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FINANCIAL MANAGEMENT

NASA's Decisions Are Based on Unreliable Systems Data and Reports

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Mr. Chairman and Members of the Subcommittee:

We are pleased to be here today to discuss the results of our ongoing review of the National Aeronautics and Space Administration's (NASA) financial management systems and operations. We are finalizing a draft report on the results of our work and plan to provide it to NASA shortly. This review is one of many that GAO has initiated during the past several years to evaluate agencies, and in some cases specific functions or programs, that are viewed as having an unacceptably high risk of mismanagement, fraud, and abuse. As you may know, the Office of Management and Budget (OMB) has designated NASA's financial systems as high risk. To our knowledge, this was the first comprehensive audit ever performed of NASA's financial systems and operations.

Our ongoing review has shown that NASA's internal controls, policies and procedures, and financial management systems do not provide assurance that its $13.9 billion in fiscal year 1991 appropriations and almost $13.4 billion in contractor-held property are properly and accurately accounted for, or adequately safeguarded. NASA has long recognized that improvements are needed, and in 1987 initiated a project for developing a standard agencywide NASA Accounting and Financial Information System (NAFIS) that NASA believes will correct some of the weaknesses we identified. As a part of our review, in August 1991, we reported[1] on NASA's efforts to design and develop its planned NAFIS system, and provided recommendations for improving NASA's planning over the development effort. Although NASA has since finalized its NAFIS Project Plan, the system is not scheduled to be implemented at the first Center until March 1995, and there is no target date for full implementation. As a result, interim corrective actions are needed. NASA's Inspector General's Office is conducting a follow-on review of the NAFIS system project.

My testimony today deals with weaknesses we identified in four broad areas of NASA's financial management operations. We found that NASA lacks (1) accurate and reliable contractor data for managing its programs, formulating its budgets, and assuring that its contractor-held property is adequately controlled and the value accurately reported by its contractors, (2) effective controls over the use of its budgetary resources, (3) accounting systems that facilitate reliable financial reporting, and (4) adequate financial management oversight. Before I discuss these issues, I would like to provide some background on NASA and its operations.

BACKGROUND

The National Aeronautics and Space Act of 1958 established NASA as the civil space program's principal agency. In addition to

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[1]Financial Management: Actions Needed to Ensure Effective Implementation of NASA's Accounting System (GAO/AFMD-91-74, August 21, 1991).

the timing of equipment purchases or to allocate costs to related projects when the contractors did not report costs by project. However, we also found instances where analysts made unsupported adjustments to contractor-reported data which served to conceal overruns, or underruns, or avoided revealing that costs exceeded obligations or budget plans. Our review of Centers' program analysts' adjustments and contractors' actual costs for subsequent months showed that the analysts' adjustments were less accurate than the contractors' estimates from 52 to 81 percent of the time. For example, at Johnson, a program analyst increased a monthly contractor cost estimate on a space station contract by an average of $35 million a month. Our review of this contractor's reports for an 8-month period showed that while the analyst continually increased the contractor's estimates from $26 million to $44 million a month, the contractor's subsequent actual data showed that these adjustments were unnecessary.

We also identified numerous instances where recorded costs exceeded recorded obligations. Program officials at NASA Centers allowed contractors to proceed with new work before costs were negotiated and modifications approved in accordance with NASA's established procurement procedures. Because the contract modifications had not yet been approved, NASA did not record obligations in its accounting system. Meanwhile, the contractors were incurring costs and reporting them to NASA. In these situations, NASA Centers recorded the contractors' costs in their accounting systems and prepared reports on costs in excess of obligations to record their "liabilities" to pay contract costs, even though there was no corresponding obligation recorded. While NASA acknowledges that the contractors proceeded at their own risk, NASA kept track of the costs the contractors incurred because it fully expected to pay them as soon as the modifications were approved.

At Johnson, our review of cost reports for one of the contracts in our sample disclosed that NASA had allowed a contractor to perform work related to the Shuttle Mission Training Facility during fiscal year 1987 which exceeded the level of effort provided for in the existing contract, as well as the available resource authority[2] for the project. The contract modification, which was being negotiated, was not approved in fiscal year 1987. To avoid recording $582,000 in obligations that exceeded resource authority, the program analyst charged portions of the project's fiscal year 1987 costs to the fiscal year 1988 and 1989 appropriations, in effect concealing fiscal year 1987 overobligations of resource authority.

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[2]Resource authority is programmatic authority issued for the execution of individual projects. Budget authority is not available to a program official without resource authority.

-- Goddard had assumed responsibility for millions of dollars in government-furnished, contractor-held property under 75 contracts, but had not maintained the related property records, nor had it required the contractors to do so.

