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AUDIT REPORT

OFFICE OF AUDITS

STATUS OF SERVICES TRANSFERRED FROM NASA
CENTERS AND HEADQUARTERS TO THE NASA SHARED
SERVICES CENTER

OFFICE OF INSPECTOR GENERAL



National Aeronautics and
Space Administration

Final report released by:



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Inspector General

Acronyms

CSC	Computer Sciences Corporation
FY	Fiscal Year
GAO	Government Accountability Office
G&A	General and Administrative
IT	Information Technology
NSSC	NASA Shared Services Center
ODIN	Outsourcing Desktop Initiative for NASA
OIG	Office of Inspector General
OMB	Office of Management and Budget
OPM	Office of Personnel Management

OVERVIEW

STATUS OF SERVICES TRANSFERRED FROM NASA CENTERS AND HEADQUARTERS TO THE NASA SHARED SERVICES CENTER

The Issue

NASA established the NASA Shared Services Center (NSSC) in 2006 in an effort to consolidate into a single location multiple business services in four functional areas – financial management, human resources, information technology, and procurement services – that previously were conducted by civil service and contractor personnel at NASA Headquarters and the 10 Centers.¹ The NSSC, located at Stennis Space Center, is a partnership between NASA, the states of Mississippi and Louisiana, and a contractor, Computer Sciences Corporation. NASA’s goals in establishing the NSSC include providing consistent, high-quality, and timely services at lower cost; reducing resources expended for institutional support areas; and freeing up Center resources to focus on performing NASA’s core missions.² According to the NSSC Implementation Plan, after a stabilization period of 3 years NASA could expect to save approximately \$6 million per year and reassign more than 200 civil service, full-time equivalent positions (hereinafter referred to as positions) as a result of creating the NSSC.³

Our audit objective was to examine the consolidation and transfer of selected services from NASA to the NSSC. Specifically, we sought to determine whether: (1) the transfer of services was accomplished timely and as planned, (2) positions at the Centers were redirected as planned to “critical mission-related activities,” and (3) projected cost savings were realized. To conduct our audit, we interviewed staff at NASA Headquarters, the NSSC, and five Centers and reviewed relevant documentation. Details of the audit scope and methodology are in Appendix A.

¹ NASA noted in the NSSC Implementation Plan that because IT activities had already undergone a consolidation, the IT community would not experience a reduction in total civil servants and contractors as a result of transitioning services to the NSSC. Therefore, no cost savings or consolidation for IT services was expected. Accordingly, we did not consider IT activities in our analysis.

² “NASA Shared Services Center (NSSC) Implementation Plan Report” (NSSC-RPT-02, Volume 1, September 2003), p. 2.

³ Office of Management and Budget (OMB) Circular A-11 defines full-time equivalent (FTE) employment as the total number of hours worked divided by the number of compensable hours applicable to each fiscal year. For example, an FTE can equal one employee working full time for 1 year or 2 employees working full time for 6 months.

Results

NASA has consolidated and transferred more than 40 services to the NSSC since its inception in 2006.⁴ While most of the transfers occurred on time and as planned, the transfer of accounts payable and accounts receivable services was delayed, resulting in \$3.75 million in additional costs. In addition, three services that initially were transferred to the NSSC were subsequently returned to the Centers for cost reasons. Moreover, although NASA originally expected that approximately 200 civil service positions at the Centers would be freed up and reallocated from performing institutional support services to “critical mission-related activities” as a result of creation of the NSSC, we found that at the five Centers we visited positions were often redirected within the same functional area as the transferred services. Finally, we found that NASA’s claim that creation of the NSSC would save the Agency \$121 million over a 10-year period (fiscal years 2006 through 2015) was based on flawed data and is therefore not accurate.

Several Services Not Transferred Timely or as Planned. NASA developed a phased schedule for the transition of institutional support services to the NSSC and for the discontinuance of those services at the Centers. The transfer of most services occurred on time and as planned. However, the transfer of accounts payable and accounts receivable services was delayed due to concerns expressed by the NASA finance community that additional time was needed to ensure that systems were ready and NSSC personnel were trained. This delay resulted in NASA incurring approximately \$3.75 million in additional expenses before the transfer was completed.

In addition, three human resource services: organizing health fairs, managing logistics related to recruiting, and arranging awards ceremonies, that originally transferred to the NSSC subsequently were returned to the Centers because of unexpectedly high costs. Returning these services to the Centers resulted in fewer Center positions available for redirection to other functions.

Benefits counseling services were also a source of transition problems. Some NASA employees requesting benefits counseling from the NSSC were unsatisfied with the advice provided by the NSSC contractor staff and continued to call Center-based staff. In response, NSSC hired additional civil service staff experienced in managing Federal benefits, which resulted in higher benefits counseling costs for the NSSC.

Guidance for Redirection of Positions Not Established. NASA originally expected that approximately 200 civil service positions would be reallocated to “critical mission-related activities” upon transfer of services to the NSSC. However, NASA did not define “critical mission-related activities” or provide the Centers with a consistent plan for how positions should be redirected to such activities. As a result, Centers developed their own interpretations of the term and established their own plans for redirecting staff. While 77

⁴ See Appendix B for a list of the 44 services transferred to the NSSC.

positions were redirected and 50 positions were eliminated through attrition at the five Centers we visited, redirected employees were often placed in new positions or assigned to backfill positions in the same functional areas from which services had been transferred to the NSSC. Because Headquarters did not define “critical mission-related activities” and Centers were inconsistent in their interpretations of the term, we cannot determine whether Center positions were actually redirected to such activities. As a result, it is unclear to what extent NASA achieved its goal of reducing the number of Center-based positions dedicated to institutional support.

Projected Cost Savings Based on Unreliable Data. According to the Implementation Plan, NASA estimated it would save approximately \$6 million per year by establishing the NSSC. In May 2009, 3 years after its inception, the NSSC reported projected cost savings of \$121 million from fiscal year (FY) 2006 through FY 2015. NSSC also reported that NASA achieved the breakeven point on its investment in the NSSC in December 2008, 4 months earlier than had been predicted.

