responsive to our recommendations. The recommendations are resolved and will be closed upon completion and verification of management's corrective action. (See Enclosure 2 for the full text of management's comments.)

Background

NASA contracting officers enter into contracts for the delivery of goods and services to the Agency and are responsible for ensuring the performance of all necessary actions for effective contract performance and administration. NASA contracting officers are also responsible for ensuring that the Agency only pays contractor costs that are allowable under the cost principles of the Federal Acquisition Regulation (FAR). To help ensure that Agency contractors provide goods and services at fair and reasonable prices, NASA contracting officers delegate some contract administrative functions to DCMA and request contract audit services from DCAA. For FYs 2005–2007, NASA paid approximately \$144 million to DCMA for contract administration services and \$50 million to DCAA for contract audit services.

DCMA provides contract administration and support services for the Department of Defense (DoD) and other Federal agencies including NASA. DCMA's administrative contracting officers work directly with Federal agency's contractors to ensure that supplies and services are delivered on time, at projected cost, and meet all performance requirements. For example, administrative contracting officers monitor contractors' performance and management systems to ensure that cost, product performance, and delivery schedules comply with the terms and conditions of the contracts.

DCAA provides accounting, financial advisory, and contract audit services to DoD and other Federal agencies including NASA. DCAA contract audits are intended to assist procurement and contract administration personnel by providing information or advice as to whether contractor costs are allowable, reasonable, and allocable. The information is based on an analysis of the contractor's estimated and incurred costs, a review of the contractor's cost control systems, and other analyses and reviews of the contractor's financial and accounting records supporting proposed and incurred costs. Procurement and contract administration personnel also use DCAA's services to assist in the negotiation, award, administration, re-pricing, and settlement of contracts.

Delegation or retention of contract administration³ is at the discretion of the NASA contracting officer. To delegate the contract administration functions to DCMA, NASA FAR Supplement (NFS), section 1842.202, Assignment of Contract Administration, requires that the contracting officer prepare NASA Form 1430, Letter of Contract Administration Delegation, General. By accepting the delegation, the DCMA administrative contracting officer is required to provide to the NASA contracting officer copies of all significant communications related to the administration of the delegated contract. The latest revision to NASA Form 1430, May 2007, specifically states that the DCMA administrative contracting officer should provide detailed information to the NASA contracting officer on the resolution and disposition status of DCAA audit findings and recommendations for NASA contracts. In accordance with NFS, section 1842.7301, NASA External Audit Follow-Up System, NASA contracting officers are

³ The contracting officer's decision to either retain or delegate contract administration is based on a number of factors such as type of contract, nature of work to be performed, and complexity of contract requirements.

required to maintain dialogue—i.e., communicate—with their DCMA administrative contracting officer counterparts, to include reviewing and understanding the status of significant audit findings. The NFS further requires that all reportable audits shall be entered into the CATS II with the information updated quarterly until all the audit recommendations are resolved and dispositioned.

In FYs 2005–2007, DCAA issued 50 audit reports on cost-reimbursable procurement actions with at least \$100,000 of questioned costs to be dispositioned by a NASA contracting officer or DCMA administrative contracting officer. DCMA administrative contracting officers dispositioned 36 of those audit reports and NASA contracting officers dispositioned 14 of the reports. To determine how effective NASA and DCMA were in sustaining DCAA questioned costs, we compared NASA and DCMA sustention rates with DCAA’s average sustention rates, which were 56 percent for FY 2005, 64 percent for FY 2006, and 63 percent for FY 2007 or an average of 61 percent for the 3 fiscal years.

Sustention of DCAA Questioned Costs

Of the 50 DCAA audit reports, we found that for the 14 reports that NASA dispositioned, the average sustention rate for questioned costs was higher than DCAA’s average of 61 percent. NASA’s average sustention rate for the 14 reports was 87 percent of the questioned costs. Of the 14 audit reports NASA contracting officers retained and dispositioned, we reviewed 5 and determined that the contract files included sufficient evidence of actions taken as a result of implementing DCAA audit recommendations. For example, the contract files for 3 reports, which all related to one contractor, showed that the contractor concurred with DCAA’s questioned costs finding and all questioned costs were sustained by the NASA contracting officer and properly removed from the contractor’s recorded cumulative allowable costs.

