

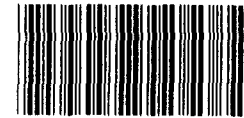
GAO

Report to the Congress

October 1992

FINANCIAL  
MANAGEMENT

NASA's Financial  
Reports Are Based on  
Unreliable Data



147833

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United States  
General Accounting Office  
Washington, D.C. 20548

Comptroller General  
of the United States

B-241514

October 29, 1992

To the President of the Senate and the  
Speaker of the House of Representatives

This report presents the results of our review of the National Aeronautics and Space Administration's (NASA) accounting and financial management systems and operations.

NASA financial managers are responsible for almost \$27 billion of assets and nearly \$14 billion in annual appropriations. We found that NASA's internal controls and financial management systems do not provide accurate and reliable financial information for effective management of the agency, especially regarding oversight of the substantial amount of assets and funds under the control of its contractors. Our report discusses the deficiencies in financial systems and internal controls that contribute to these financial management weaknesses and contains recommendations for corrective actions.

We are sending copies of this report to the Administrator, National Aeronautics and Space Administration; the Chairman, Subcommittee on Investigations and Oversight, House Committee on Science, Space and Technology; the Director, Office of Management and Budget; interested congressional committees; and other interested parties.

This report was prepared under the direction of Donald R. Wurtz, Director, Financial Integrity Issues, who may be reached on (202) 275-0850 if you or your staff have any questions. A list of major contributors to this report is included in appendix I.

A handwritten signature in black ink that reads 'Charles A. Bowsher'.

Charles A. Bowsher  
Comptroller General  
of the United States

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# Executive Summary

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## Purpose

This report presents the results of GAO's review of the National Aeronautics and Space Administration's (NASA) financial management operations. It discusses a number of systems and internal control weaknesses which have resulted in unreliable data for managing and reporting on NASA's operations, as well as the status of related improvement efforts. GAO undertook this review at NASA's four largest Centers and its headquarters offices to evaluate NASA's high-risk areas that are vulnerable to waste, abuse, and mismanagement. The Office of Management and Budget (OMB) has designated NASA's financial management systems to be at risk, and OMB and GAO have designated NASA's contract administration as high risk because of previously identified weaknesses and NASA's increased reliance on its contractors for data.

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## Background

The National Aeronautics and Space Act of 1958 established NASA as the civil space program's principal agency. In addition to its headquarters office, NASA operates eight decentralized, separately managed, aeronautical and research Centers and employs approximately 24,000 civil servants, who are supported by an additional 41,000 contractor employees. NASA relied heavily on its contractors to account for and report on their use of about \$12 billion of NASA's \$13.9 billion fiscal year 1991 appropriations.

NASA has initiated a project to design and develop a standardized, agencywide accounting system—the NASA Accounting and Financial Information System (NAFIS). GAO's August 1991 report<sup>1</sup> on NASA's NAFIS system development efforts contained recommendations to NASA's Administrator on further actions needed to ensure effective system implementation.

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## Results in Brief

NASA's internal controls, policies and procedures, and financial systems did not provide assurance that its nearly \$14 billion in fiscal year 1991 appropriations were properly used and accurately accounted for and reported. The Centers GAO reviewed did not always receive contractor-reported cost and performance data, and program analysts inappropriately adjusted contractor cost data without supporting documentation. In some cases, this practice served to conceal overruns, or underruns, or instances where costs exceeded obligations or budget plans. GAO identified one case where cost reports showed significant cost growth for developing the latest shuttle's waste collection system (toilet), but NASA

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

only took limited action to control costs until GAO identified a 900-percent increase over the initial estimate. In addition, NASA's internal controls did not ensure that its reported \$13.4 billion in government-owned, contractor-held property was properly accounted for or that its reported value was accurate.

NASA had not instituted adequate controls over its budgetary resources. NASA's general ledger account balances and other financial reports showed that, since at least 1986, NASA recorded obligations that exceeded (1) two appropriations by a total of over \$520,000 and (2) funding limitations for five Centers and its headquarters offices by \$13 million. Until GAO called these occurrences to NASA's attention, NASA had not investigated them. Since then, NASA has stated that the recorded overobligations resulted from accounting errors. NASA's Office of Inspector General (OIG) is currently reviewing this matter.

NASA had fundamental accounting and systems problems, including (1) unresolved discrepancies between accounts, (2) weaknesses in reimbursable accounting that resulted in uncollected billings, and (3) improper account balances that resulted in unreliable financial reports on the results of operations. NASA's fiscal 1991 year-end reports to the Department of the Treasury contained over \$500 million in errors that were corrected as a result of GAO's review. Many of the weaknesses GAO identified and determined to be material had not been disclosed in NASA's annual reports to the Congress under the Federal Managers' Financial Integrity Act (FMFIA), even though the issues had previously been identified in internal management reviews and OIG audits. The Chief Financial Officers (CFO) Act of 1990 provides a framework for improving financial management throughout NASA by requiring that financial management operations be consolidated under the Comptroller and that long-range plans for financial management and systems improvements be developed.

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## Principal Findings

### Weak Controls Over Contractor-Reported Costs

NASA managers use contractor-reported cost data as a primary source of information to manage billions of dollars in contractor-operated programs and projects, establish and update accounts payable, and determine budget needs. Although NASA had established procedures for contractor cost and performance reporting, and it paid hundreds of millions of dollars

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annually to its contractors for this information, it did not ensure that the reports were timely and accurate, or that they provided the detail needed for management decisions. In addition, Center-level analysts inappropriately adjusted contractors' cost data and, in some cases, did not enter costs into Centers' accounting systems. This practice served to conceal contract overruns and underruns, as well as costs that exceeded obligations and budget plans.

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**Inadequate Accounting  
Control Over  
Contractor-Held Property**

NASA's internal financial controls did not ensure that government-owned, contractor-held property was properly accounted for or that the reported value was accurate. The amounts NASA reported for fiscal years 1990 and 1991 as contractor-held property were not current or accurate because (1) NASA required its contractors to report on property they held as of June 30 rather than as of the government's September 30 fiscal year-end, (2) contractors' property reports were often received too late for updating NASA's accounts at year-end, and some contained errors, and (3) reports on property disposals were late and contained errors. In addition, DOD agency property system survey reports, which are required to provide assurance to NASA that its property was adequately controlled, were not always provided to NASA. Further, one Center did not have records on the value of property furnished on 75 of its contracts, and contractor-held property at other locations amounting to about \$13 million was not recorded in NASA's general ledger.

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**Inadequate Budgetary  
Controls**

NASA officials did not consistently observe and enforce spending limits, in some cases, because they did not have up-to-date information on funds available and controls were not adequate to prevent the recording of obligations in excess of funding limits in NASA's accounts and systems. NASA's general ledger account balances and its financial reports indicated instances where NASA had recorded obligations that exceeded available budgetary resources at the appropriation, Center, and project levels. However, until GAO brought these instances to their attention, NASA officials had not investigated them to determine whether they resulted from accounting errors, which should have been corrected, or if they were Anti-deficiency Act violations. NASA's subsequent resolution of the apparent overobligations indicated that they resulted from accounting and posting errors which are to be corrected. NASA's Administrator has directed the OIG to audit the documentation for the corrections.

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## Weak Financial Systems Result in Unreliable Reporting

NASA's accounting and reporting systems have fundamental deficiencies that impair accurate reporting on the billions of dollars NASA spends each year to carry out its programs and operations. These deficiencies include nonintegrated systems, improper accounting practices, and numerous weaknesses in accounting and reporting over NASA's reimbursable activity. In some instances, NASA either could not, or did not, perform required account reconciliations, and unsupported adjustments were made to Center-generated and agencywide financial data by NASA accountants to produce its financial reports. GAO identified over \$500 million in errors in NASA's fiscal year 1991 financial reports to Treasury, which were later corrected as a result of GAO's findings. Under the current conditions, NASA will have difficulty developing reliable financial statements on its fiscal year 1992 operations for audit by the OIG, as planned. While NASA has begun efforts to design and develop a standardized accounting system, its implementation is not expected to begin until March 1995, and a target date for full implementation has not been established. Further, if current accounting discrepancies are not resolved, the new system will be unable to generate reliable financial reports.

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## CFO Act Provides Framework for Improvement

NASA faces major challenges in correcting its accounting and internal control weaknesses. In the past, these weaknesses, many of which had been identified in NASA's internal review reports, have not been corrected. The CFO Act provides a framework under which the NASA Comptroller, who is the CFO designee, can improve NASA's financial management environment. For example, the CFO Act calls for consolidating the financial management organization to strengthen accountability and control and developing 5-year plans for financial management and systems improvements. NASA prepared and submitted a 5-year financial management improvement plan to OMB by August 31, 1992, as required.

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## Recommendations

GAO is making recommendations to the NASA Administrator to improve the reliability of contractor cost data (chapter 2); improve controls over the accounting for and reporting of contractor-held property (chapter 3); strengthen budgetary funds controls to ensure proper use of resources (chapter 4); resolve discrepancies in general ledger accounts to improve the accuracy of financial reporting to Treasury (chapter 5); and ensure effective implementation of the CFO Act (chapter 6). GAO is also making recommendations to the NASA Inspector General to increase the audit coverage of NASA's financial operations (chapter 6).

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## Agency Comments

NASA agreed with most of the report's recommendations and the need for financial management improvements. However, NASA did not agree with several of the report's specific findings, particularly (1) the inadequate control over contractor-held property, (2) the characterization of funds control weaknesses at one Center, and (3) the need to report all weaknesses GAO identified in NASA's annual FMFIA report. NASA also described its efforts to improve financial management under the CFO Act and correct the deficiencies GAO had identified.