However, our analysis determined that cost data supplied by the Centers, which were essential in determining the baseline cost calculations and return-on-investment projections, were not reliable or verifiable. For example, some Centers’ salary calculations did not match applicable Office of Personnel Management pay scales and Center personnel told us that some time estimates were “guesstimates” based on tasks that were not clearly defined. We also found that NASA did not include in its return-on-investment calculations \$15.2 million of funding (including \$3.75 million for the delayed transfer of accounts payable and accounts receivable) the Agency used to supplement NSSC start-up costs. As a result, NASA’s claim of a \$121 million savings for FYs 2006 through 2015 and the reported breakeven point of December 2008 was based on flawed data and therefore is not accurate.

Management Action

For NASA to accurately demonstrate cost savings and redirection of positions, it needs to ensure that the data used to evaluate the cost associated with consolidation of services at the NSSC is reliable and that the term “critical mission-related activities” is defined and uniformly applied across the Centers. We recommend that the NASA Associate Administrator for Mission Support (Associate Administrator): (1) develop a full-cost benefit assessment prior to transferring or implementing additional services to the NSSC; (2) develop a plan with milestones for the periodic re-evaluation of transitioned services to ensure their performance by NSSC personnel continues to be cost effective; (3) define and identify “critical mission-related activities,” develop a plan to ensure that Center resources are redirected to those activities, and document any instances where such redirection is not possible; and (4) provide clear guidance on what data should be obtained and the methodology that should be used to project cost savings to ensure savings projections are supported by documented and verifiable data.

We submitted a draft of this report for comment to the Associate Administrator on December 13, 2010, and requested a response to our recommendations. On January 14, 2011, we received comments from the Associate Administrator in coordination with the NSSC Executive Director regarding our recommendations. The Associate Administrator also provided technical comments to our report. We considered the technical comments and incorporated them into the body of our report as appropriate.

The Associate Administrator concurred with all of our recommendations and in his response described a series of ongoing and planned actions by the Agency, including:

1. Refining the process the Agency uses for transferring or assigning services to the NSSC for the NSSC to include a cost-benefit analysis;
2. Continuation of regular briefings to the NSSC Board of Directors by NSSC Senior Leadership concerning the quality, timeliness, and cost of services provided by the NSSC, as well as submission to all Centers of detailed financial information concerning NSSC-provided services;
3. Development of a generic definition for “critical mission related activities” and an Employee Transition Plan as appropriate for transferred services; and
4. Development by February 28, 2011, of clear guidance and templates for collecting workforce and cost data for Business Case Analyses for NSSC activities.

We consider these actions to be responsive to our recommendations, and accordingly consider the recommendations to be resolved. We will close the recommendations upon completion and/or verification of the proposed corrective actions.

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INTRODUCTION

Background

Prior to 2006, Agency institutional support services such as human resources, financial management, information technology (IT), and procurement were largely provided by civil service and contractor personnel located at NASA Centers and NASA Headquarters. Beginning in March 2006, NASA consolidated several of these functions in one location at the NASA Shared Services Center (NSSC) at Stennis Space Center in Mississippi. NASA expected that this consolidation would provide consistent, high-quality “one-face” services to Centers, employees, external customers, and stakeholders more effectively, efficiently, and economically than the non-centralized system it had used for many years.⁵ In addition, NASA estimated that after a stabilization period of 3 years, the consolidation would result in approximately \$6 million per year in cost savings and free up 200 civil service positions for reallocation to “critical mission-related activities.”

The NSSC is a partnership between NASA, the states of Mississippi and Louisiana, and a contractor – Computer Sciences Corporation (CSC). CSC employees are responsible for providing the day-to-day services with oversight by NASA civil service employees. NASA reported an initial investment of \$26 million to establish the NSSC, while Mississippi and Louisiana contributed \$23.7 million and \$1 million, respectively, for facility construction and training costs.

The NSSC has four strategic objectives: unparalleled customer service, improving management and processes, standardizing business processes, and achieving savings. The NSSC operates using a working capital fund in which NASA Centers pay into the fund in advance of expenditures and the NSSC recovers from the fund the full cost of the goods and services it provides. The NSSC charges NASA Centers based on approved allocation methods and amounts identified in service agreements.

NSSC Functional Areas. According to the NSSC Implementation Plan, before making a determination regarding which support services would be transferred to the NSSC, NASA reviewed 432 services in six functional areas: human resources, procurement, financial management, resources management, IT, and facilities. NASA initially identified 80 services for transfer in financial management, human resources, procurement, and IT. During development of the work statement for creation of the NSSC, some of these services were combined or deleted from the list of planned transfers. Ultimately, NASA developed a transition plan under which 44 support services would be transferred to the

⁵ NASA “Consolidated Business Services: A New Opportunity for Better Services,” March 2002.

NSSC in phases between March 2006 and December 2009.⁶ The following is a summary of the services designated for transfer and their status:

- Financial Management: travel voucher processing, payroll and time and attendance integration, accounts payable, accounts receivable, fund balance with Treasury, and permanent change of station/relocation assistance. The transfer of these financial management services is complete.
- Human Resources: support to personnel programs, employee development and training, employee benefits, Senior Executive Service case documentation, personnel action processing, and electronic Official Personnel Folder record keeping. The transfer of these human resources services is complete.
- Procurement: Agency contracting, Small Business Innovation Research and Small Business Technology Transfer contracts, training, and grants/cooperative agreements. The transfer of these procurement services is complete.
- IT: ODIN Program Management Services, NASA's Computing and Communications Services, and Integrated Financial Management Competency Center Services.⁷ Ultimately, only ODIN Program Management Services were transferred. NASA plans to leave the other services at the Centers.

Objectives

Our audit objective was to determine whether the consolidation and transfer of institutional support services from NASA Centers to the NSSC was conducted in a timely, efficient, and cost effective manner. Specifically, we sought to determine whether: (1) the services identified for transfer were transferred timely and as planned; (2) positions at the Centers that were previously dedicated to the transferred functions were redirected to "critical mission-related activities"; and (3) projected cost savings were realized. In addition, we performed a review of internal controls related to the overall objective.

To conduct our audit, we visited NASA Headquarters, the NSSC, Glenn Research Center, Johnson Space Center, Kennedy Space Center, Langley Research Center, and Marshall Space Flight Center. We also reviewed relevant documentation and interviewed personnel with responsibility for human resources, financial management, procurement,

⁶ See Appendix B for a complete listing of the functions that were transferred to the NSSC pursuant to this transition plan. Following completion of the transition plan, NASA added other functions to the NSSC's work plan, including functions that had not previously been performed at the Centers. We did not include such "new" activities in our analysis.