Of the 36 audit reports DCMA dispositioned, the sustention rate for 8 of those reports caused DCMA’s overall average sustention rate to fall to 44 percent, well below DCAA’s average (see the table).

Table. The Eight Reports for Which DCMA's Questioned Costs Sustention Rates Were Lower Than DCAA's Average Sustention Rate of 61 Percent			
Audit Report Number	Costs Questioned	Costs Sustained	Sustention Rate (percent)
06171-2003M10110001	\$ 2,027,000	\$ 459,000	22.64
03221-2002T10100001	43,157,000	1,546,000	3.58
2003T10100001	23,317,000	1,767,000	7.58
2004T10100001	8,097,000	828,000	10.23
4171-1999M10100004 S1 ^a	242,000	60,000	24.79
2000M10100014 S1 ^a			
2001M10100009 S1 ^a			
03521-2003B10100001	2,309,000	1,000	0.04
2004B10100001	2,094,000	20,000	0.96
<u>2005B10100001</u>	<u>2,241,000</u>	<u>0</u>	<u>0</u>
Total	\$83,484,000	\$4,681,000	5.61

^a DCAA issued a supplemental report on December 20, 2006, that replaced these three reports due to a revised incurred cost proposal submitted in May 2006.

We conducted further review of the eight audit reports to determine whether DCMA had adequate documentation to support the lower sustention rate and found that DCMA's decisions were adequately supported by documentation maintained in the contract files. Specifically, we found that the DCMA administrative contracting officers prepared memorandums that included adequate documentation to support their agreement or disagreement with the DCAA findings and recommendations. For example, on one contract, DCAA questioned the executive compensation costs based on FAR 31.205-6, Compensation for Personal Services, which states that costs incurred after January 1, 1998, for compensation of a senior executive in excess of the benchmark compensation amount (as determined by the Office of Federal Procurement Policy) are unallowable. During negotiation, the contractor disagreed with DCAA and claimed that because the contract with NASA was awarded on October 1, 1996 (i.e., prior to the statutory limitation deadline), invoking the mandate represented a breach of contract. The contractor cited a U.S. Court of Claims decision (Case Numbers 99-45C and 99-865C filed September 15, 2000) in which the court held that retroactive application of the statutory cap on the allowability of senior executive compensation was a breach of contract. Consequently, DCMA conducted further research on the court decisions, in coordination with NASA officials, and DCMA and NASA collectively agreed to accept the questioned executive compensation costs without any costs being sustained.

In another example, DCAA questioned the contractor's insurance cost claim, citing that claims that had been incurred but not reported were contingencies based on historical medical costs previously incurred by the contractor and, therefore, unallowable based on FAR 31.205-19, Insurance and Indemnification, and FAR 31.205-7, Contingencies. In this case, the DCMA administrative contracting officer solicited technical assistance from

a DCMA Contractor Insurance/Pension Review specialist to evaluate the contractor's insurance cost claim. The DCMA Contractor Insurance/Pension Review specialist concluded that the practice of including incurred but not reported costs was reasonable based on a review of Cost Accounting Standard Number 416, Accounting for Insurance Costs, and recommended that the DCMA administrative contracting officer accept the contractor's insurance cost claim.

Oversight of NASA Contracting Officers Implementing DCAA Recommendations through the Agency's Follow-Up System

NASA did not maintain complete records of actions taken to implement DCAA audit recommendations when NASA retained resolution and disposition authority in the Agency's audit follow-up system. Because the system contained incomplete data, the Agency could not ensure that significant audit issues were promptly and properly resolved or rely on the system for adequate oversight and reporting purposes.

Of the 14 audit reports NASA contracting officers retained and dispositioned, only 4 were tracked in the audit follow-up system. NASA contracting officers did not track 8 of those reports because they believed that tracking audit resolution was only required when contractors disagreed with findings of questioned costs. For the 8 reports not tracked, the contractors agreed with the findings, and the contracting officers were able to remove the questioned costs directly from the contractors' allowable costs. For the remaining 2 of the 14 reports, we were unable to determine why the contracting officer did not enter or track the reports in the audit follow-up system.