While NASA's efforts would address some of the specific problems reported, GAO believes that the report's major findings and conclusions remain valid and that proper implementation of the report's recommendations is needed to ensure that identified deficiencies are corrected agencywide. A discussion of NASA's comments and GAO's evaluation is presented at the end of chapters 2 through 6.





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**Abbreviations**

|       |   |
|-------|---|
| CFO   | Chief Financial Officer                           |
| DCAA  | Defense Contract Audit Agency                     |
| DCMC  | Defense Contract Management Command               |
| DOD   | Department of Defense                             |
| FACS  | Financial and Contractual Status system           |
| FAR   | Federal Acquisition Regulation                    |
| FMFIA | Federal Managers' Financial Integrity Act         |
| GAO   | General Accounting Office                         |
| NAFIS | NASA Accounting and Financial Information System  |
| NASA  | National Aeronautics and Space Administration     |
| OIG   | Office of Inspector General                       |
| OMB   | Office of Management and Budget                   |
| OV    | Orbiter Vehicle                                   |
| R&D   | Research and Development                          |
| ROCRS | Reimbursable Obligation and Cost Reporting System |
| TFS   | Treasury Financial Statement                      |



# Introduction

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This report presents the results of our review of NASA's financial management operations. It discusses a number of systems and internal control weaknesses which have resulted in unreliable data for managing and reporting on NASA's operations, as well as the status of related improvement efforts. We performed our review as part of our efforts to evaluate NASA's high-risk areas. In January 1990, we identified NASA's contract administration as high risk because its annual Federal Managers' Financial Integrity Act (FMFIA) reports had identified uncorrected weaknesses in contract management and an erosion of in-house expertise as more functions were assigned to contractors. The Office of Management and Budget (OMB) has designated NASA's financial management systems and its contract administration as high risk. Although NASA's management and its Office of Inspector General (OIG) had performed internal reviews to provide the basis for its reporting under FMFIA, NASA's financial management systems and operations had never been subjected to an in-depth financial management review.

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## Background

The National Aeronautics and Space Act of 1958 established NASA as the civil space program's principal agency. Over the last three decades, NASA has achieved a number of significant space flight and space science accomplishments. In addition to NASA's more publicized moon walk by Apollo astronauts and the landing of two robotic spacecraft on Mars, it has accomplished a variety of significant astronomical and scientific observations. NASA's advanced technology developments have also resulted in products and processes that benefit our nation's economy, productivity, and lifestyle. NASA's budget has increased steadily from about \$10.9 billion in fiscal year 1989 to \$12.3 billion in fiscal year 1990 and \$13.9 billion in fiscal year 1991.

NASA operates as a group of eight separately managed, aeronautical and research Centers, each with its own financial management component. These field Centers, which report the results of their financial operations to NASA headquarters, include three space Centers (Johnson, Kennedy, and Stennis); two space flight Centers (Goddard and Marshall); and three research Centers (Ames, Langley, and Lewis). In addition, NASA's Headquarters Accounting Branch performs financial management functions for NASA's headquarters offices and the Jet Propulsion Laboratory. Although not yet confirmed by the Congress, the NASA Comptroller serves as the agency's chief financial officer.

In addition to their other duties, program managers in the field Centers have important financial management responsibilities. Program offices prepare operating plans and budgets for programs, projects, and contracts. They also prepare status reports on ongoing projects for management review. They 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 use to update NASA records, such as accounts payable. NASA relies on contractors to carry out the majority of its programs and report on the related financial activity. For fiscal year 1991, contractors were responsible for reporting to NASA on the specific use of about 90 percent of NASA's budget authority.

For many years, NASA has recognized that its financial management systems needed improvement and, in 1987, initiated a project for developing the NASA Accounting and Financial Information System (NAFIS). NAFIS is intended to standardize NASA's accounting systems agencywide and implement the federal government's Standard General Ledger.<sup>1</sup> Further, NAFIS is to (1) reduce manual and redundant operations, (2) improve control over and reliability of accounting data, (3) increase managers' access to data, (4) result in more timely and consistent implementation of NASA and federal financial management policy, (5) interface with other NASA standard systems, and (6) reduce software maintenance. In our August 1991 report on NASA's efforts to plan and develop NAFIS,<sup>2</sup> we concluded that, due to inadequate planning, NAFIS (1) will cost more and take longer to implement than currently estimated and (2) will not meet OMB's mandate for an integrated financial management system. The Chief Financial Officers (CFO) Act of 1990 (Public Law 101-576) also requires integration of budgeting and accounting systems.

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## Objectives, Scope, and Methodology

Our overall objective was to determine if NASA's financial management systems, processes, and related controls provided reliable information to effectively manage the agency, safeguard its resources, and properly report on the results of its operations. Specifically, we determined whether NASA had controls in place, or planned, to ensure that

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<sup>1</sup>In 1986, Treasury directed all federal agencies to use the Standard General Ledger, which provides a uniform chart of accounts and supporting transactions to standardize federal agency accounting and support the preparation of standard external reports.

<sup>2</sup>Financial Management: Actions Needed to Ensure Effective Implementation of NASA's Accounting System (GAO/AFMD-91-74, August 21, 1991).

- contract costs were accurately accounted for and reported by NASA's systems,
- contractor-held property was accurately accounted for and reported in NASA's systems,
- budgetary resources were used in accordance with prescribed limits and purposes, and
- financial systems and processes provided accurate and reliable information needed to prepare reasonably accurate management reports and financial statements that could be subjected to an independent audit.

We also assessed NASA's progress in addressing key requirements of the CFO Act.

To determine the accuracy and reliability of NASA's cost reporting process, we randomly selected several samples of contractor cost reports covering fiscal years 1990 and 1991. At Goddard, Johnson, and Marshall, we reviewed from 15 to 20 contracts at each location which were subject to monthly contractor cost reporting requirements. At Kennedy, because of the smaller number of contractors, we selected 10 contracts which accounted for over 88 percent of Kennedy's fiscal year 1990 budget and reviewed their cost reports. At Johnson, we also reviewed contractor cost reports for 44 contracts, and, at Marshall, we reviewed contractor cost reports for 21 contracts which were subject to quarterly cost reporting requirements. We also reviewed several monthly contractor performance analysis reports to assess contractors' compliance with NASA's reporting policies and contract requirements. Further, we reviewed NASA analysts' adjustments prior to entering contractor cost data into NASA's budget and accounting systems and preparing management status reports to determine if the adjustments were supported and properly documented. We discussed our findings with Center and headquarters' program, procurement, and financial management officials.

To assess NASA's financial controls and the accuracy of NASA's data on contractor-held property, we reviewed NASA contractor Reports of Government-Owned/Contractor-Held Property for fiscal year 1990 at each of the four Centers. We analyzed the timeliness of these reports by comparing required due dates to the dates reports were actually received. We also reviewed selected property reports for accuracy at three of the Centers by determining if the reports' calculations were correct and if data presented agreed with supporting documentation. Further, we evaluated Center-level processes for reconciling property reports to NASA's property systems data and for updating NASA's general ledger property accounts. We



also determined whether property administrators performed and reported on property system surveys to validate contractors' inventories of government property, in accordance with the Federal Acquisition Regulation (FAR). We discussed our findings with Center logistics division property officials, property accountants, and financial managers and with NASA headquarters property, procurement, and financial management officials.

To determine whether NASA's expenditures were made in accordance with appropriations and fiscal laws, we reviewed NASA's budgetary funds control regulations and practices, and its program plans and budgetary information for fiscal years 1990 and 1991. We compared approved funding with obligations and expenditures and related transactions recorded in NASA's general ledger and other financial reports to determine if (1) expenditures were made within authorized and available limits and (2) funds were used for authorized purposes. We discussed our findings with Center program and financial management officials and with program office and Comptroller's Office officials at NASA headquarters.

To determine if NASA's financial systems, processes, and controls generated accurate and reliable data, we compared NASA's financial management policies and procedures with processes by which financial information is entered and summarized in the Center systems and transmitted to NASA headquarters for preparation of financial reports. At the four NASA Centers and at NASA headquarters, we reviewed the results of reconciliations between subsidiary and general ledger accounts and property inventory reports and accounting records to identify any unresolved differences. We also compared, for consistency, accounting data in NASA's Center-level systems with information presented in the Center reports, NASA-wide reports and its general ledger, and NASA's official year-end financial statements to the Department of the Treasury. We analyzed significant adjustments to determine whether they were properly documented. We discussed our findings with Center financial managers and with Comptroller and General Counsel officials at NASA headquarters.

To assess NASA's progress in implementing the CFO Act, we reviewed NASA's CFO organization plan and its financial management organizational structure and processes to determine whether NASA had effectively consolidated its financial management operations as the act requires. We reviewed NASA Inspector General reports and Defense Contract Audit Agency (DCAA) reports and current operations to determine if identified financial management weaknesses had been corrected. We also examined

internal management review reports and FMFIA reports and examined current financial management practices to determine whether corrective actions had been implemented to address any identified weaknesses. Further, we discussed weaknesses we identified in NASA's current systems and reports with NASA headquarters and Center managers to determine whether corrective actions were planned. We compared systems weaknesses we identified with planned NAFIS capabilities to determine whether the new system would address current system weaknesses. We also assessed NASA's actions to address our August 1991 report recommendations regarding its NAFIS system planning and development efforts. We discussed our findings with OIG officials at NASA headquarters and at the four Centers we reviewed, Department of Defense (DOD) and DCAA officials, and NASA headquarters Comptroller's Office managers responsible for internal reviews.