⁷ Outsourcing Desktop Initiative for NASA (ODIN) is a long-term outsourcing arrangement with the commercial sector that transfers the responsibility for providing and managing the majority of NASA's desktop, server, and intra-Center communications assets and services to a contractor.

and IT at the NSSC, Headquarters, and the Centers. See Appendix A for details of the audit scope and methodology, our review of internal controls, and a list of prior coverage.

SEVERAL SERVICES DID NOT TRANSFER TIMELY OR AS PLANNED

For the most part, NASA transferred support services to the NSSC in accordance with its Implementation Plan. However, the transfer of services related to accounts payable and accounts receivable was delayed because of concerns that the planned schedule did not allow sufficient time to ensure that business processes could be reengineered, internal controls were in place, and the NSSC staff was adequately trained to handle the transferred services. Because the Centers needed additional money to pay their contractual obligations to the NSSC while maintaining staff at the Centers to perform these services until they were transferred to the NSSC, this delay cost NASA an additional \$3.75 million over and above its initial \$26 million investment in the NSSC. In addition, three human resources services – organizing health fairs, managing recruiting logistics, and arranging awards ceremonies – that originally transferred to the NSSC were subsequently returned to the Centers because of unexpectedly high costs. Finally, the NSSC hired additional civil service staff to perform benefits counseling due to NASA employees' dissatisfaction with NSSC services in this area, which increased the costs of NSSC benefits counseling services beyond initial estimates. As a result of these delays and alterations to the original Implementation Plan, the Centers were not able to realize projected costs savings or redirect all intended staff to other activities as anticipated in the Plan.

Transfer of Financial Services Was Not Timely

Most services scheduled for transfer to the NSSC transferred during the planned or subsequent quarter. However, the transfer of accounts payable and accounts receivable services was delayed for almost 2 years. According to planning documents, these services were to transition to the NSSC in three waves between July and November 2006. However, the transfer did not begin until February 2008 and was not completed until December 2009. NASA management officials told us that the transfer of these services did not occur as planned because the NASA finance community was concerned that the original schedule was too ambitious to ensure that business processes could be reengineered, internal controls were in place, and the NSSC staff had been adequately trained and would be adequately supervised.⁸ To accommodate the delay, the Office of Program and Institutional Integration authorized supplemental funding of \$3.75 million

⁸ In technical comments to the draft of this report, the NASA Associate Administrator for Mission Support explained that the delay in transitioning accounts payable and accounts receivable services was due to a significant upgrade to NASA's Core Financial System (SVU Update), which provided several critical enhancements to the SAP Core Financial software, which was to be used by the NSSC to process accounts payable and accounts receivable transactions. NASA concluded that it would not be in the best interests of the Agency to transition accounts payable and accounts receivable until the upgraded Core Financial System was completed, tested, and stabilized.

from the Agency's Corporate General and Administrative (G&A) account so Centers could meet their contractual obligations to the NSSC while maintaining the necessary staff at the Centers to perform the services until the transfer could be completed. According to NASA management, the Centers had the option of using these funds to pay NSSC or other bills. One Center used its portion of the money to pay non-NSSC bills; all other Centers sent 100 percent of their supplemental funding to the NSSC.

Neither the Agency nor the NSSC treated the \$3.75 million as additional start-up funds related to the NSSC. Rather, according to both NASA and NSSC management, the money was recorded as an indirect G&A cost in NASA's financial accounting system. However, NASA guidelines provide that financial reporting must assist report users in evaluating NASA's performance, including the cost of programs and projects, programs efforts, and accomplishments during the reporting period and the manner in which these efforts and accomplishments have been financed.⁹ In our view, by not attributing the \$3.75 million to NSSC as start-up costs, NASA has not provided an accurate picture of the full amount it expended to transfer accounts payable and accounts receivable services to the NSSC or the amount of savings needed to recoup its investment.

Transfer of Several Human Resource Services Was Not Achieved as Planned

NASA transferred most services to the NSSC in accordance with its Implementation Plan. However, three services transferred to the NSSC subsequently have been returned to the Centers and other transfers have not been carried out as originally planned.

Event Services. Services such as organizing health fairs, managing recruiting logistics, and arranging awards ceremonies were transferred to the NSSC during 2006 and early 2007. However, these services were returned to the Centers in October 2007 because of higher-than-expected costs.¹⁰ The effect of returning the responsibility for performing these services to the Centers was that Center staff positions could not be redirected to other functions as originally planned.

Benefits Counseling. Benefits counseling also proved a source of transition problems. Specifically, NASA employees at several Centers we visited were unsatisfied with the service and advice provided by NSSC's contractor staff on retirement and other benefits issues. Center management told us that even after the transfer of these functions to the NSSC, both Center employees and NSSC staff continued to call on Center-based staff for benefits counseling advice. NSSC management responded to the complaints by hiring

⁹ NASA Procedural Requirements 9200.1, "Accounting General Overview," Chapter 1.1.1(3)b, September 30, 2008.

¹⁰ The NSSC reported the costs per event for these services as \$8,097 for recruiting events, \$14,960 for health fairs, and \$32,193 for award ceremonies.

additional civil service staff with Federal benefits experience to handle benefits counseling. This in turn resulted in higher benefits counseling costs for the NSSC.

Conclusion

NASA transferred most of the human resources, financial management, IT, and procurement services according to the general timetable in its Implementation Plan with the exception of a few services such as accounts payable and accounts receivable, which were delayed for approximately 2 years and resulted in \$3.75 million in additional costs to NASA. In addition, plans to transfer event services and employee benefits counseling to the NSSC were amended in light of complaints about high costs and quality, respectively.

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

Recommendation 1. We recommend that the NASA Associate Administrator for Mission Support conduct a full cost benefit assessment before transferring services performed at the Centers and Headquarters or assigning new services to the NSSC.

Management's Response. The Associate Administrator concurred with our recommendation and stated that since the initial Implementation Plan was written NASA has refined the process it uses to review potential new business for the NSSC to include a cost-benefit analysis. The Associate Administrator further stated that this analysis is typically validated by an independent Agency team. Because the Agency has implemented these actions, the Associate Administrator requested closure of this recommendation upon issuance of the final report.