Office of Management and Budget (OMB) Circular A-50, "Audit Follow-up," September 29, 1982, provides guidance to Federal agencies on establishing audit follow-up systems to provide for a complete record of actions taken to ensure the prompt and proper resolution and implementation of audit recommendations. NASA implements OMB A-50 in part through NFS section 1842.7301, NASA External Audit Follow-Up System, which states that all reportable contract audit reports shall be entered into NASA's CATS II with the information updated at least quarterly until the audit recommendations are all resolved and dispositioned.

Because CATS II did not contain complete information on all of the DCAA reportable audit reports that NASA contracting officers retained and dispositioned, the system could not be relied upon for adequate oversight or reporting purposes. Tracking of all reportable audit reports in CATS in accordance with OMB and Agency guidance should improve management oversight and provide assurance that significant audit issues are promptly and properly resolved.

Oversight of and Communication with DCMA Administrative Contracting Officers

NASA contracting officers did not comply with Agency guidance on maintaining communications with DCMA contract administrators. Specifically, while DCMA

prepared adequate documentation to support their negotiation position and effectively sustain DCAA questioned costs, and maintained the documentation in the contract files, NASA did not always maintain sufficient oversight on the status, resolution, and disposition of those findings and recommendations. In addition, NASA did not have sufficient oversight or tools in place to determine whether all reportable contract audits dispositioned by DCMA were promptly implemented or resolved in NASA's best interests.

NFS 1842.7301 (3) states that

NASA contracting officers will maintain a dialogue with DOD Administrative Contracting Officers who have been delegated activities on NASA contracts. A review will be conducted no less frequently than semiannually, and the status and disposition of significant audit findings will be documented in the contract file. During this review, NASA contracting officers should discuss with the ACO both prime and subcontract audit reports that have been delegated to DOD. Should these reports contain any findings or recommendations, the NASA contracting officer should obtain their status and document the contract file accordingly.

NASA Procurement Information Circular (PIC) 00-06, "Contract Administration and Audit Services," May 30, 2000, provides additional guidance emphasizing the importance of contracting officers maintaining dialogue with DoD administrative contracting officers in order to review and understand the status of significant audit findings on prime contracts and subcontracts delegated to DoD.

We found that for four of the eight reports for which DCMA sustained questioned costs at rates lower than DCAA's average sustention rates, NASA contracting officers did not comply with NASA guidance and did not communicate with administrative contracting officers before or during contract negotiations or subsequent to the resolution of DCAA recommendations. For example, one contracting officer stated that he did not have any discussions with DCMA about their negotiation position prior to the administrative contracting officer reaching an agreement with the contractor because DCMA had the authority to negotiate with the contractor without obtaining his prior approval. Another contracting officer stated that she had not discussed DCAA questioned costs or DCMA's negotiation or resolution of questioned costs related to her contract. Rather, she relied on DCMA to notify her of any audit reports that required her attention. While NASA contracting officers did not always communicate with the administrative contracting officers, we found that DCMA maintained adequate documentation to support their disagreements with DCAA's findings and recommendations. Thus, we were unable to draw a direct correlation between DCMA's lower than average sustention rates and NASA's lack of oversight.

For the 36 audit reports DCMA dispositioned, we found that NASA did not maintain required records to track, monitor, or report actions taken. Specifically, the NASA audit follow-up system did not include records for any of the 36 reports NASA delegated to DCMA for resolution and disposition. Instead, the Office of Procurement personnel stated that they relied on DCMA to track and monitor actions taken to implement DCAA recommendations. DoD requires that DCAA audit recommendations dispositioned by

DCMA be tracked in a DoD tracking system that records the actions taken to resolve and disposition reportable⁴ contract audits. Of the 36 audit reports DCMA dispositioned, we reviewed 12 to determine whether the status of DCAA recommendations were adequately tracked and monitored. We found sufficient evidence to conclude that DCMA's system adequately tracks, monitors, and reports the status of DCAA recommendations. For example, we determined that DCMA's automated Contract Audit Follow-Up tracking system shows the type of DCAA audit performed, describes the basis for DCAA's questioned costs, and gives DCMA's current resolution and disposition status.