Our review was conducted from February 1990 through July 1992 at NASA headquarters in Washington, D.C.; the Goddard Space Flight Center in Greenbelt, Maryland; the Johnson Space Center in Houston, Texas; the Kennedy Space Center in Cocoa Beach, Florida; and the Marshall Space Flight Center in Huntsville, Alabama. Our review was performed in accordance with generally accepted government auditing standards. Responsible NASA officials, including the Deputy Chief Financial Officer and representatives of NASA's Office of Inspector General, Office of Procurement, and Office of Management Systems and Facilities, provided oral comments on a draft of this report. These comments are presented and evaluated in chapters 2 through 6.

# Contractor Costs Were Not Accurately Accounted For or Reported

NASA carries out its programs primarily through contractors which accounted for about 90 percent, or \$12 billion of NASA's \$13.9 billion in fiscal year 1991 appropriations. Periodic reports, for which it pays contractors hundreds of millions of dollars annually, are NASA's primary source of information on contract costs. However, this information was often late, insufficiently detailed, and was sometimes not received at all. NASA uses contractor-reported data on estimated and actual costs to help determine progress on individual projects and to establish and update its accounts payable. NASA also uses contractors' estimates of future costs to forecast future funding needs and develop budget requests.

Because NASA Centers did not ensure that these reports were timely and that they contained the program and project-level detail needed to accurately allocate reported costs, they often relied on their own program analysts' estimates. In addition, Center analysts inappropriately adjusted or omitted millions of dollars in contractors' estimates before entering them into their Centers' contractor cost accounting systems. In some cases, these practices concealed overruns, committed more funds than needed to fulfill contract requirements, or avoided revealing that costs exceeded obligations or program operating plans. Internal NASA Comptroller's Office reviews had identified problems with Centers' adjustments to contractor reports since at least 1986; however, corrective actions were not taken. 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. In 1990, we reported <sup>1</sup> significant inaccuracies in these reports.

Accurate cost information is especially important for controlling the cost of developmental projects for which a fixed price cannot be initially determined. The estimated costs for one such project we reviewed had increased by 900 percent. According to NASA officials, costs were not controlled because the contract had not been finalized and a fixed price had not been established.

## Cost Reports Were Not Timely and Properly Detailed

Many of the cost reports for the contracts we reviewed were not timely or properly detailed and Center analysts did not always properly record reported costs. A major reason for this was that NASA procurement officials did not always prescribe reporting requirements in the contracts.

<sup>1</sup>NASA Project Status Reports: Congressional Requirements Can Be Met, But Reliability Must Be Ensured (GAO/NSIAD-90-40, January 23, 1990).

Contractor reports constitute an average of 2 percent of contract costs, thus totaling hundreds of millions of dollars annually.

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### NASA Requires Three Types of Contractor Cost Reports

NASA's Procedures for Contractor Reporting of Correlated Cost and Performance Data, NASA Handbook 9501.2B, instructs NASA's contracting officers to require contractors to submit up to three types of reports at different intervals, depending on contract terms and dollar value.

- For contracts valued at over \$500,000, monthly reports are required. These reports are to include data on planned and actual costs and labor hours to date, estimates to complete the contract, and current month projected costs to establish accounts payable.
- For contracts valued at \$1 million or more which will cover at least 1 year, quarterly reports are also required. These reports are to include the initial cost estimate, estimated costs for the succeeding two quarters, and the estimated cost and labor hours to complete the contract. NASA uses this information to formulate program operating plans and budget estimates.
- For research and development (R&D) flight hardware cost-type<sup>2</sup> contracts valued at \$25 million or more and which will cover 1 or more years, NASA requires a monthly performance report. NASA may also require these reports for contracts valued at less than \$25 million for other major cost-type hardware development contracts. These reports compare budgeted costs and work scheduled to actual costs and performance to determine if a contract is proceeding as planned.

In accordance with NASA's Handbook, contracts are also to require contractors to explain in their cost reports significant cost or schedule variances, identify any corrective actions needed, and indicate how the problems and corrective actions will affect resource requirements. Further, the Handbook requires that, when it is probable that a contract will ultimately meet the criteria for subsequent levels of reporting, for example, through cost growth, the additional reporting requirements are to be stipulated in the contract when initially awarded.

NASA Centers use contractors' reports to develop monthly status reports to their Comptrollers and Center Directors, who review them and forward final reports to cognizant headquarters program offices. Based on information in the reports, NASA managers may extend program schedules, reduce the scope of work, or request reprogramming of funds or funding

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<sup>2</sup>NASA predominately uses cost-type contracts which provide for payment of actual costs plus an award fee.

increases due to cost growth. In addition, NASA uses comparisons of initial contract cost estimates to actual costs to update its annual budget submission.

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### Contractor Cost Reports Were Not Received or Were Late

Contractor cost reports for the contracts we reviewed at the four Centers often were either not received or were received too late for Center-level accounting systems' monthly reporting on accounts payable. As a result, NASA headquarters did not have complete and current information on the status of many projects. Examples of significant late reporting problems we identified follow.

- At Goddard, we reviewed 6 months of reports for 15 contracts and found that 30 percent of the required monthly cost reports were either not received or were received too late to be reflected in the Center's monthly accounting reports. For 7 of the 15 contracts we reviewed, cost reports remained unchanged for at least 2 months. Two of eight analysts we met with said that they were not aware that they had not received the reports.
- At Marshall, 56 percent of the reports for the 20 contracts in our sample were received too late to update NASA's month-end accounts payable.
- Johnson did not receive 22 reports in our sample of 44 contracts requiring quarterly reports.

While NASA Center program and procurement offices are both to receive the contractor cost reports, neither program nor procurement officials we met with consistently reviewed or were aware they had not received all required reports. Some Centers' program analysts used the previous month's cost estimate, or their own estimate, when contractor monthly reports were not received. Others did not prepare monthly cost projections when contractors failed to provide the reports. Such estimates and omissions diminish the reliability of the reports NASA uses to establish accounts payable; monitor programs, projects, and contracts; and estimate total contract costs.

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### Reports Did Not Include Needed Information

Many of the contractor reports we examined at all four Centers we visited did not provide cost data by prescribed reporting categories or in enough detail for NASA to assess contractor performance on individual projects or to determine the reasonableness of reported costs. For example, for 18 of the 20 contracts whose monthly reporting we reviewed at the Johnson Space Center, contractors did not report costs in accordance with the

contract's work breakdown structure or identify costs that could be related to NASA's Agencywide Coding Structure.

NASA's Handbook instructs contracting officers to require contractors to report cost information by work breakdown structure—program, project, and contract phase, which relate to functions such as design, engineering, and tooling—in order to monitor key work segments needed to accomplish contract objectives. Costs reported under the work breakdown structure are also to be identified by the Agencywide Coding Structure, which allows NASA to identify costs of individual projects as well as budget and accounting classifications. NASA officials advised us that this information is essential for proper contract monitoring. Failure to require contractors to report costs under work breakdown structures and the Agencywide Coding Structure could preclude analysts from detecting schedule slippage or cost overruns and underruns.

Center program analysts told us that when contractors did not report costs by individual project, they used a variety of methods to distribute costs to projects. For example, at Johnson, contractors did not provide cost data by project in cost reports for 12 of 20 contracts in our sample.

- Analysts that monitored five contracts said that they pro-rated reported costs in accordance with the contracts' funding distributions, so that if one project provided 30 percent of a contract's funding, the analyst would allocate 30 percent of the costs to that project.
- Analysts responsible for four additional contracts said that reported costs were applied to the oldest appropriation funding the contract.
- Analysts responsible for reviewing the remaining three contracts' cost reports said that they allocated costs to projects using varying methods.

In each of the 12 cases, analysts' cost allocation methodologies could have resulted in cost estimates materially different from the contractors' actual costs on individual projects. At Marshall, the program analysts used techniques similar to those used at Johnson.

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## Reporting Requirements Were Not Included in Contracts

A major reason for poor reporting was that procurement officials had not always included NASA Handbook and program office requirements for contractor reporting in the solicitations or the contracts. Some examples follow.

- Although two of the R&D contracts, valued at \$47.7 million and \$42.5 million, in our Goddard sample met the criteria for performance reporting, the contracts did not require the prescribed reports.
- Marshall did not require contractors to submit any reports for 8 of 21 contracts we reviewed that met the quarterly reporting criteria.
- At Johnson, 10 of 20 contracts in our sample requiring monthly reports included generic reporting requirements instead of requiring contractors to report cost categories and levels of detail that would alert NASA managers to cost growth or schedule slippage.
- Johnson awarded 18 of the 44 contracts in our sample without including clauses for required quarterly reports.
- In an additional sample of 20 Johnson contracts that required performance reporting, 15 did not require narrative remarks to explain any variances.

Johnson procurement officials told us that the Center's emphasis on quickly awarding contracts deters contracting officers, business managers, and others from taking the time needed to develop contract-specific work breakdown structure reporting categories and levels of detail. Also, NASA Center Financial Management Officers and Comptrollers are not required to routinely review contracts prior to award to ensure that cost information will be reported in appropriate detail.

In addition, because NASA Center procurement offices do not include criteria in solicitations or contracts for subsequent levels of reporting as suggested in NASA's Handbook, there is no automatic requirement for contractors to begin submitting additional reports when a contract's value increases to thresholds for quarterly and performance reporting.

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## Program Analysts Inappropriately Adjusted Contractor Cost Estimates

Existing Center-level controls did not ensure that program analysts' adjustments to contractor cost reports were proper. NASA's policies and procedures state that properly documented adjustments to contractor cost estimates are acceptable if determined appropriate to make the contractors' estimates more accurate. For example, a program analyst may have more current information which indicates that a contractor's purchase of equipment will occur sooner or later than the contractor estimated in its report.