Evaluation of Management's Response. We find the Agency's actions to be responsive to our recommendation and therefore consider the recommendation resolved. We will close the recommendation upon verification that management has taken these actions.

Recommendation 2. We recommend that the NASA Associate Administrator for Mission Support develop a plan with milestones for the periodic re-evaluation of services performed by the NSSC to ensure that this arrangement continues to be cost effective for NASA.

Management's Response. The Associate Administrator concurred and described an ongoing process wherein the NSSC Senior Leadership briefs the NSSC Board of Directors quarterly and at the end of each fiscal year concerning NSSC's overall Annual Operating Results, including providing the Board with detailed performance information about the quality, timeliness, and cost of NSSC-provided services. In addition, the

Associate Administrator indicated that the Centers receive detailed information about NSSC's performance at regular intervals. Because the Agency has implemented these actions, the Associate Administrator requested closure of this recommendation upon issuance of the final report.

Evaluation of Management's Response. We find the Agency's actions to be responsive to our recommendation and therefore consider the recommendation resolved. We will close the recommendation upon verification that management has taken these actions.

NASA FAILED TO DEVELOP GUIDANCE FOR REDIRECTION OF CENTER POSITIONS

According to NASA's NSSC Implementation Plan, once the NSSC was fully operational more than 200 civil service positions that previously were dedicated to institutional support functions would be available for reassignment to "critical mission-related activities." However, NASA did not define in the Plan what constituted a "critical mission-related activity" and neither NASA Headquarters nor the NSSC Implementation Team provided the Centers with guidance regarding how these positions should be reallocated. Accordingly, Centers developed their own plans for redirecting positions and reassigning employees whose responsibilities had been transferred to the NSSC. We frequently found that employees were placed in newly created positions in the same functional areas or were used to backfill existing positions in those areas. At the five Centers we visited, 77 positions were redirected within the Centers and another 50 positions were eliminated through attrition following the transfer of services to NSSC. However, because the Centers did not use a uniform definition of "critical mission-related activities," it is unclear whether NASA achieved its goal of redirecting staff from institutional support to mission critical assignments.

Implementation Plan Did Not Define "Critical Mission-Related Activities"

According to the NSSC Implementation Plan, NASA expected that by redirecting Center employees from their previous responsibilities to "critical mission-related activities," the Agency could reduce the high-volume, repetitive administrative support work performed by civil service employees and allow management to direct its human capital resources toward more value-added activities that focused on NASA's core missions. However, NASA did not define "critical mission-related activities" in the Plan or subsequently provide the Centers with guidance as to what constituted such an activity. Absent clear direction from Headquarters as to what activities are deemed "critical mission-related" or how employees whose functions were transferred to NSSC should be redirected, the Centers developed their own interpretations and reassigned employees and positions accordingly.

We reviewed the reassignment plans at the five Centers we visited and found that each Center developed its own plan to redirect employees. In these plans, "redirection" included redesigning jobs within an area to perform related activities that had not been transferred to the NSSC, as well as actually reassigning employees to other functional areas at the Center.

Some Center officials informed us that all redirected employees were performing “critical mission-related activities” as defined by the respective Center. Other Centers expanded the areas from which services had been transferred – for example, the human resources offices at several Centers formed Organizational Development divisions to handle tasks such as performance assessments and change management. Still others simply retained employees in their existing functional area to provide assistance to NSSC staff. This resulted in some Centers having functional area staffing levels after the transfers to the NSSC that were little changed from before.

Causes for Redirection Slippage

The NSSC Implementation Plan estimated that approximately 200 civil service positions would be redirected to “critical mission-related activities” as a result of the creation of the NSSC. However, because of laws that restrict NASA’s ability to terminate employees, employees whose functions were transferred to the NSSC and who did not retire or leave the Agency voluntarily had to be redirected to jobs elsewhere in the Agency.¹¹ Moreover, because NASA did not define “critical mission-related activities,” the Agency was not in a position to ensure that employees were ultimately redirected to such activities.

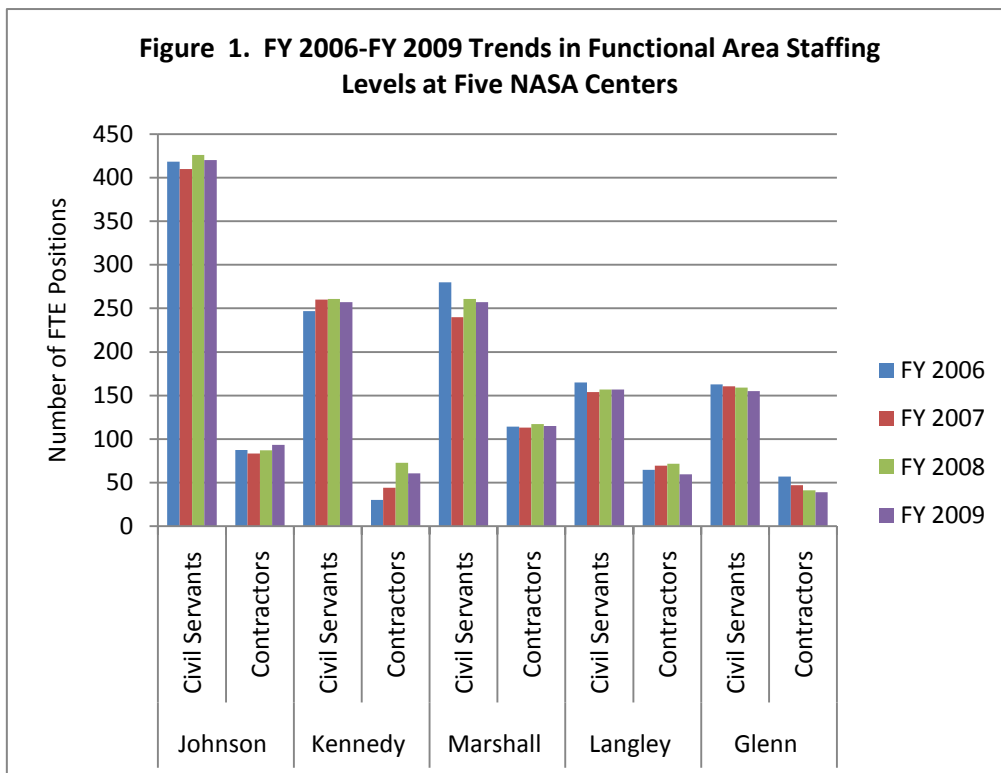
As previously noted, some services initially identified for transition were combined or eliminated during the development of the performance work statement. Center managers reported that, as a result, fewer positions were affected by the transition than initially estimated. In addition, Center managers reported that some services, particularly in the human resources area, were further divided into subcomponents and that only a certain portion of these subcomponents were transferred to the NSSC. In such cases, only a portion of any given employee’s responsibilities were transferred to the NSSC and therefore the employee’s position could not be redirected as initially planned. Finally, Center management sometimes redirected employees to new assignments but did not create corresponding position descriptions for their new job functions. In an effort to determine what duties the redirected employees were performing, we spoke with a variety of Center staff. We were told that the redirected employees were performing duties related to their former assignments that were more strategic and analytical than the original duties. However, we were unable to determine whether these employees were performing functions that could be described as “critical mission-related activities.”