Although DCMA has a system in place to track and monitor the status of DCAA audit recommendations, we found that Agency guidance does not clearly state whether NASA requires audit reports that DCMA dispositioned to be entered into the NASA contract audit follow-up system. Specifically, NFS section 1842.7301 (b) states that the external follow-up system tracks all contract audit reports where NASA has resolution and disposition authority. However, section (d) (1) states that **all** [emphasis added] reportable contract audit reports shall be entered into NASA's Corrective Action Tracking System (updated to CATS II) with the information updated at least quarterly until the audit recommendation are resolved and dispositioned. While it is unclear whether DCMA's disposition of recommendations should be tracked in CATS II, NASA remains ultimately responsible for the management of the contract regardless of whether the administration of the contract is delegated. Therefore, NASA guidance should clearly require that NASA contracting officers, as part of their oversight responsibilities of DCMA's dispositioning of recommendations related to NASA contracts, ensure that those reports are also included in CATS II or obtain periodic reports from DCMA on the status of dispositions. Lacking adequate oversight, visibility, and tracking, NASA cannot be sure that DCMA resolved audit recommendations on a timely basis or in NASA's best interests on approximately \$72 million (not sustained) of \$77 million of questioned costs.

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

Recommendation 1.a. We recommended that the Assistant Administrator for Procurement issue a memorandum directing NASA contracting officers to comply with NASA Federal Acquisition Regulations (FAR) Supplement (NFS) section 1842.7301, "NASA External Audit Follow-Up System," to communicate with Defense Contract Management Agency (DCMA) administrative contracting officers no less frequently than semiannually and document in the contract file any actions that have an impact on the resolution and disposition status of Defense Contract Audit Agency (DCAA) audit findings and recommendations.

⁴ PIC 00-06 defines "reportable audits" as reports containing findings and recommendations covering (1) estimating systems surveys, accounting and related internal control system reviews, defective pricing reviews, and cost accounting standards matters; (2) operations audits, incurred costs, settlement of final indirect cost rates, final pricing submissions, terminations settlement proposals, and claims, if reported costs or rates questioned or unsupported/qualified equal \$100,000 or more; and (3) audit-determined final indirect cost rates and form(s) to the administrative contracting officer when the auditor cannot reach an agreement with the contractor.

Management's Response. The Assistant Administrator for Procurement concurred, stating a letter will be issued to the Centers reemphasizing the NFS section 1842.7301 requirement for maintaining communication with the DCMA administrative contracting officer and for tracking and resolving reportable contract audit reports. In addition, Procurement Management Surveys will be used to monitor compliance with the Agency guidance.

Evaluation of Management's Response. Management's proposed action is responsive. The recommendation is resolved and will be closed upon completion and verification of management's corrective action.

Recommendation 1.b. We recommended that the Assistant Administrator for Procurement issue a memorandum directing NASA contracting officers to comply with NFS section 1842.7301 to enter all reportable contract audit reports into NASA's Corrective Action Tracking System II and update the information at least quarterly until the audit recommendations are resolved and dispositioned.

Management's Response. The Assistant Administrator for Procurement concurred, stating that a letter will be issued to the Centers clarifying the Agency's policy on inputting and tracking reportable audit reports in CATS II.

Evaluation of Management's Response. Management's proposed action is responsive. The recommendation is resolved and will be closed upon completion and verification of management's corrective action.

Recommendation 2. We recommended that the Assistant Administrator for Procurement revise NFS section 1842.7301 to note that all reportable contract audit reports DCMA dispositions are to be entered into CATS II or request that DCMA provide periodic status reports to the NASA Office of Procurement on the resolution of DCAA audit recommendations for use in monitoring the status, resolution, and disposition of significant findings and recommendations.