At the four Centers we visited, we found that program analysts made millions of dollars in adjustments to monthly contractor cost estimates. With the exception of Marshall, program analysts made adjustments and entered them in the accounting system without adequate supporting

documentation or review. At Marshall, program office analysts responsible for receiving, reviewing, and, if appropriate, adjusting contractor cost reports, submitted contractor reports along with change memoranda and supporting documentation for any adjustments to Marshall's Financial Management Office. Marshall's accountants then reviewed the change memoranda and supporting documentation before entering the cost adjustments into the accounting system. GAO's Standards for Internal Controls in the Federal Government calls for key duties and responsibilities to be separated among individuals to reduce the risk of error, waste, or wrongful acts. The other three Centers did not have this important control.

At all four Centers, program analyst adjustments that we identified resulted in cost projections that were less accurate than the contractors' reports from 52 to 81 percent of the time. In most instances, these adjustments resulted in higher cost estimates than those the contractors subsequently reported as actual costs. We also found instances where analysts made unsupported adjustments to contractor-reported data which served to conceal overruns, or underruns, or to avoid revealing that costs exceeded obligations or budget plans. These problems were particularly apparent at Johnson.

For example, on one space station contract we reviewed at Johnson, we determined that the Johnson program analyst increased the monthly performance analysis report cost estimates by an average of about \$35 million per month during fiscal years 1990 and 1991. When we questioned the analyst on the reasons for these adjustments, he told us that he increased the contractor's estimated cost because he felt that the contractor's systems were not reporting all costs. However, the analyst had continued to make these adjustments even though the contractor's monthly billings showed that they were unnecessary. As a result, Johnson's accounting system consistently showed about \$26 million to \$44 million more each month in costs and accounts payable than necessary for this contract. However, Johnson did not take corrective action and, as a result, NASA's headquarters program office continued to use monthly cost data, in its analysis of this project's status, that were overstated by about 4 percent.

Center supervisor and accounting staff reviews of analysts' adjustments are important controls because NASA headquarters generally does not review either the adjustments or the reports. For example, although NASA's



headquarters program office officials receive copies of some contractor cost reports, an official for the Office of Space Flight told us he relied on Center summary reports and did not review individual contractor reports. This included the space station contract discussed above.

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## Waste System Contract Illustrates Importance of Monitoring Costs

One of the contracts we reviewed at Johnson illustrates the importance of closely monitoring cost growth on highly technical developmental projects. The cost to develop a waste collection system (toilet) for the Endeavour—Orbiter Vehicle (OV)-105—which is the space shuttle that replaced the Challenger, grew from an initial estimate of \$2.9 million in 1988 to about \$30 million as of May 1991, primarily because the related contract requirements had not been finalized. Two NASA headquarters managers told us that shuttle contracts—especially the OV-105—were closely monitored. Also, Johnson received the related contractor cost reports and analyzed the reasons for cost growth. However, we identified no action by headquarters or Johnson managers to control the waste collection system project's cost until late in the contract.

NASA managers showed us two other contracts where Johnson used cost reports to detect excessive cost growth and acted to control it. Johnson terminated one contract which had experienced a 56 percent cost growth. For another contract, Johnson relaxed the technical specifications when it identified a 258 percent cost growth. In the second case, Johnson managers told us that, due to staff shortages, analysts did not discover the excessive cost growth until they began analyzing cost reports 18 months after contract work had begun.

We examined the 900 percent cost growth on the shuttle's waste system contract and found that costs increased primarily because NASA accepted a number of contractor-recommended improvements to the original design for the waste collection system, including an extended mission capability of up to 16 days. Contract revisions agreed to by NASA in 1989 included an improved waste system design, one developmental unit, one qualification test unit, and two flight units at an estimated cost of \$12.5 million. As discussed in chapter 4, one of the two flight units was improperly transferred from another contract which funded a different orbiter vehicle. In reviewing NASA's contract files, we identified other factors that the Johnson program analyst's evaluation indicated had also contributed to the cost growth.

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- The contractor provided unclear specifications in an untimely manner to the subcontractor.
- The subcontractor misunderstood the technical requirements and underbid the contract.
- NASA added several features to the waste system that neither it nor the contractor considered to be technically required. One example is the \$200,000 “coffee can,” which astronauts can use to temporarily store toothbrushes and other personal hygiene items.

In late December 1990, during our review of the contractor’s cost reports which showed projected cost growth to \$18.8 million, Johnson instructed the contractor to stop work on many of the improvements. As of May 1991, the project consisted of one improved developmental unit at a cost of \$23.4 million which was certified for one test flight only. NASA officials estimated that an additional \$5 million to \$6 million, for a total of about \$30 million, would be needed to obtain the improved, mission certified waste collection system for the OV-105. As of July 1992, this estimate had not changed, except that the estimated \$5 million to \$6 million is now earmarked for an additional production unit.

In April 1992, we asked Johnson’s Orbiter Program Manager why the Center’s analysis of cost and performance reports did not result in efforts to control costs. The Program Manager told us that Johnson did not have a final contract and, therefore, an agreed-upon price had not been established. He said that under these circumstances, NASA had to pay the costs that the contractor had incurred. As of the end of June 1992, according to a NASA headquarters procurement official, Johnson had issued over 100 change orders on this contract, not all of which were final. In a recent report<sup>3</sup> on NASA’s contract management, we identified the limited incentives to control costs when change orders have not been finalized as a significant problem. This report found that over one-third of the 65 NASA contract modifications we reviewed were unpriced and 40 percent had not been negotiated within NASA’s 6-month guidelines. In May 1992, NASA’s Assistant Administrator for Procurement told us that, to help control costs on developmental projects, NASA was considering funding such projects under two separate contracts—one for design and another for production—once a design had been agreed upon. This would require managers to reassess a project’s design before initiating its development and to allow for costs to be specified for each contract.

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

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## DCAA Reports on Cost Estimating Systems Did Not Adequately Address Deficiencies

NASA relies on DCAA to review contractors' systems to ensure that the systems produce reliable information for negotiating prices and generating subsequent billings. However, our analysis of a previous GAO review <sup>4</sup> of DCAA reports showed that 10 of NASA's contractors' cost estimating systems reviewed by DCAA were reported to be totally inadequate or inadequate in some respects. However, three DCAA reports did not recommend disapproval of the systems, and eight reports did not provide examples of potential cost impact. As a result, (1) DCAA failed to demonstrate and emphasize to administrative contracting officers and contractors the need to correct the deficiencies it had identified, and (2) contracting officers were not given sufficient information to determine if the contractors' systems should be disapproved pending correction of the identified weaknesses. This situation provides the potential for uncorrected weaknesses in contractor cost estimating systems and could result in unreliable contractor reporting of data to NASA contract and program officials.

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## Management Reviews Were Not Always Effective in Correcting Weaknesses

NASA's headquarters Contractor Finance and Accounting Branch, under the Comptroller, is required to perform internal reviews of contractor cost reports at each of NASA's Centers every 2 years. While these reviews are to provide NASA assurance that contractor cost data are reliable, they were not well-staffed or performed promptly, and many of the material weaknesses identified had gone uncorrected by NASA's Centers. While NASA management had been aware of these material weaknesses for many years, they were never disclosed in the agency's annual FMFIA reports, and corrective action plans were not developed.

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## Slippages in Review Cycle

NASA's records for the four Centers we visited showed that internal reviews of contractor cost reports had been performed, on average, about every 35 months, instead of every 2 years as required by NASA policy. We determined that, until April 1991, an internal cost review had not been conducted at Goddard since February 1987. The Branch Chief told us that the review cycle had slipped due to staff shortages, adding that he had been performing the reviews by himself for about the past 3 years. Slippages in review cycles weaken this important control. Table 2.1 shows the elapsed time between reviews as of June 1992.

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<sup>4</sup>The results of this review were reported in Contract Pricing: Defense Contract Audit Agency's Estimating Reports Can Be Improved (GAO/NSIAD-91-241, August 1, 1991).

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**Table 2.1: Elapsed Time Between Performance of Contractor Cost Reviews as of June 1992**

| <b>Center</b> | <b>Prior review performed</b> | <b>Latest review performed</b> | <b>Months since prior review</b> | <b>Months since latest review</b> |
|---------------|-------------------------------|--------------------------------|----------------------------------|-----------------------------------|
| Goddard       | 2/87                          | 4/91                           | 50                               | 14                                |
| Johnson       | 5/86                          | 2/90                           | 45                               | 28                                |
| Kennedy       | 3/85                          | 4/89                           | 49                               | 38                                |
| Marshall      | 2/88                          | 7/91                           | 41                               | 11                                |

We examined the most recent cost reviews for the four Centers and found that they did not adequately cover all important aspects of the cost reporting process. These reviews generally included an analysis of the accuracy of cost projections provided from monthly contractor cost reports which are used to establish NASA's accounts payable. However, the reviews did not always determine whether Center analysts' adjustments to contractor-reported costs were properly supported, or whether Centers' adjustments to cost estimates were more or less accurate than the contractors' original estimates. While NASA officials agreed that more frequent and comprehensive reviews would improve the reliability of the cost information, they stated that adequate resources were not available to do this.

**Corrective Actions Not Taken on Identified Weaknesses**

Although NASA's prior internal reviews of contractor cost reports had identified some of the weaknesses that we discussed in this chapter, corrective actions had not been taken. For example, the May 1986 and February 1990 reports on Johnson's financial cost reviews identified frequent excessive variance rates between costs reported by Johnson's contractors and the costs recorded in Johnson's systems. The reports cited the need for greater monitoring of cost estimates, control over the timing of payments, and, in the case of significant variances, improved quality of the estimating process. As of May 1992, Johnson had not corrected these weaknesses, although Center officials had agreed to do so. In addition, the February 1990 internal review report determined that termination liability<sup>5</sup> had been improperly recorded for the space station contract that we reviewed. NASA policy does not allow termination liability to be recorded on ongoing contracts. Our review disclosed that the improper accrual continued during fiscal years 1990 and 1991.