NASA Center management also attributed some of the redirection slippage to changes in functional area workloads, including adjustments to NASA’s financial and travel processing systems, implementation of new programs requiring additional support, and

¹¹ Public Law 110-422-October 15, 2008, section 1108, Reduction-in-force Moratorium. NASA shall not initiate or implement a reduction-in-force, or conduct any other involuntary separations of permanent, non-Senior Executive Service, civil servant employees before December 31, 2010, except for cause on charges of misconduct, delinquency, or inefficiency. The NASA Authorization Act of 2010 contains similar wording and extends the moratorium to September 30, 2013.

unexpected work associated with the contractual agreement with the NSSC (for instance, Centers' efforts to handle a portion of grants management, personnel action processing, and training registration services originally thought to be the responsibility of the NSSC).¹²

As shown in the chart below, the transfer of services in the functional areas of human resources, financial management, and procurement to the NSSC did not result in significant changes in Center staffing levels dedicated to those functions.



Source: Centers provided staffing levels, in civil service positions and contractor-equivalent work years, in the Office of the Chief Financial Officer, Office of Procurement, and Office of Human Capital.

The vertical bars in Figure 1 show the overall changes between FY 2006 and FY 2009 in Center staffing levels for the transferred functional areas; levels increased in some areas but decreased in others. Three of the five Centers we reviewed had an overall decrease in civil service positions in financial management, human resources, and procurement: Marshall's civil service staff decreased from 280 to 257 (a decrease of 8.21 percent); Langley's civil service staff decreased from 165 to 157 (a decrease of 4.85 percent); and Glenn's civil service staff decreased from 162.8 to 154.8 (a decrease of 4.91 percent).

¹² Examples given as "new work" by the Centers were implementation of Constellation, implementation of new financial and travel processing systems, addition of Organizational Development activities, and unexpected work associated with the contractual agreement with the NSSC (e.g., grants management and training registration).

Two of the Centers had an overall decrease in contractor staffing levels for this same period: Langley's contractor staff decreased from 64.5 to 59.5 (a decrease of 7.75 percent) and Glenn's contractor staff decreased from 57 to 39 (a decrease of 31.58 percent). Therefore, while reductions did occur, fewer positions were eliminated than was originally expected.

According to the Implementation Plan, the number of civil service positions associated with human resources, financial management, and procurement services at the Centers would decrease from 321 to 119 (approximately 63 percent) as services were consolidated at the NSSC. Conversely, the number of NSSC contractor positions would increase from 218 to 291 (approximately 33 percent), with the overall number of positions decreasing by approximately 24 percent. Table 1 shows, by function, the number of positions identified as candidates for the NSSC transfer compared to the projected number of positions the NSSC needed to perform the same functional services.

Table 1. Number of Positions as Candidates for Transfer to and Projected as Needed by the NSSC						
Functional Area	Number of Positions					
	Candidates for Transfer to NSSC^a			Projected to Be Needed by NSSC		
	Civil Service	Contractor	Total	Civil Service	Contractor	Total
Human Resources	79	76	155	21	94	115
Procurement	100	44	144	40	91	131
Financial Management	142	98	240	58	106	164
Subtotal minus IT	321	218	539	119	291	410
Information Technology ^b	118	553	671	118	553	671
Total	439	771	1,210	237	844	1,081

^a September 2002 data.

^b Assumes the number of IT positions remains constant. Numbers include directors, secretaries, and customer service representatives.

Source: NSSC Implementation Plan Report

However, the Implementation Plan also projected that, in addition to the increase in contractor personnel, the NSSC would need 159 civil service personnel to support the range of services being transferred, which included an additional 40 positions for necessary IT and executive directorate staff. The NSSC achieved this staffing target through reductions to Centers' and Headquarters staffing levels and transferring those positions to the NSSC.¹³

¹³ NSSC Guidance, FY 2006 Budget Cycle, Revision 2/4/04 Final Draft.

Conclusion

Because NASA Headquarters did not provide clear direction as to what constituted “critical mission-related activities,” Centers developed their own interpretations and sometimes redirected civil servant positions within the same functional areas from which the services had been transferred. As a result, Centers did not achieve the decreases in functional area staffing levels originally planned. Because Headquarters did not define “critical mission-related activities” and Centers were inconsistent in their interpretations of the term, we cannot determine whether creation of the NSSC increased the focus on NASA’s core mission goals or whether these positions at the Centers were appropriately redirected to “critical mission-related activities” as intended.

Recommendation, Management’s Response, and Evaluation of Management’s Response

Recommendation 3. We recommend that the Associate Administrator for Mission Support define “critical mission-related activities” and develop a plan to ensure that resources affected by the transfers to NSSC are redirected to those activities. We further recommend that the Associate Administrator document any instances where redirection is not possible.

Management Response. The Associate Administrator concurred with our recommendation and provided a generic definition developed by the Agency for “critical mission-related activities.” He further stated that with regard to future transfers an Employee Transition Plan addressing the human capital aspects of the transition will be developed and that he will document instances where redirection is not possible. The Agency plans to finalize and distribute the definition by February 28, 2011.

Evaluation of Management’s Response. We find the proposed actions to be generally responsive to our recommendation. However, the Associate Administrator should ensure that Employee Transition Plans specifically address how to redirect resources to meet mission-critical requirements. With this in mind, the recommendation is resolved and will be closed upon completion and verification of the proposed corrective actions.