Management's Response. The Assistant Administrator for Procurement concurred, stating that the Agency will amend NFS 1842.7301(d)(1) to clarify that all reportable audits that NASA resolves and dispositions will be tracked in CATS II and updated at least quarterly until the audit recommendations are resolved and dispositioned. The Assistant Administrator also stated that DCMA's system adequately tracks, monitors, and reports the status of DCAA recommendations on contracts for which NASA has delegated contract administration responsibility and further tracking these reportable audits in CATS II would be an unnecessary duplication of effort. However, the Office of Procurement will contact DCMA to discuss a periodic reporting process.

Evaluation of Management's Response. Management's proposed action is responsive. The recommendation is resolved and will be closed upon completion and verification of management's corrective action.

We appreciate the courtesies extended during our audit. If you have any questions, or need additional information, please contact Mr. Kenneth Sidney, Project Manager, at 281-483-0728.

/s/

Evelyn R. Klemstine

Enclosures

cc:

Director, Ames Research Center
Director, Dryden Flight Research Center
Director, Glenn Research Center
Director, Goddard Space Flight Center
Director, Jet Propulsion Laboratory
Director, Johnson Space Center
Director, Kennedy Space Center
Director, Langley Research Center
Director, Marshall Space Flight Center
Director, John C. Stennis Space Center

Scope and Methodology

We performed this audit from April 2008 through April 2009 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

During our audit, we identified and reviewed NASA guidance to include NASA Procurement Information Circular (PIC) 00-06, Contract Administration and Audit Services, May 30, 2000; NASA Federal Acquisition Regulation Supplement (NFS) 1842.202, Assignment of Contract Administration; and NFS 1842.7301, NASA External Audit Follow-Up System. We also reviewed Federal Acquisition Regulation Part 31, Contract Cost Principles and Procedures, and Part 42, Contract Administration and Audit Services.

To determine whether NASA contracting officers effectively sustained DCAA questioned costs, we

- obtained a list from DCAA of all audit reports issued during FYs 2005–2007 with at least \$100,000 of questioned cost on post-award cost-reimbursable procurement actions;
- identified 14 reports for which NASA performed contract administration and 36 reports where DCMA performed contract administration;
- calculated the individual report and overall sustention rate of questioned costs for the 50 reports issued during FYs 2005-2007 that NASA and DCMA dispositioned;
- interviewed cognizant NASA contracting officers and performed detailed review of five DCAA reports issued to Johnson Space Center that NASA contracting officers dispositioned to identify DCAA's audit findings, questioned costs, recommendations, and the contractors' agreement and disagreement with DCAA findings;
- obtained DCAA's average sustention rates on all NASA and non-NASA audit reports issued during FYs 2005–2007 that DCAA dispositioned;
- identified reports for which DCMA administrative contracting officers sustained questioned costs below DCAA average rates;
- obtained copies and reviewed DCAA reports for which DCMA administrative contracting officers sustained questioned costs below DCAA average rates to

determine DCAA's audit findings, questioned costs, recommendations, and the contractors' agreement and disagreement with DCAA findings; and

- reviewed DCMA's memorandums of negotiations with NASA contractors on the audit reports for which DCMA administrative contracting officers sustained questioned costs below DCAA average rates to assess DCMA negotiation rationale and the resolution and disposition of DCAA questioned costs.

To determine whether NASA promptly implemented and maintained accurate records of actions resulting from DCAA recommendations, we

- reviewed NASA and the Office of Management and Budget guidance that requires audit follow-up systems be established to maintain a record of actions resulting from audit recommendations;
- interviewed the cognizant NASA contracting officers and reviewed the contract files for the five reports issued to JSC where NASA performed contract administration to determine and validate whether NASA had maintained records of actions resulting from DCAA recommendations;
- interviewed NASA Headquarters procurement personnel to determine whether NASA tracks the status and resolution of DCAA recommendations when DCMA performs contract administration;
- interviewed NASA contracting officers and DCMA administrative contracting officers to determine whether they had communicated on the resolution of DCAA recommendations and NASA had documented actions resulting from DCAA recommendations in the contract files;
- identified and reviewed applicable DoD instructions; and
- interviewed DCMA personnel and obtained supporting documentation that DCMA tracks DCAA audit report recommendations where DCMA performed contract administration.

Computer-Processed Data. We did not use computer-processed data to perform this audit.