An August 1988 Office of Inspector General review of contractor cost reports at the Johnson Center also identified deficiencies that were

<sup>5</sup>Termination liability generally refers to the requirement for full payment to contractors when the contracts are terminated for the convenience of the government.

consistent, in several respects, with those we identified, including (1) noncompliance with NASA policy for obtaining required cost reports, (2) late submissions of reports and lack of compliance with reporting category requirements, and (3) inaccurate and incomplete cost reports. Johnson officials concurred with the OIG's findings and agreed to act to correct identified weaknesses. However, our findings indicate that corrective actions had not been taken.

In November 1991, as a result of our review findings, Johnson officials began to monitor their analysts' adjustments to contractor cost data to determine if such adjustments were appropriate. To accomplish this, Johnson officials developed a report to identify adjustments and the variance from subsequent actual data reported by the contractors. In addition, on March 6, 1992, the NASA Comptroller sent a letter to Centers' Comptrollers, Financial Management Officers, and the Directors of Management Operations, as well as the headquarters Program Offices, directing that actions be taken to ensure that cost data are as accurate as possible.

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## Conclusions

NASA and the Congress are making billion dollar decisions using unreliable program, project, and contract cost data. NASA did not ensure that contractor-reported cost data are accurate, useful, timely, and properly recorded. NASA's failure to correct identified material weaknesses has allowed these problems to continue.

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## Recommendations

We recommend that the NASA Administrator direct the Comptroller to take the following actions.

- Establish a procedure whereby Centers' financial management officials review all solicitations prior to their release to ensure that they include cost reporting requirements in accordance with NASA's Handbook, including language stipulating additional reporting requirements when contract value increases beyond the original reporting threshold. These requirements should also be stipulated in the contracts.
- Require that the review and adjustment and the recording of contractor cost data in NASA's Centers' accounting systems be separated so that program analysts who review and revise contractor cost reports will not also enter the adjustments into NASA's accounting systems.

We also recommend that the NASA Administrator direct the Centers' program offices to

- establish procedures to (1) identify contractors' nonreporting and (2) follow up with contractors to ensure that all required contractor cost reports are received and
- require supervisory approval of adjustments to contractor-reported costs to help ensure that such adjustments are appropriate and adequately documented.

Finally, we recommend that the NASA Administrator direct the Office of Procurement to monitor DCAA audit reports to NASA to ensure they clearly demonstrate the need to correct identified contractor estimating system deficiencies.

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## Agency Comments and Our Evaluation

NASA generally agreed with our recommendations on the contractor cost reporting issue. In commenting on our draft report, NASA contended that the timeliness of contractor reports to Marshall has improved since the completion of our audit work. NASA stated that an analysis of the timeliness of contractor cost reporting at the Marshall Center showed that approximately 11 percent of the reports due in fiscal year 1991 and about 7 percent of the reports due in fiscal year 1992 were received late or not at all. Our findings were initially presented to Marshall officials in July 1991, and we did not verify NASA's subsequent analysis.

NASA agreed with the need to ensure that contractor cost estimating systems produce reliable and accurate information. NASA stated, however, that the findings in this area have been addressed by DOD since they relate to a prior GAO report. NASA also stated that there have been recent improvements in the working relationship between NASA and DCAA and that further dialogue between the two agencies will help ensure that DCAA reports provide the needed information to allow NASA to make informed decisions regarding contractor cost estimating systems. NASA added that its contracting officers have been instructed to be aware of the status of contractors' estimating systems for which they are responsible.

Although DOD has addressed the prior GAO report's findings, as our report indicates, a number of the deficiencies identified also relate to NASA contractors. We continue to believe that it is important for NASA to ensure that it receives accurate and reliable contractor cost data. However, since

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NASA is already working with DCAA to improve the usefulness of DCAA reports, and has provided instruction to NASA's contracting officers, we have modified our recommendation to focus on NASA's responsibility to monitor these reports.

NASA agreed with the intent of our recommendation to review contract solicitations prior to their release to ensure they include all contractor cost reporting requirements. NASA stated, however, that its procurement officials can perform this function without the involvement of the Centers' financial management officers.

We agree that NASA procurement officials should have ultimate responsibility for ensuring contracts contain all the reporting requirements. However, as stated in our report, since the contractor cost reports provide the basis for Centers' monthly cost accounting and should directly relate to NASA's accounting structure, we believe the financial management officers' review would add an important internal control for ensuring the adequacy and reliability of the data.

# Inadequate Financial Control and Reporting Over Contractor-Held Property

NASA's internal financial controls did not ensure that government-owned, contractor-held property was properly accounted for or that the reported value of this property, which was \$13.4 billion as of September 30, 1991, was accurate. NASA did not require contractors to report the value of its property on the government's fiscal year basis, and not all contractor property reports were received in time to be included in NASA's general ledger before fiscal year-end. For example, we found that \$2.5 million of one Center's contractor-held property was not recorded in NASA's 1990 fiscal year-end general ledger. Further, over \$10 million in reported property involving two additional Centers was received too late to be included in NASA's fiscal 1990 year-end balances. We also found that one Center had assumed responsibility for contractor-held property under 75 contracts, but had not maintained the related property records, thus jeopardizing accountability over those items and possibly misstating the value of such property by millions of dollars.

The Federal Acquisition Regulation (FAR) provides that contractors in possession and control of government property are to maintain the official property records. NASA's Financial Management Manual further provides that the amounts contractors report are to serve as the basis for entries to update its general ledger property accounts and assist in providing control over government property held by contractors. NASA's property systems did not contain the detailed data that would be needed to verify contractor reports. NASA relied on surveys of contractor property systems, primarily performed by DOD agencies, for assurance that the contractors reports are reliable. However, the survey results were not always reported to NASA, as required by NASA's FAR Supplement.<sup>1</sup> We also found errors in Centers' reports of contractor-held property and in reports on disposals of contractor-held property that had not been detected by property administrators. In addition, backlogs in processing property disposal reports indicated that NASA may have property on its books that is no longer in service.

## Data on Contractor-Held Property Were Not Current

While the FAR does not specify that agencies shall require contractors to report on government property in their possession, NASA's Financial Management Manual instructs its contracting officers to include provisions in contracts requiring contractors to annually submit a NASA Form 1018, Report of Government-Owned/Contractor-Held Property. NASA uses these reports to update its general ledger asset accounts and prepare year-end reports to Treasury. NASA requires that the reports, which cover the period

<sup>1</sup>The NASA FAR Supplement contains more detailed FAR guidelines that are specific to NASA.



July 1 to June 30, be submitted by July 31 of each year. As a result, for three of the four Centers we reviewed, property transactions that occurred between June 30 and September 30, 1990, were not reflected in NASA's September 30, 1990, year-end report to Treasury. In addition to resulting in property balances that are 3 months out of date, this practice is inconsistent with NASA's requirement that all other financial transactions be accounted for and reported on the October 1 to September 30 fiscal year in accordance with federal government policy.

Center officials told us that, as required by NASA's Agency Accounts and Reports Branch, they use a different reporting period for contractor-held property to allow ample time to receive, review, and input the data by September 30, fiscal year-end. NASA requires its contractors to submit complete reports each year, not just additions and deletions. Therefore, extensive time is required to reenter all items in the Centers' systems. Center officials pointed out that, invariably, some contractor reports are submitted late, and the earlier cut-off date allows them to include more reports than otherwise would be possible. While this approach may ease administrative burdens on contractors and Centers' accounting staff, it does not provide accurate property balances as of September 30 each year. Also, NASA's financial statements to Treasury do not include footnotes to disclose the difference in the contractor-held property reporting period.

We found that, despite the June 30 cut-off date, some contractor reports were received too late to update the Centers' year-end account balances. For example, 85 of the 614 required reports at the Johnson and Marshall Centers involving over \$10 million in reported property were received too late to update 1990 fiscal year-end balances. NASA officials said that some reports were received late because DOD property administrators, who are required to approve the reports, had not submitted them to the Centers on time. Center officials said that when reports are too late to be incorporated in their year-end report to NASA, they use the contractors' previous year's property information, which is already in NASA's general ledger. This could result in either overstatements or understatements of these contractors' property balances, depending on the purchases, disposals, and transfers that had occurred during the most recent fiscal year.

Finally, for fiscal 1990 year-end, we identified a difference of over \$2.5 million between the amount for government-owned, contractor-held property on NASA's SF-220, Report on Financial Position, and NASA's general

ledger, which is used to develop the SF-220. NASA's Agency Accounts and Reports Branch Chief told us that the difference occurred because the Headquarters Accounting Branch, which maintains the general ledger for the Jet Propulsion Laboratory, had not received the Laboratory's reports of contractor-held property, and thus had only updated the general ledger for transfers of property between headquarters and the Laboratory. Therefore, the Branch had not updated the general ledger for property purchased by the Laboratory or property transferred between the Laboratory and other NASA Centers. NASA's Agency Accounts and Reports Branch Chief explained that this situation had existed for several years and that it also affected NASA's fiscal 1991 year-end general ledger. He said that while his staff had annotated the additional information on NASA's general ledger report and had included it in NASA's SF-220 report to Treasury, they had not yet input all Jet Propulsion Laboratory property data to the general ledger system.