COST SAVINGS CLAIM BASED ON INSUFFICIENT DATA AND THEREFORE NOT RELIABLE

The NSSC Implementation Team used cost data supplied by the Centers to determine baseline cost calculations and estimate return-on-investment projections. However, the Implementation Team did not verify the data or provide adequate guidance to the Centers to ensure they provided consistent cost information. For example, we found that some Centers' salary calculations did not match applicable Office of Personnel Management (OPM) pay scales and that their estimates of the time required to complete services were "guesstimates" based on unclear descriptions of the services at issue. As a result, the data NASA used to calculate baseline costs for the transition of selected services to the NSSC was not consistent, accurate, or supportable. We also found that NASA officials did not treat \$15.2 million in supplemental NSSC funding as part of the baseline costs for the NSSC and that accordingly this sum was not included in NASA's return-on-investment and savings calculations. As a result, NASA's claim of a \$121 million savings from the NSSC for FY 2006 through FY 2015 was based on flawed data and is therefore not accurate.

Accuracy of Cost Data Supplied by Centers Is Questionable

Prior to creation of the NSSC, NASA officials developed a baseline cost for each of the services identified for transfer. This baseline was used to compare the costs of performing the services at NASA Centers to the estimated cost of performing those services at the NSSC.

To calculate the baseline cost, the Implementation Team requested that each Center submit a cost summary of the services identified as candidates for transfer. The cost summary included estimates of the time required by an employee to complete the activity as well as the salary, housing, IT, and management and secretarial costs associated with the employee.¹⁴

We reviewed the cost summary information each Center provided to the Implementation Team in an effort to assess the validity of the data used to project cost savings and calculate the return on investment from the creation of the NSSC. As a result of our review, we determined that Centers did not utilize a uniform methodology for formulating cost estimates. For instance, the instructions provided by the NSSC Implementation Team left the decision to each Center to determine whether costs such as travel and training should be included, and did not instruct Centers on how to capture labor costs for services that required only a fraction of an employee's time. In addition, Centers reported

¹⁴ Housing costs included facility services, utilities/maintenance, and phone services.

that the estimates they prepared at the time the data was requested were preliminary and would have changed as transitioning tasks became more defined. We also determined that salary information provided by some Centers was not always accurate when compared to salary information in OPM's General Service pay scale for a Center's locality. Moreover, according to some NASA personnel we interviewed, because it was not always clear to Center personnel exactly which services were to be transferred to the NSSC, the time estimates they provided were essentially "guesses." In addition, some Centers did not provide the requested housing and IT costs so the NSSC implementation cost analysis team used estimates based on old data and information provided by other Centers.

NASA's initial estimate of its return-on-investment from creation of the NSSC was approximately \$6 million per year. In addition, NASA predicted that it would recoup its initial \$26 million investment in the NSSC by April 2009.

In October 2008, NASA estimated its return-on-investment to result in a cost savings of \$119.7 million from FY 2006 through FY 2015. This estimate exceeded NASA's initial estimate by approximately \$9 million to \$14 million annually. In addition, NSSC officials reported that they achieved the breakeven point in December 2008, 4 months earlier than initially predicted. In May 2009, the NSSC revised the return-on-investment figure to a cost savings of \$121 million from FY 2006 through FY 2015, taking into account adjustments for new business costs and the return of events-related human resource services to the Centers. However, without a reliable accounting of the baseline costs for services transferred to the NSSC, an accurate costs savings projection cannot be determined. Accordingly, NASA's claim of \$121 million in savings as a result of creating the NSSC was based on flawed data and is therefore not accurate.

Unplanned Additional Funding

As noted above, NASA's initial contribution for NSSC start-up costs was \$26 million. In FY 2007, NASA allocated an additional \$15.2 million in NSSC-related funding as follows: (1) \$6.25 million in additional start-up funding; (2) \$5.2 million for procurement services; and (3) \$3.75 million for costs incurred as a result of the delay in transferring accounts payable and accounts receivable services to the NSSC.¹⁵ NASA recorded the \$15.2 million in the Agency's financial accounting system as an indirect corporate G&A cost. Management in NASA's Mission Support Directorate stated that additional costs associated with setting up the NSSC and Agency-level procurement services previously funded by corporate G&A increased the Agency's NSSC costs in

¹⁵ Procurement activities included purchase card processing, sponsored research business activities, customer surveys, training, NASA's Consolidated Contracting Initiative, and the NASA Contracting Internship Program.

excess of what had been planned for by the Centers.¹⁶ In addition, the Agency's decision to delay the transfer of accounts payable/accounts receivable to the NSSC further increased the Agency's NSSC costs. According to the Mission Support managers, at the time the Agency operated under full-cost management in which indirect costs were funded via an allocation from appropriations accounts. Under this approach, the Agency's corporate and Center G&A accounts were funded as indirect accounts. These indirect accounts funded Agency and Center operations, including the cost of some services that were identified for transfer to the NSSC. Since the NSSC's rates charged to the Centers had already been established for the year, NASA management decided to have the Centers pay the NSSC according to the established rates and payment schedules and Mission Support management funded the increase in costs through the corporate G&A account.

Our review of the NSSC return-on-investment chart found that the \$15.2 million in supplemental funding was not included in NASA's return-on-investment calculation. Rather, NASA calculated this figure based on \$26 million in start-up costs. NASA officials stated that the \$15.2 million was not included in the return-on-investment savings projection because those costs were recorded in the Agency's financial accounting system as indirect costs and therefore were not considered directly related to the NSSC.

However, in our judgment the lack of recognition of the \$15.2 million in the start-up funding line undermines both NASA's projected cost savings estimates and its claim that it reached the break-even point in December 2008. NASA needs to recognize the combined total of the NSSC start-up funding as \$41.2 million (\$26 million start-up funding added to the \$15.2 million supplemental start-up funding) and therefore recognize that claiming a break-even point based on the \$26 million alone is not appropriate.

Conclusion

NASA's claim of \$121 million in return-on-investment savings resulting from creation of the NSSC was based on flawed data and is therefore not accurate. First, the NSSC implementation team used cost data from the Centers that was of questionable accuracy to calculate the baseline costs for functional activities transferred to the NSSC. And second, NASA inappropriately excluded from its return on investment calculation \$15.2 million that in our judgment should have been allocated to NSSC start-up costs.