Review of Internal Controls. We reviewed and evaluated the internal controls associated with procurement planning and contract administration. Also, we examined policies and regulations for developing internal control techniques, to include the NASA Self-Assessments and Procurement Survey Management Reports.

We found that NASA did not ensure contracting officers maintained communications with DCMA administrative contracting officers on the status of significant DCAA audit

findings, negotiations, resolution, and recommendations on NASA contracts for which NASA delegated resolution and disposition authority to DCMA.

Prior Coverage

During the last 5 years, the Government Accountability Office (GAO) and the NASA Office of Inspector General have issued two reports addressing the quality of DCAA audits. Unrestricted reports can be accessed over the Internet at <http://www.gao.gov> (GAO) and <http://oig.nasa.gov/audits/reports/FY08> (NASA).

Government Accountability Office

“DCAA Audits: Allegations That Certain Audits at Three Locations Did Not Meet Professional Standards Were Substantiated” (GAO-08-857, July 22, 2008)

National Aeronautics and Space Administration

“Audit of NASA’s Use of Defense Contract Audit Agency (DCAA) Services in Managing NASA Contracts” (ML-06-011, September 25, 2006)

Management's Comments

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



April 17, 2009

Reply to Attn of:

Analysis Division

TO: Assistant Inspector General for Auditing

FROM: Assistant Administrator for Procurement

SUBJECT: Draft Memorandum on the Audit of NASA's Implementation of Defense Contract Audit Agency Audit Recommendations during the Administration of Cost-Reimbursable Procurement Actions (Assignment No. A-08-013-00)

Enclosed is the response to the subject draft report, dated March 24, 2009. Please contact Cheryl Robertson of my staff if you have any questions or need further coordination on this matter. Cheryl can be reached at 358-0667.

A handwritten signature in black ink, appearing to read "W. McNally".

William P. McNally

Enclosure

Enclosure

Recommendation 1:

The Assistant Administrator for Procurement should issue a memorandum directing NASA contracting officers to comply with section 1842.7301 of the NASA Federal Acquisition Regulation Supplement (NFS) to (a) communicate with Defense Contract Management Agency (DCMA) administrative contracting officers no less frequently than semiannually, and document in the contract file any actions that have an impact on the resolution and disposition status of Defense Contract Audit Agency (DCAA) audit findings and recommendations and (b) enter all reportable contract audit reports into NASA's Corrective Action Tracking System (CATS II) and update the information at least quarterly until the audit recommendations are resolved and dispositioned.

Response:

Concur. The Federal Acquisition Regulation (FAR), the NFS and Procurement Information Circular 00-06 set forth the process for tracking and resolving reportable contract audit reports. This includes the requirement to communicate with DCMA and to enter and update information in CATS II. A letter will be issued to the Centers shortly that will reemphasize the Agency's guidance and the importance of maintaining communication with the DCMA administrative contracting officer. As noted in the draft report, the NFS guidance does not clearly exclude reportable audits being dispositioned by DCMA from the requirement to be input and tracked in CATS II. The letter will clarify the policy and subpart 1842.7301(d)(1) of the NFS will be amended. Additionally, Procurement Management Surveys of Center procurement operations will be used to monitor compliance with the guidance.

Recommendation 2:

The Assistant Administrator for Procurement should revise 1842.7301 of the NFS to note that all reportable contract audit reports DCMA dispositions are to be entered in CATS II or request that DCMA provide periodic status reports to the NASA Office of Procurement on the resolution of DCAA audit recommendations for use in monitoring the status, resolution, and disposition of significant findings and recommendations.

Response:

Concur. We will amend 1842.7301(d)(1) to clarify that all reportable audits for which NASA has resolution and disposition responsibility shall be input into the CATS II system and the information updated at least quarterly until the audit recommendations are resolved and dispositioned. As noted in the draft report, the reviewers found that DCMA's system adequately tracks, monitors, and reports the status of DCAA recommendations on contracts for which NASA has delegated contract administration responsibility. A requirement for NASA contracting officers to input and track these reportable audits in CATS II would be an unnecessary duplication of effort. The Office of Procurement will contact DCMA to discuss a periodic reporting process as recommended.