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### Limited Assurance That Property Reports Were Accurate

NASA had very limited assurance that its contractors' property reports were accurate and reliable due to internal control and accounting weaknesses we identified. NASA's FAR Supplement requires property administrators to evaluate NASA contractors' systems of control over government-owned, contractor-held property annually and approve the contractors' annual reports to NASA. NASA then uses these reports to update its general ledger and as a basis for reporting the value of its government-owned, contractor-held property. We found that (1) DOD agencies did not promptly report the results of contractors' property systems surveys to NASA, (2) NASA's ability to verify contractors' property data was limited to verifying information on the reports themselves, (3) there were significant backlogs in processing excess property, and (4) property administrators did not ensure that the information on contractors' disposal reports was properly calculated and classified. As a result, NASA could not ensure that the information it used to support its fiscal year-end contractor-held property balances was reliable or that the value of contractor-held property it reported was accurate.

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### Contractor Property Systems Surveys Were Not Always Reported

NASA's FAR Supplement requires that property administrators evaluate NASA contractors' systems of controls over government-owned, contractor-held property annually and approve the contractors' annual reports to NASA. The property administrators may be NASA employees, Defense Contract

Management Command (DCMC) representatives, or other DOD agencies,<sup>2</sup> depending on which agency has responsibility for administering the contract. As required by NASA's FAR Supplement, reviews of contractors' property systems are designed to provide a 90 percent confidence level that the surveys' results are accurate. These surveys are a primary control over the reliability of contractor property reports. They may include reviews of property acquisition, consumption, utilization, disposition, and the performance of physical inventories. Property administrators are required to furnish reports to NASA on the results of the reviews and to indicate on NASA contractors' annual property reports whether the contractor's system, as surveyed, was satisfactory or unsatisfactory.

DOD agencies' property administrators did not provide Johnson with the results of property system surveys required in fiscal year 1990 for 13 of Johnson's 103 remote contractors for which DOD was responsible until 1991. The contractors, whose systems were not reported on, held NASA government-owned property valued at about \$3 million.

Johnson officials told us that they had requested the missing reports on property system surveys from the DOD agencies, but that, in their opinion, the DOD agencies do not view the preparation of these reports as a high priority. Prior to receiving the reports, Johnson officials had not determined if the DOD agencies had performed the surveys. Johnson officials also told us that they had informed NASA headquarters and DCMC that they had requested but not received the reports. In June 1992, we spoke with a Johnson property manager who told us that she believed some of the surveys may have been performed in 1990; however, none of the 13 delinquent reports were provided to Johnson until 1991. She said that all 13 reports stated that the results of the surveys were satisfactory.

Because property surveys are their primary assurance that contractors' reports are reliable, it is critical that NASA managers monitor them. Without annual property system surveys for all contractors, NASA cannot be sure that its contractors are properly accounting for, safeguarding, and using government-owned property. Such monitoring is especially important in light of DOD agencies' failure to routinely perform such surveys as part of their contract administration responsibilities, which has been widely reported. Over the years, our reports, as well as those of various DOD audit organizations and congressional committees, have documented nonperformance of property system surveys of contractor-held property.

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<sup>2</sup>Other DOD agencies that may perform property administration services, including system surveys of NASA contractors, are the Office of Naval Research and the Naval Plant Representative Office.

NASA's Contract Property Program Manager in the Logistics, Aircraft, and Security Division told us that receipt of property system surveys from DOD agencies is an ongoing problem. Calendar year 1990 and 1991 internal reviews, performed by NASA's Property Manager, identified delinquent reporting of DCMC property survey results at three additional locations—Goddard, Langley, and NASA headquarters. NASA's Contract Property Program Manager also told us that she continually monitors this situation to ensure that Centers' Industrial Property Officers follow up with DOD agencies to obtain required survey reports.

### **NASA Could Not Adequately Verify Contractor Property Reports**

To detect possible nonreporting or gross underreporting by contractors, the NASA Equipment Management Manual (NHB 4200.1C) requires Centers to compare property data maintained in the NASA Equipment Management System with contractors' annual reports of government-owned, contractor-held property. The system was designed for internal NASA purposes to determine whether certain items can be reused by other Centers' contractors when no longer needed by the original contractor. However, because the FAR does not allow the government to duplicate contractor records and systems, NASA's system does not include all contractor-held property. NASA's Manual acknowledges that exact reconciliations cannot be performed between contractor reports and NASA's Equipment Management System data. Examples of differences that prevent a full reconciliation follow.

- For contractors, the NASA Equipment Management System contains information on equipment with an acquisition cost of \$1,000 or more, while contractor annual property reports provide information on general purpose (plant) equipment valued at over \$5,000, special purpose equipment<sup>3</sup> at any dollar value, and material<sup>4</sup> on hand totaling at least \$75,000 on June 30, the end of NASA's reporting cycle.
- NASA's equipment system does not contain data on special purpose equipment and materials at all locations.
- While contractors are required to report new purchases to the NASA Equipment Management System throughout the year, they often do not report their purchases until the end of the annual reporting period. According to NASA's Contract Property Program Manager, contractors often do not report new purchases until after she sends them a NASA Equipment Management System property verification listing.

<sup>3</sup>Special purpose equipment includes special test equipment, special tooling, and space hardware.

<sup>4</sup>Material is property that may be incorporated into or attached to a deliverable end item, or consumed or expended in performing a contract.

Further, because contractors do not provide detailed information on property purchases on either their monthly cost reports or their billings, NASA's accounting systems do not contain the detailed data needed to verify the contractors' property reports.

As a result of these differences, NASA cannot compare accounting system payment data with its equipment management system data or contractor property reports to verify that property it has purchased is accurately recorded in its general ledger. NASA's Contract Property Program Manager told us that she has recommended that NASA require both the contractors' cost reports and the contractors' billing invoices to contain breakouts of equipment types and dollar values. She said that chapter 4 of NASA's Procedures for Contractor Reporting of Correlated Cost and Performance Data provides guidelines for contractors to detail various types of equipment costs in their periodic reports to NASA; however, such detail is not currently required. NASA's financial and procurement managers told us that they have chosen not to implement this requirement because they feel it would burden the contractors.

Our review of four Centers also showed that although the Centers used different methods, they each performed some type of comparison between the contractors' property reports and their Center's NASA Equipment Management System data, and they researched significant differences. However, because of the inconsistencies between contractor reports and NASA's Center-level systems data, these partial reconciliations provided NASA little assurance that contractors were reporting accurately. NASA's property management officials told us that while these reconciliations may identify gross errors, they may not identify an estimated 10 to 20 percent error rate. Such an error rate would be significant based on NASA's reported \$13.4 billion in contractor-held property.

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**Property Administrators**  
**Did Not Always Verify**  
**Accuracy of Property**  
**Reports**

We reviewed contractor property reports at two Centers, Kennedy and Marshall, to determine if the calculations on the reports were correct and if data presented agreed with the supporting documentation that accompanied the reports. In addition, in an effort to explain discrepancies, property accounting personnel at Johnson reviewed 87 reports. For about 20 percent of the reports reviewed, property administrators had certified data that contained mathematical errors, misclassified property purchases, or did not include required information and supporting documentation. At Kennedy, one report incorrectly classified property valued at \$202,974 as a

direct purchase, rather than as government-furnished equipment and, at Marshall, 3 of 10 reports we tested contained mathematical errors or incorrect calculations in supporting documentation. All three Marshall reports were processed into the Center's property and accounting records without the errors being detected.

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### **Centers' Property Disposal Records Were Inaccurate**

During our review of contractor reports and related NASA data, we identified a number of weaknesses in NASA's disposal process for excess property, including the lack of inventory verification surveys<sup>5</sup> of excess property, backlogs in Centers' processing of disposal documents received from property administrators, and inaccurate data on the disposal documents. It is important for NASA to verify that contractors have properly classified and valued excess property. Otherwise, excess items could be inappropriately disposed of as scrap, or lost or stolen items could be improperly written off. Likewise, processing delays could result in unnecessary storage costs to NASA, purchases of unnecessary equipment, misstated property account balances, and delays in the receipt of funds from the sale of excess items. Some of the more significant examples of deficiencies found during our review follow.

- At Johnson, \$1.2 million in disposed property continued to be recorded in the NASA Equipment Management System as of April 30, 1991, even though Johnson had received the final property disposition reports during July and September 1990. According to a Johnson property official, the delays occurred because DCMC property administrators gave the Center inaccurate disposal information which needed to be corrected before the property records could be adjusted.
- Even though previous surveys had revealed contractor errors such as incorrect quantities, prices, and condition codes, Kennedy had not performed inventory verification surveys of excess property at four contractor facilities for about 2 years. According to a Kennedy property official, staff shortages prevented the inventory verifications.
- Also at Kennedy, the disposal process for excess items significantly exceeded the time allotted by the FAR. Of four reports we selected for review, final disposition for two items took 196 days and 315 days, compared to 135 days allowed for disposal of such items. For two other items, final disposition took 289 days and 261 days, although regulations provide only 87 days for such processing.

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<sup>5</sup>FAR 45.606-3 states that verification surveys are to be performed on items declared excess by the contractor to determine if (1) the inventory is present at the location indicated, (2) the inventory is allocable to the contract, (3) the quantity and condition of the excess inventory is correct, and (4) the contractor has endeavored to divert items to other work.

- We also observed a large backlog of requests for dispositions at Kennedy which we estimated to number in the hundreds and represent millions of dollars worth of property designated for disposal. These backlogs were a result of the lack of inventory verifications. While a staff member was added in August 1990, at the conclusion of our review at Kennedy in June 1991, additional inventory verifications had not been performed. However, in early June 1992, NASA's headquarters property officials told us that Kennedy had recently informed them that the backlog had been processed and that NASA headquarters was in the process of reviewing Kennedy's resolution of the backlog.