¹⁶ At the time of our review, the officials we spoke to were part of the Office of Program and Institutional Integration (OPII). As of February 23, 2010, OPII became part of the Mission Support Directorate.

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

Recommendation 4. We recommend that, going forward, the NASA Associate Administrator for Mission Support provide clear guidance to the Centers regarding the data to be gathered and methodology to be used for projecting cost savings for NSSC activities to ensure that savings are supported by documented and verifiable cost data.

Management Response. The Associate Administrator concurred with our recommendation, stating that management would develop clear guidance and templates for the Centers to use for collecting workforce and cost data. These templates will be in place by February 28, 2011.

Evaluation of Management's Response. We find the proposed actions to be responsive to our recommendation. Accordingly, the recommendation is resolved and will be closed upon completion and verification of the proposed corrective actions.

Scope and Methodology

We performed this audit from February 2009 through January 2011 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.

We performed work at NASA Headquarters, the NSSC, and five NASA Centers: Glenn Research Center, Johnson Space Center, Kennedy Space Center, Langley Research Center, and Marshall Space Flight Center. We reviewed NASA shared services planning documents such as the NASA Consolidated Business Services Study and the NASA Shared Services Center Implementation Plan Report and implementing documents including the NSSC transition schedule and Center redirection plans. We interviewed managers and functional area representatives in Human Resources, Financial Management, Procurement, and Information Technology to determine, in part, adherence to transition plan schedules, identification of “critical mission-related activities,” and redirection of employees. We also reviewed staffing numbers and position ceilings at the selected NASA Centers from FY 2002 through FY 2009 to establish a trend for whether the number of positions increased or decreased in the Center functional areas since the inception of the NSSC.

Use of Computer-Processed Data. We determined that the computer-based data obtained through the course of the audit is of undetermined reliability, as we did not test the data obtained by Center functional area managers from computer systems. However, we believe our conclusions were adequately supported by appropriate evidence in the form of managers, supervisors, and employee interviews and documentation available outside of the information systems.

Review of Internal Controls

We reviewed and evaluated the internal controls associated with transitioning activities to the NSSC, redirecting positions to “critical mission-related activities,” and developing a cost baseline for the activities that were to be transitioned to the NSSC. We found internal control deficiencies as discussed in this report. Our recommendations, if implemented, should correct the weaknesses we identified.

Prior Coverage

During the last 5 years, the U.S. Government Accountability Office (GAO) issued two reports of particular relevance to the subject of this report. Unrestricted reports can be accessed over the Internet at <http://www.gao.gov>.

GAO-07-434R, “Implementation of OMB Circular No. A-76 at Science Agencies,” March 16, 2007, reports on how five science agencies, including NASA, have implemented the May 2003 revised OMB Circular A-76 process, which seeks to make commercial activities now performed by government available for public-private competition. The report includes the NSSC in a table of Competitions Won by Contractors (FY 2003 through FY2005). The report also identifies post-competition accountability requirements of the agencies, as the “agency tracks execution of their competitions from the date of the public announcement through either the completion or cancellation of the competition and maintains a historical record of each competition.”

GAO-07-58, “NASA Procurement: Use of Award Fees for Achieving Program Outcomes Should Be Improved,” January 17, 2007, reports: “During the early 1990s, the National Aeronautics and Space Administration (NASA) Inspector General and NASA internal studies raised concerns about NASA’s use of CPAF [cost-plus-award-fee] contracts. As a result, NASA developed specific guidance to improve the effectiveness of award fees. The CPAF contract type continues to be used extensively by NASA for obtaining both goods and services, accounting for almost half of NASA contract dollars for fiscal years 2002 through 2004. GAO examined NASA’s use of award-fee contracts and determined (1) the extent NASA’s guidance addresses the problems previously identified with the use of award-fee contracts and (2) whether NASA follows its guidance in using award fees to achieve desired outcomes.” GAO reported NASA did not consistently implement key aspects of the Agency’s guidance on major award-fee contracts that it reviewed. In addition, GAO reported, “NASA’s satisfaction was based on its evaluations of contractor performance against criteria established in the award-fee plan. While NASA’s evaluations would indicate generally good contractor performance, such performance did not always translate into desired program outcomes.”

**SERVICES NASA
TRANSFERRED TO NSSC**

Cumulative Count		Functional Area
	Area Count	Procurement
1	1	Purchase Card Program
2	2	Consolidated Contracting Initiative
3	3	Agency-Wide Contract Close-Out Services
4	4	NASA Procurement Survey
5	5	Procurement Training (1102)
6	6	NASA Contracting Intern Program
7	7	Grants & Cooperative Agreements
8	8	Sponsored Research Business Activities (SRBA)
9	9	Small Business Innovation Research & Small Business Technology Transfer Programs
10	10	Offsite Training-Registration and Reimbursement ^a
11	11	Internal (NASA & Centers) Training-Processing Notices ^b
	Area Count	Financial Management
12	1	Accounts Payable
13	2	Accounts Receivable
14	3	Payroll, Time & Attendance
15	4	Fund Balance with Treasury
16	5	Domestic Travel
17	6	Permanent Change of Station
18	7	Foreign Travel

^a Off-site training is a service with roles and responsibilities in both procurement and human resources, according to NSSC Service Delivery Guide 019, "Registration –Reimbursement for External Training."

^b Internal Training is a service with roles and responsibilities in both procurement and human resources, according to NSSC Service Delivery Guide 037, "Processing of Training Notices for Internal NASA & Center Training (Internal Training)."

Cumulative Count	Functional Area	
	Area Count	Human Resources
19	1	Drug Testing Program Management
20	2	General Employment Inquires
21	3	Coordination of Position Classification Appeals
22	4	Award Processing, Agency Honor Awards
23	5	Preparation & Distribution of Employee Notices
24	6	Advisory Services to Human Resources Specialist
25	7	Production of Information Materials
26	8	Development & Procurement of Training Services
27	9	Registration/Reimbursement for Off-Site Training ^a
28	10	Processing of Training Notifications ^b
29	11	Administration and Oversight-On-Line Agency Training
30	12	Special Human Resources Studies
31	13	Benefits Processing
32	14	New Hire, Transfer & Reassignment Processing
33	15	Administration-Leave Donor Program/Advanced Sick Leave
34	16	Health & Safety Fairs ^c
35	17	Financial Disclosure
36	18	Human Resources Information Systems
37	19	Human Resources & Training Web Site Development
38	20	User Support/Expertise Center Human Resources Data Users
39	21	Maintenance of Official Employee/Performance Records
40	22	Personnel Action Processing
41	23	Recruiting Event Logistics ^c
42	24	Senior Executive Service (SES) Case Documentation-Appointments
43	25	SES Case Document-CDP Mentor Appraisals
	Area Count	Information Technology
44	1	ODIN Program Management

^aOff-site training is a service with roles and responsibilities in both procurement and human resources, according to NSSC Service Delivery Guide 019, "Registration – Reimbursement for External Training."

