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NASA PROCUREMENT

Opportunities to Improve  
Contract Management

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Mr. Chairman and Members of the Subcommittee:

I appreciate the opportunity to testify before you today on the results of our recent work on contract management in the National Aeronautics and Space Administration (NASA). As you know, NASA has historically spent almost 90 percent of its funds on procurement of goods and services. During fiscal years 1989 through 1991, NASA paid contractors over \$10 billion annually. Since the late 1980s, NASA has identified and acknowledged that it has problems in adequately overseeing contractor activities.

We consider NASA's lack of adequate management controls of its procurement activities as one of the government's high-risk programs in terms of the potential for fraud, waste, and abuse. Consequently, our work at NASA over the last few years has primarily focused on finding ways to improve NASA's ability to administer contracts after they are awarded. Many of our reviews were requested by this Subcommittee and, today, I will focus my testimony primarily on the results of three we recently completed for you. In summary, these reports identify opportunities for NASA to improve its management controls over and oversight of

- contract cost increases and time extensions,
- contract modifications, and
- contract administration activities performed by other government organizations.

I would like to briefly describe the results of our work in each of these areas and NASA's response.

PROVIDING AGENCYWIDE INFORMATION  
ON CONTRACT COST AND SCHEDULE CHANGES

Last September we reported<sup>1</sup> on the extent of cost increases and time extensions in contracts at NASA's four largest procurement centers.<sup>2</sup> Our review sampled a universe of over 1,800 contracts with an estimated award value of about \$19 billion at these four centers. We estimated that about one in every three of these contracts had cost increases, and that more than two of every five had time extensions. The estimated rates of cost and time extensions varied across the four centers. Costs of all contracts at the four centers were increasing at an annual rate of about 1.4

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<sup>1</sup>NASA Procurement: Management Oversight of Contract Cost and Time Changes Could Be Enhanced (GAO/NSIAD-91-259, Sept. 30, 1991).

<sup>2</sup>The four NASA centers were Goddard Space Flight Center, Greenbelt, Maryland; Marshall Space Flight Center, Huntsville, Alabama; Kennedy Space Center, Florida; and Johnson Space Center, Houston, Texas.

percent, ranging from less than half of one percent at one center to over 6.5 percent at another--a rate difference of more than 16 times. We estimated that the average rate of schedule delay was almost 9 percent. In other words, for each year in the lifetime of a contract, an average delay of about 9 percent could be expected. Here too there were center-to-center differences--from about 4.5 percent at the center with the smallest annual increase to about 16 percent at the center with the highest rate.

While we recognize that contracts can increase in cost and time for appropriate reasons, we suggested to NASA that there was management value in knowing the extent to which individual center's contracts were increasing in cost and time. However, NASA did not have a system to identify and track contract cost increases and time extensions. We noted that NASA's Financial and Contractual Status System (FACS) could be adjusted to routinely provide the capability to conduct analyses similar to ours without having to examine and project from a sample of contracts. We pointed out that such a capability could be a valuable screening mechanism for helping headquarters procurement managers target their oversight throughout the agency. Specifically, the analyses could provide NASA managers with information that could be used for (1) monitoring, over time, changes in values and rates of contract cost increases and time extensions within and across centers; (2) analyzing post-award contract administration work loads at the centers; and (3) identifying specific contracts or types of contracts for more detailed reviews to determine whether cost increases and time extensions were related to contract administration problems. We recommended that NASA make the appropriate changes to FACS provided that it was cost-effective to do so. NASA agreed and changed the system to enable cost and time increases to be determined routinely and comprehensively on NASA contracts.

#### IMPROVING MANAGEMENT OF CONTRACT MODIFICATIONS

In March 1992 we issued a report that addressed some of the problems NASA has had in managing contract cost and time modifications.<sup>3</sup> Problems we found at one or more of NASA's largest procurement centers included (1) unpriced contract changes not negotiated in a timely fashion, (2) proposed contract changes not adequately evaluated, (3) unauthorized personnel directed contractors to perform additional work, and (4) new work noncompetitively added to contracts without justifying sole-source procurement.

The first two problems--unpriced contract changes and inadequate evaluations of proposed changes--were the most prevalent. Over

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<sup>3</sup>NASA Procurement: Agency Action Needed to Improve Management of Contract Modifications (GAO/NSIAD-92-87, Mar. 2, 1992).

one-third of the contract modifications we reviewed were unpriced, and more than 40 percent of these had not been negotiated within NASA's 6-month guideline; one took over 18 months to negotiate. Unpriced contract changes allow a contractor to start work and incur costs before an agreement is reached on terms and conditions, including price. Thus, until a price is negotiated, a contractor has limited incentive to control costs.