## Goddard Did Not Have Adequate Control Over Off-Site Property

At Goddard, we found a serious lack of control over some of NASA's contractor-held property. Although NASA contractors are usually accountable for property at off-site locations, Goddard used a special Installation-Provided Government Property clause under the NASA FAR Supplement which made the Center, rather than the contractors, accountable for the property. Using this clause, Goddard provided property, such as computer equipment valued in the millions of dollars, for 75 of its approximately 400 contracts. However, Goddard did not maintain the related property records or require property reports from the contractors. As a result, Goddard could not distinguish between the government-owned property and the contractor-owned property at the contractors' sites. Further, Goddard officials acknowledged that they did not have estimates on the value of the government-owned property held under the 75 contracts. While the other three Centers we reviewed also used this clause, their property managers told us that they required their contractors to submit NASA's standard annual reports of contractor-held property.

In a March 1990 internal review report, NASA headquarters criticized Goddard's inadequate accountability over contractor-held property due to its implementation of the special property clause. The review team recommended that the Center modify the related contracts to make the contractors accountable for all off-site property and to delegate the property administration and plant clearance responsibilities to the cognizant DOD agency. However, as of March 1992, no actions had been taken to correct this situation. According to Goddard property officials, they did not have sufficient staff to adequately monitor property located off-site. During the course of our review, Goddard property officials requested additional resources to perform reviews of government-owned property at off-site contractor locations. As of March 1992, additional

resources had not been provided. However, Goddard had neither taken actions within its purview to require the contractors to report on government property they held, nor had it delegated property administration responsibilities to cognizant DOD agencies.

In July 1992, Goddard officials informed NASA headquarters property managers that, as a result of our review and the NASA internal review, they had initiated actions to correct some of the contractor-held property control and oversight problems. These corrective actions, however, had not yet been documented or reviewed by the NASA headquarters internal review team.

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## Conclusions

NASA recognizes that additional controls beyond those required by the FAR are needed to provide assurance that its contractor-held property is accurately accounted for and reported. While NASA had established some controls to provide greater assurance, these controls were not always working effectively, and other needed controls were not in place. NASA's accounting and reporting policy for contractor-held property neither ensured that contractors accurately reported to NASA the value of property they had purchased nor provided current fiscal year-end information on the property's value. As a result, NASA did not have adequate assurance that the value of property reported in its financial reports was accurate and reliable or that the property it owned was not lost or misused.

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## Recommendations

We recommend that the NASA Administrator direct the NASA Comptroller to

- require its contractors to report property on the federal fiscal year basis, and until such time as this requirement can be implemented, footnote fiscal year-end financial statements to indicate that the value of contractor-held property is based on the July 1 to June 30 time frame;
- enforce reporting requirements to ensure that annual contractor-generated property reports are timely and accurate; and
- direct the Headquarters Accounting Branch to include all Jet Propulsion Laboratory contractor property report data in the general ledger.

We recommend that the NASA Administrator direct the Logistics, Aircraft, and Security Division to

- direct NASA Centers' Industrial Property Officers to identify the required property system surveys that have not been performed by DOD agencies



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and request that the contracting officers follow up with the DOD property administrators to ensure that surveys are performed and reports are received and

- increase oversight of the property disposal function to ensure that reports of excess inventories are verified and disposal documents are processed within specified time limits.

We also recommend that the NASA Administrator direct the Office of Procurement to ensure that contracts require contractors to identify equipment cost information in their cost reports to NASA as suggested in NASA's Procedures for Contractor Reporting of Correlated Cost and Performance Data and on their invoices submitted to NASA for payment to support NASA's verification of contractors' annual property reports.

Finally, we recommend that the NASA Administrator direct the Goddard Center Director to (1) modify contracts to make the contractors accountable for property provided under the Installation-Provided Government Property clause to ensure that all existing government-owned, contractor-held property is properly accounted for and reported, by the Center and the contractor; and (2) direct the procurement office to delegate property administration responsibility to DOD agencies in the future when Goddard staff cannot carry out property administration duties.

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## Agency Comments and Our Evaluation

NASA agreed that all government-owned, contractor-held property should be properly accounted for and reported and concurred with the related recommendations except the recommendation to require its contractors to report property on the federal fiscal year basis. As stated in the report, NASA requires its contractors to submit annual reports on the value of government-owned property in their possession based on a July 1 to June 30 time frame. NASA stated that to require the reports on the federal fiscal year basis would be impractical and would create less reliable financial reporting than currently exists. NASA based its concerns on the amount of time it takes to receive annual contractor property reports from remote contractor locations, review the reports, and record the data in accounting systems. As an alternative, NASA offered to footnote future financial statements to disclose the different reporting period for contractor-held property.

As discussed earlier in this chapter, our concern is that by using property balances that are 3 months out of date, the stated value of NASA's

contractor-held property is not accurate and is inconsistent with other financial transactions that are accounted for and reported on the federal fiscal year basis. Also, since Treasury has not required federal agencies to submit Reports on Financial Position until several months after the close of the fiscal year (February 1993 for fiscal year 1992 activity), NASA should have sufficient time to gather, review, and record the necessary data. In this regard, NASA could modify its process to provide for more accurate and reliable reporting. We have augmented our recommendation to include disclosing property values that are not consistent with the federal fiscal year.

Regarding our finding concerning Goddard's lack of control over off-site property in the possession of contractors, NASA stated that Goddard's recent actions are responsive to the intent of our recommendations in this area. NASA agreed, however, that until all corrective actions have been completed, our recommendations are still valid. According to NASA, since the completion of our audit work in May 1991, Goddard had taken actions to correct the weaknesses we identified. Most importantly, Goddard had

- decreased the number of contracts with the Installation-Provided Government Property clause from 75 to 57,
- performed property inventories at all contractor locations, and
- delegated property administration responsibilities to DOD or other agencies for 31 of the 57 contracts that currently include the Installation-Provided Government Property clause.

Further, NASA headquarters and Goddard officials plan to establish a Process Action Team that is to examine, beginning in September 1992, the process of providing NASA property to contractors working on or off-site.

The actions taken by Goddard are responsive to the weaknesses we identified during our review and appear to provide improved control over the Center's contractor-held property. We have not verified whether the corrective actions have been effectively implemented.

NASA also took exception to our finding that 85 of 614 contractor property reports, which involved over \$10 million in reported property, were received late at the Johnson and Marshall Centers. NASA cited information that indicated the Johnson Center had identified 19 reports received after fiscal 1990 year-end reflecting a net impact to asset accounts of about \$3 million. NASA also pointed out that the \$3 million represents only a fraction of the \$13 billion in total NASA property assets.

Our analysis of the contractor-held property reports at the Johnson Center showed that 15 reports, totalling over \$5 million, were not received until after fiscal 1990 year-end. Also, NASA's assertion that contractor-held property valued at \$3 million represents only a fraction of the agency's total property assets is misleading. Our finding represented what we found at only two of NASA's Centers, and we did not attempt to quantify our finding in terms of the entire agency. Also, NASA did not take exception to our findings at Marshall. We believe this condition at the two NASA Centers represents a weakness in internal controls that should be addressed and corrected.

NASA disagreed with the chapter title and several of the chapter's side captions, noting that our findings were not as extensive as the title and side captions indicated. NASA agreed that improvements could be made, but stated that it has established controls beyond those required by the FAR and adhered to by other government agencies. NASA stated that because of these added controls, and Goddard's actions to correct many of the weaknesses we identified, the contractor-held property area should not be considered a material weakness.

We believe our findings support our chapter title, side captions, and conclusion that NASA's financial control and reporting over contractor-held property are inadequate. Our review of contractor-held property encompassed a wide range of property accounting and management activities, and we found weaknesses in virtually every area we evaluated. For example, as the chapter discusses, we found problems that affect the entire agency in (1) NASA's policy for reporting contractor-held property and (2) NASA's process for reviewing and recording contractor-generated annual property reports. We also found inaccuracies in contractor reports at several Centers and a failure to receive property survey reports at selected Centers. NASA agreed that similar problems have occurred at other Centers.

# Inadequate Budgetary Controls

NASA had not instituted adequate controls over the use of its budgetary resources. As a result, NASA's Comptroller had little assurance that the agency's funds were spent in accordance with funding limits. NASA did not prepare required agencywide reports on the status of obligations and expenditures against its funding limitations for various control levels, including appropriations, Center allotments, and project level authority. NASA's general ledger account balances and Center-level status of funds reports indicated instances where obligations exceeded funding limits. However, until our review, NASA officials had not detected or investigated these occurrences to determine their cause or take corrective action. NASA officials stated that the overobligations resulted from accounting errors. NASA's OIG is currently reviewing this matter. In addition, we found that one Center had used funds for an unauthorized purpose, and one Center's engineering directorate reprogrammed funds without proper authorization by overcharging other program directorates and creating its own funding pool to finance equipment replacements outside the budget process.

## Funds Control Requirements

The Anti-deficiency Act and Office of Management and Budget Circular A-34<sup>1</sup> require agencies to establish controls over the use and management of appropriations to ensure that obligations and expenditures comply with the purpose, amount, and time restrictions—all of which must be met for an obligation or expenditure to be legal.

Under the Anti-deficiency Act, an officer or employee of the government may neither make nor authorize an obligation or expenditure in excess of the amount available in the appropriation or fund, nor involve the government in a contract or obligation for the payment of money before an appropriation is made, unless authorized by law. By requiring a system of administrative controls over spending, this act is one of the most important mechanisms available to the Congress for enforcing its decisions regarding federal spending. Under the law, funds control is the responsibility of the individual agencies.

Once the Congress has enacted budget authority, which includes appropriations, borrowing authority, and contract authority, OMB apportions or distributes the funds to executive agencies by categories,

<sup>1</sup>OMB Circular A-34, *Instructions on Budget Execution*, contains instructions relating to apportionments, reports on budget execution, and budgetary funds controls.

such as appropriated and reimbursable authority,<sup>2</sup> and by time periods. The purpose of the apportionment is to prevent obligation or expenditure of budget authority at a rate that would necessitate a deficiency or supplemental appropriation.