INADEQUATE BUDGETARY CONTROLS

The Anti-Deficiency Act, and Office of Management and Budget (OMB) Circular A-34, require agencies to establish controls over the use and management of appropriations to ensure that obligations and expenditures comply with an appropriation's purpose, amount, and time restrictions--all of which must be met for an obligation or expenditure to be legal. NASA has established two levels of control over its obligations and expenditures which are designed to ensure that they do not exceed appropriations enacted by the Congress. First, NASA's Comptroller divides the appropriations into allotments to each of NASA's 9 operating Centers. Second, NASA's Comptroller issues resource authority to the Headquarters Program Offices who reissue this authority to the 9 Centers to execute specific programs and projects. Under NASA's policy of controls, Centers are to have both allotments and resource authority to create obligations and make expenditures.

We found that NASA has not adequately enforced controls over the use of its budgetary resources. NASA program managers may have incurred obligations without ensuring that budget authority is available. For example, in reviewing NASA's general ledger reports as of September 30, 1991, we found

-- three instances, totaling $541,915, where appropriation accounts[4] may have been overobligated in fiscal years 1988 through 1990 and

-- twenty-two instances, totaling almost $13 million, where 6 of the 9 NASA Centers may have overobligated their allotment for four appropriations[5] from fiscal year 1991 back to at least 1986.

NASA officials had not fully investigated or resolved all of these instances of control weaknesses.

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[4]The specific appropriation accounts were Research and Program Management and Space Flight, Control, and Data Communications.

[5]The two additional appropriations were Construction of Facilities and Research and Development.

its agencywide office, NASA operates eight separately managed, aeronautical and research Centers and a Headquarters Accounting Branch. Each of these components has its own Financial Management Officer who is responsible for day-to-day accounting and financial management. Although not yet confirmed, the NASA Comptroller serves as the agency's chief financial officer.

Program managers in the field Centers are responsible for key contract management functions, including verifying contractor estimates; assisting in the negotiation of contracts and contract modifications; and analyzing and adjusting contractor cost reports which they then use to establish accounts payable and prepare program operating plans and budgets for programs, projects, and contracts.

INACCURATE ACCOUNTING AND REPORTING OF CONTRACTOR COSTS

NASA carries out its programs primarily through contractors, which account for about 90 percent, or $12 billion, of NASA's $13.9 billion fiscal year 1991 appropriations. NASA's primary source of information about the use of contractor funds is periodic cost reports from the contractors, for which it pays hundreds of millions of dollars annually. NASA uses contractor-reported data to help determine progress on individual projects, to establish and update its accounts payable, and to forecast future funding needs and develop budget requests.

These reports, however, were not timely and they did not contain the detailed information NASA requires to assess the status of contracts or individual programs and projects. Some reports were not submitted at all because the contracts did not include reporting requirements. We reviewed a random sample of monthly reports for 10 to 20 contracts at NASA's four largest Centers--Kennedy, Johnson, Goddard, and Marshall--for a 6- to 12-month period. We found that 30 percent of Goddard's reports and 56 percent of Marshall's reports were received too late to be included in the Centers' monthly accounting reports. In another sample of 44 contracts requiring quarterly reports at Johnson, we found that this Center had not received 22 reports.

In addition, we found that although NASA's policy requires contractors to report cost information by program, project, and contract phase, such as design and engineering, not all of NASA's contractors reported the detailed information and not all contracts included the reporting requirement. For example, at Johnson, reports for 18 of the 20 contracts in our monthly reporting sample did not contain the detailed information, and 10 of the contracts did not include the detailed reporting requirement.

We found that NASA Centers' program analysts adjusted contractor-reported data to include more up-to-date information on

We identified another Johnson contract where the project's costs grew from about $3 million to $30 million in a 3-year period from 1988 through 1991. This project was for design and development of a waste collection system (toilet) for the new Orbiter Vehicle-105. When we asked why the Center's analysis of the contractor's cost and performance reports did not result in efforts to control costs, the Center project analyst told us that the contract had not been finalized and an agreed upon price was not established. He said that under these circumstances, NASA had to pay the costs incurred by the contractor.

NASA's lack of timely and accurate cost information calls into question its ability to manage individual programs and projects and to prepare reliable annual Project Status Reports to the Congress. As you know, in 1990, we reported[3] significant inaccuracies in these reports.