The process of pricing contract changes requires NASA personnel to do cost analyses and technical evaluations of contractor proposals. We found 41 cases where such evaluations were required. Neither a cost analysis nor a technical evaluation were ever done for one modification. In 11 other cases, technical evaluations were incomplete or poorly documented. Nevertheless, contracting officers did nothing to correct these situations. For example, they did not require the poorly documented or incomplete evaluations to be revised or completed, even though the evaluations are supposed to provide the supporting rationale for the change.

The other two problems--additional work directed by unauthorized personnel and unjustified sole-source procurement--existed to a much lesser extent. Personnel, other than contracting officers, at one NASA center improperly directed contractors on four occasions to do work that exceeded contract requirements. While in each of these cases contracting officers said they would have authorized the increased work if they had been asked to do so in advance, such unauthorized actions violate internal controls that are intended to prevent interference with a contracting officer's responsibilities as a government representative on contracts.

Finally, under the Competition in Contracting Act of 1984, agencies such as NASA must generally use competitive procedures for their procurements. However, we identified two cases where NASA center personnel, other than contracting officers, added new work to contracts that should have been competed or properly justified as sole-source procurements. This was not the first time in recent years that we found NASA's actions conflicting with the act. Specifically, in 1988 we reported that a NASA contract for certain parts and materials needed to manufacture external tanks for the Space Shuttle and a planned contract for fabricating additional tanks were not justified as noncompetitive procurements.<sup>4</sup>

NASA did not agree with our 1988 report. However, the agency has reacted in a positive manner to our recent report on managing modifications. For example, during our fieldwork, NASA headquarters began tracking the time the centers required to negotiate unpriced contract changes. Since then the centers have made progress in reducing the number and value of unpriced changes

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<sup>4</sup>Space Shuttle: External Tank Procurement Does Not Comply With Competition in Contracting Act (GAO/NSIAD-89-62, Dec. 28, 1988).

over 6 months old. At the end of 1990, NASA's four largest procurement centers had 284 unpriced contract changes valued at \$6.2 billion that were more than 6 months old. Just 7 months later, this number was reduced to 234 changes valued at about \$2.2 billion. NASA headquarters procurement officials told us that they would continue to monitor the timely negotiation of unpriced changes. Also, in the fall of 1991, NASA headquarters asked the two centers with the most significant backlogs of unpriced changes to identify and implement procedural changes to ensure that future contract changes are priced in a timely fashion.

BETTER OVERSIGHT OF CONTRACT ADMINISTRATION  
FUNCTION DELEGATED TO OTHER FEDERAL AGENCIES

In March 1992 we also issued a report on NASA's contract administration functions delegated to other agencies.<sup>5</sup> Currently, NASA pays over \$40 million a year for such services. Usually, NASA's contracting officers delegate contract administration functions to the Defense Contract Management Command (DCMC) under the Department of Defense's Defense Logistics Agency.

We found widespread and significant deficiencies in NASA's management of these delegated contracts. At the outset, we found that NASA centers did not comply with regulations nor did they establish sufficient communication with DCMC in setting up delegation of contract administration functions. Conferences with DCMC to plan the nature and extent of contract administration activities were not held on almost 90 percent of the contracts we examined that required them; more than one-third of NASA's delegations to DCMC were not made in a timely fashion; and NASA did not obtain acceptance letters from DCMC at all or did not obtain them in a timely manner on over 60 percent of the contracts we reviewed. Deficiencies such as these can hamper contractor oversight.

When contracts were well underway, NASA did not adequately coordinate the work performed by DCMC. Some NASA contracting officers were not aware that oversight functions on their contracts had been delegated to DCMC because of staffing changes and poor recordkeeping. In other cases, NASA officials could not determine what functions, if any, had been delegated because of poor documentation of contract files. Also, NASA did not provide DCMC with complete modification information on almost 60 percent of the contracts that had been modified. On about 27 percent of these modified contracts, DCMC knew about less than half of the modifications.

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<sup>5</sup>NASA Procurement: Improving Management of Delegated Contract Functions (GAO/NSIAD-92-75, Mar. 27, 1992)

Finally, DCMC did not fully inform NASA about what contract administration services were to be paid. Bills lacked detail and were submitted to NASA headquarters. This process prevented NASA centers from routinely reviewing the billings, even though the centers had requested the services and were responsible for ensuring adequate contractor oversight.

Here again, NASA has been reacting positively to the situation. NASA has negotiated with DCMC to revise the billing format and system. In addition, NASA has established a new procedure requiring that procurement supervisors ensure that appropriate contract administration planning conferences are held.

Overall, Mr. Chairman, we are encouraged by NASA's response to its contract administration problems. NASA's Office of Procurement has made, or is planning to make, procedural changes to address the deficiencies discussed in our reports. One challenge the agency faces is to ensure that the new procedures are understood and followed by center personnel. In the future, we will review their progress in doing so.

This concludes my prepared statement. I would be pleased to respond to your questions.

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