^bInternal Training is a service with roles and responsibilities in both procurement and human resources, according to NSSC Service Delivery Guide 037, "Processing of Training Notices for Internal NASA & Center Training (Internal Training)."

^cThis service transitioned to the NSSC but was returned to the Centers because of high costs charged by NSSC to the Centers.

MANAGEMENT COMMENTS

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



January 13, 2011

Reply to Attn of: Mission Support Directorate

TO: Assistant Inspector General for Audits
FROM: Associate Administrator for Mission Support Directorate
SUBJECT: Draft Report, "Status of Services Transferred from NASA Centers and Headquarters to the NASA Shared Services Center", Assignment No. A-09-007-00

The Mission Support Directorate and the NASA Shared Services Center (NSSC) appreciate the opportunity to review and provide comments on the subject draft report dated December 13, 2010. In the draft report, the Office of the Inspector General (OIG) makes four recommendations addressed to the Associate Administrator for Mission Support. NASA's response to the OIG recommendations, including planned corrective actions and projected completion dates in regard to those planned corrective actions follows.

Recommendation 1: Conduct a full cost-benefit assessment before transferring services being performed at the Centers and Headquarters or assigning new services to the NSSC.

Management's Response: Concur. It is important that when developing business cases for any new services going to any Center in the Agency, a full cost-benefit assessment be conducted. At the NSSC, new business is typically originated and sponsored by a functional owner at NASA Headquarters (Chief Financial Officer (CFO), Chief Information Officer (CIO), Office of Human Capital Management (OHCM) or Associated Administrator for Procurement) and approved by the NSSC Board of Directors (BOD). In some cases, at the discretion of the NSSC BOD, the BOD will concur upon the business case and forward to the Mission Support Council for consideration and approval. When potential new business is identified, if the NSSC BOD believes the new business to have merit, the BOD Chair instructs the NSSC to develop a full-blown Business Case Analysis (BCA), which includes a standard process for gathering data across the customer base and resultant cost-benefit analysis. The Functional Agency Manager, in conjunction with the NSSC Executive Director, typically appoints an independent Agency team to validate the BCA and to develop the proposed implementation strategy. This new business process has been refined since the initial Implementation Plan was written, and a cost-benefit analysis is currently conducted for all new business activities being considered for implementation by the NSSC. This action is implemented and ongoing; consequently, we request closure of this recommendation upon issuance of the final report.

Recommendation 2: Develop a plan with milestones for the periodic re-evaluation of services being performed by the NSSC to ensure that this arrangement continues to be cost effective for NASA.

Management's Response: Concur. The NSSC Senior Leadership briefs the NSSC BOD quarterly, and at the end of each fiscal year (FY), on the overall Annual Operating Results with detailed performance information (quality, timeliness, and cost) for services provided by the NSSC. We will continue to provide the NSSC Net Operating Results, with Financial Summary Updates for each service, to the NSSC BOD at regular intervals and following the close of each FY. In addition, the overall Financial Summary Update is provided at regular intervals to all Centers during the NSSC Center Update ViTS. Most recently (December 1, 2010), the FY10 Annual Operating Results by Service were presented at the NSSC BOD meeting, which was attended by all Centers and three Mission Directorates. This action is implemented and ongoing; consequently, we request closure of this recommendation upon issuance of the final report.

Recommendation 3: We recommend that the Associate Administrator for Mission Support define "critical mission-related activities" and develop a plan to ensure that resources affected by the transfers to NSSC are redirected to those activities. We further recommend that the Associate Administrator document any instances where redirection is not possible.

Management's Response: Concur. While we agree that having a consistent definition is important, each business case is a stand-alone document, and each business case addresses impacted personnel by position—the definition of critical mission-related activities may vary slightly depending upon the technical or business complexities associated with the effort. We have developed the following generic definition of "critical mission-related activities": "Critical technical, operational, and/or business support, services or product-related activities, including their interdependencies and single points of failure, which enable an organization to achieve its objectives." As with the original NSSC Implementation efforts, an Employee Transition Plan addressing the human capital aspects of the transition will be developed, as appropriate. The Associate Administrator for Mission Support will document instances where redirection is not possible. A definition will be finalized and distributed by February 28, 2011.

Recommendation 4: We recommend that, going forward, the NASA Associate Administrator for Mission Support provide clear guidance to the Centers regarding the data to be gathered and methodology to be used for projecting cost savings for NSSC activities to ensure that savings are supported by documented and verifiable cost data.

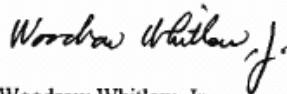
Management's Response: Concur. The NASA Associate Administrator for Mission Support will develop clear guidance and templates for Centers to use regarding the collection of workforce and cost data to be used in BCA document preparation. Every effort will be made to ensure that information provided by the Centers is complete and verifiable. Guidance and templates will be in place by February 28, 2011.

In addition to the above responses to the recommendations outlined in the draft report, we have also provided technical comments to the draft report, including proposed revisions

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and/or corrections of factual inaccuracies, etc. Our technical comments to the draft report were provided to the OIG via e-mail on January 7, 2011, in order to facilitate the OIG's technical correction process. For purposes of completeness, we have also included our technical comments as Appendix A to this response.

We appreciate the opportunity to provide a written response to the subject draft audit report, as well as the courtesies extended to the NSSC by the OIG during the course of the audit. If any additional information regarding our response is required, please contact Rebecca Dubuisson, Director, Business and Administration at the NSSC. Ms. Dubuisson can be reached at (228) 813-6091 or Rebecca.s.dubuisson@nasa.gov.



Woodrow Whitlow, Jr.

Enclosure (1)

cc: Executive Director, NSSC

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