Another problem area related to contractor oversight is NASA's inability to ensure that government-owned, contractor-held property is fully accounted for or that the reported value of this property, which was $13.4 billion as of September 30, 1991, is accurate. Because contractor property reports and accounting data are not audited, NASA relies on Department of Defense (DOD) property administration agencies' surveys of contractor property systems to ensure that reports are reliable. However, these surveys are not always performed and the reports are not always provided to NASA, as required. We found that surveys were not performed in 1990 for 13 of Johnson's contractors who held $3 million in NASA property. NASA's internal reviews have documented continuing problems with nonperformance of surveys by DOD agencies. Although NASA's Contract Property Program Manager has taken action to have these reviews performed, late compliance with review requirements lessens NASA's oversight of contractor-held property. We found the following examples of late and inaccurate reporting.

-- Of 614 reports of contractor-held property for the Johnson and Marshall Centers, 85 reports involving $10 million were received too late to update NASA's fiscal 1990 year-end reports.

-- Johnson personnel, in response to our audit, reviewed 87 contractor property reports and found that 20 percent contained mathematical errors, misclassifications, and omissions.

-- Johnson and Kennedy had processing backlogs for property disposals, indicating that NASA had millions of dollars in property recorded on its books that was no longer in use.

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[3]NASA Project Status Reports: Congressional Requirements Can Be Met, But Reliability Must Be Ensured (GAO/NSIAD-90-40, January 23, 1990).

UNRELIABLE REPORTING DUE TO WEAK FINANCIAL SYSTEMS

NASA's reporting on the billions of dollars it spends each year to carry out its programs and operations is not reliable due to fundamental systems deficiencies. These deficiencies included Centers' systems that are non-integrated, non-standard, and not fully automated, requiring multiple data entry and lengthy reconciliations. Systems deficiencies resulted in improper balances such as a credit balance in an account that should normally have a debit balance. For example, we found negative balances for accounts payable to other government agencies (which indicate overpayments were made), liabilities on accrued annual leave and capital leases, as well as unbilled accounts receivable (which indicate that NASA received overpayments which may need to be refunded).

These deficiencies also resulted in unresolved discrepancies between NASA's primary and subsidiary accounts and between NASA's and Treasury's records. We also identified errors totaling hundreds of millions of dollars in NASA's fiscal 1991 year-end financial statements to Treasury. In one case, NASA reported uncollected accounts receivable related to reimbursements as zero, instead of $427 million. As a result of our findings, NASA corrected its financial statements and resubmitted them to Treasury on March 10, 1992. We also found that NASA has serious reimbursable accounting weaknesses, including poor documentation for billings and failure to collect amounts owed by other agencies for work NASA performed. As a result, NASA has millions of dollars in uncollected receivables which have put several appropriated fund cash balances in the red at fiscal-year end.

INADEQUATE FINANCIAL MANAGEMENT OVERSIGHT

NASA relies on various DOD agencies, including the Defense Contract Audit Agency (DCAA) for contractor audit coverage, and the Defense Contract Management Command for contract administration, to provide it assurance that data submitted by its contractors are accurate and reliable. In addition to the services provided by DOD, NASA relies on audits performed by its Office of Inspector General (OIG) and various internal management reviews as its basis for reporting any accounting system nonconformances or material weaknesses under the Federal Managers' Financial Integrity Act (FMFIA).

We found, however, that only one Center-wide review of contractor cost reports was performed in the last 4 years. Also, we determined that the NASA Comptroller's Office's agencywide budgetary funds control and accounting and reporting functions have not been audited by the OIG. However, in response to our prior audit findings and requirements of the Chief Financial Officers

Act, NASA's OIG has recently taken steps to improve and expand its accounting and financial management audit coverage.

During the first 4 years of reporting under the FMFIA Act, NASA did not report material weaknesses or nonconformances in its accounting systems and operations. In 1987, NASA reported a material weakness involving cost in excess of obligations situations that resulted when contractor costs were incurred without funding on a contract. In 1989, NASA reported accounting and systems deficiencies at Goddard as a material weakness.

Our review of DCAA audits, OIG audits, and internal management reviews used to support NASA's FMFIA reporting requirements disclosed significant limitations and gaps in coverage. As a result of inadequate audit coverage, many of the serious deficiencies and material weaknesses we identified related to (1) contractor cost reporting and property accounting and accountability, (2) budgetary controls, and (3) accounting systems and financial reporting have gone undetected and uncorrected. As of December 1991, NASA had not reported these weaknesses in its FMFIA reports.

As I stated earlier, we are finalizing a draft report on the results of our audit, which will contain recommendations to NASA. We plan to send the report to NASA for its comments shortly.

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Mr. Chairman, this concludes my remarks. I would be happy to answer any questions you or members of the Subcommittee may have at this time.

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