The Anti-deficiency Act and OMB regulations require the head of each agency to prescribe, by regulation, a system for administrative control of funds to ensure that obligations and expenditures do not exceed apportionments or appropriations. NASA's primary means of funds control is allotments<sup>3</sup> of budget authority. The Chief of Budget Operations in NASA's Comptroller's Office issues allotments at various intervals throughout the year to the Center Directors and others. To control funds below the allotment level, NASA's Budget Operations Office issues resource authority, a secondary means of control, to NASA's headquarters program offices who then reissue it to each NASA Center for the execution of programs, projects, and other activities. Under NASA's regulations, employees cannot obligate funds unless they have received both an allotment and resource authority.

GAO's accounting standards<sup>4</sup> in Title 2 and Title 7 require that agency accounting systems include appropriate techniques to achieve funds control objectives. This entails verification of available funds before creating an obligation. Obligation information is to be accumulated and recorded promptly and accurately in order for agency systems to reliably report remaining balances for a continuous stream of funding decisions.

## Controls Inadequate to Ensure That Obligations Did Not Exceed Authority

NASA's procedural and systems controls over the use of budget authority were weak, and NASA lacked adequate reports for monitoring obligations, expenditures, and related funding limitations. Specifically, we found that

- obligations were not always recorded;

<sup>2</sup>Reimbursable authority allows an agency to obligate funds to perform work, under a signed agreement or contract, for another agency and later offset the obligations and expenditures with collections from the benefitting agency.

<sup>3</sup>An allotment is the authority to incur obligations within a specified amount, pursuant to OMB apportionments or reapportionment action or other statutory authority making funds available for obligation.

<sup>4</sup>GAO's Policy and Procedures Manual for Guidance of Federal Agencies. In 1990, GAO, OMB, and Treasury created the Federal Accounting Standards Advisory Board to review and recommend revisions, as necessary, to federal agency accounting standards. Until new standards are promulgated, agencies are to continue to use the standards that they have historically applied to their financial operations. NASA, for the most part, has incorporated GAO's policies and procedures in its Financial Management Manual.

- funds control limits were not enforced;
- Centers' systems did not provide adequate control; and
- obligations were recorded in excess of both appropriations and allotments as indicated in NASA's general ledger and other agencywide financial reports, and obligations were recorded in excess of resource authority as indicated in Center reports.

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### Obligations Were Not Always Recorded

Our review of the four Centers' reports on Costs in Excess of Obligations showed numerous instances where recorded costs exceeded obligations. In addition, the NASA Comptroller's summary report for January 1991 showed \$42.7 million in excess costs involving a total of 142 contracts for all Centers. These costs in excess of obligations situations resulted because NASA's Centers did not always record obligations in a timely manner when new work was authorized under letter contracts, or when cost increases were authorized under change order clauses in existing contracts. These provisions allow contractors to proceed with work while prices are being negotiated. They also serve as proper documentation for recording obligations. Centers' program analysts told us that they did not record the related obligations promptly because they wanted to avoid showing overobligations in instances where the associated projects' resource authority had not yet been received.

Further, we reviewed NASA's Centers' financial reports and identified several instances where Centers had made payments without ensuring that obligations had been recorded. Centers' financial managers told us that they made payments when a DCAA-certified invoice was received and that they did not always verify that a related obligation had been recorded. In addition, NASA's Centers did not always adjust obligations when the amount of the actual payment differed from the amount obligated. Title 7 requires such adjustments to ensure that obligations data are as accurate as possible for funds control purposes. We discussed this problem with the Agency Accounts and Reports Branch Chief who said that NASA's financial management policy requires Centers to ensure that obligations have been recorded before making payments. He said that he would reiterate the policy to the Centers in writing.

These practices, which bypassed NASA's established controls, can lead to funding deficiencies and misuse of funds. For example, our review of cost reports for one of the contracts in our Johnson sample disclosed that a Johnson contractor performed work related to the Shuttle Mission Training Facility during fiscal year 1987 and that this work exceeded the

level of effort and associated costs provided for in the existing contract. This work also exceeded the available resource authority for the project. NASA headquarters did not provide additional resource authority to cover the contract change in fiscal year 1987. As a result, to avoid recording \$582,000 in obligations that exceeded resource authority, the program analyst improperly 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.

We also found that, in accordance with NASA's Financial Management Manual, the Centers recorded obligations, costs, and payments for multimillion dollar contracts in carrier accounts, which are similar to suspense accounts, without requiring related issuances of resource authority. Centers later distributed carrier account obligations and expenditures to specific project accounts for which the resource authority had been issued.

We documented one instance where this practice resulted in a deficiency because a project account's resource authority was exhausted before the carrier account obligations and related expenditures were distributed to it. This occurred in December 1989, at Goddard, when the distribution of obligations and expenditures associated with the project caused the Center to exceed the project's resource authority by \$94,781. Such practices diminish NASA's ability to comply with its budgetary limits, as explained in the next section.

### Funds Control Limits Were Not Enforced

We found that NASA does not operate within the framework of an administrative system of funds control prescribed by OMB Circular A-34 and its own regulations. Such a system is to include hierarchical levels of controls as a means of monitoring, detecting, and correcting problems so that Anti-deficiency Act violations will not occur. NASA's system of controls establishes allotments, issued to the Centers by NASA's Comptroller, as a primary limitation. Resource authority serves as a secondary limitation on project-level obligations and expenditures. The Comptroller determines total resource authority amounts to be issued to the headquarters program offices after reviewing their program operating plans. However, resource authority is not administered as a form of suballotment. Instead, this authority is issued by the Comptroller's Office in total to each headquarters program office and is then reissued separately by the program offices to Centers for execution of their programs and projects. Such a two-track control process may have been adequate if funding

limitations were properly observed. This would require NASA employees to ensure that funds are available at both the allotment and resource authority levels before making obligations. However, we found that resource authority reissuances by program offices often exceeded the corresponding Center allotments. This occurred primarily because program offices deviated from their program operating plans when reissuing resource authority to the Centers and did not inform the Comptroller's Office in advance. Both allotments and resource authority are based on the program operating plans, and a change in plans may necessitate a change in allotments and resource authority issued.

Rather than enforcing funding limits, the Comptroller's staff continually revised allotments, often within 1 week or less of the previous allotments, in order to keep up with program offices' overissuances of resource authority. This necessitated frequent reprogrammings of funds as authority was shifted from Centers with sufficient allotments to those for which allotments were no longer sufficient to cover resource authority. For example, during fiscal years 1990 and 1991, the Comptroller issued allotments to multiple Centers from 22 to 48 times for each of NASA's three largest appropriations. In addition to being cumbersome for all concerned, this practice helped perpetuate program offices' apparent disregard for the limits the Comptroller had established based on their operating plans.

Further, the Comptroller did not prepare required reports for monitoring Centers' rates of obligations and expenditures. Such reports are necessary to ensure that revised allotments are issued to prevent overobligations of allotments. According to OMB regulations, agencies' funds control systems are to include reports at the agency level which provide positive knowledge of funds available for obligation as well as the status of obligations and expenditures in relation to available resources. Because the Comptroller lacked the necessary information to monitor each Center's status of funds, the Centers were on the "honor system" to either initiate reprogramming requests in time to ensure adequate levels of allotment and resource authority, or to detect and report any funds control violations along with their plans for correcting the conditions that allowed them to occur.

By enforcing allotment limitations, the Comptroller could provide Centers with greater discipline than NASA's current process, which results in continual increases and decreases in allotments. Moreover, by issuing and enforcing quarterly allotments, the Comptroller could provide the Centers with increased funding flexibility, while reducing the need for frequent



changes in allotments. Currently, NASA has no policy on the frequency of allotments. OMB's funds control regulations state that budgetary resources will normally be apportioned quarterly. As a result, many agencies also prepare quarterly allotments. Quarterly allotments provide control by limiting funds available for obligation by time period, including amounts for each quarter as well as a fiscal year total. Amounts available for obligation, if not used, would be available in subsequent quarters. If properly enforced, quarterly allotments could also reduce the workload associated with continual revisions of allotments to reflect reprogrammings that have already occurred.

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**Centers Systems Did Not  
Provide Adequate Control**

We identified serious funds control and system weaknesses at the four Centers we reviewed. Our review of Centers' status of funds reports disclosed overobligations of resource authority at all four Centers. Both Goddard's and Johnson's automated systems did not have edit controls to alert staff when resource authority was exceeded. Their systems only interrupted processing of obligations and expenditures that would exceed allotments. In addition, NASA's Budget Operations Chief told us that the Comptroller's Office had discussed numerous funds control problems with the Centers' Financial Management Officers. He said that, in some cases, the Comptroller had sent memoranda asking Centers to address these problems, which included Centers incurring obligations and expenditures in excess of resource authority, reprogramming funds without authorization, and accounting clerks overriding edit controls.

Of the four Centers we reviewed, Goddard's funds control system was the most seriously inadequate because it did not produce timely status reports on funds available for obligation. As a result, Goddard's managers relied on hard copy reports of data which, in some cases, were updated only weekly. Although these reports allowed managers to identify overobligations after the fact, they did not serve as a control to prevent them from occurring. Our review of Goddard's fiscal year 1990 status of funds reports revealed that Goddard had at least 187 transactions that caused it to exceed its available resource authority by a total of about \$500,000.

Goddard officials told us that, because they did not have current status of funds information, they routinely recorded cancellations of obligations and contract purchase orders on a 2-week cycle to eliminate the overobligations of resource authority in their systems. The effect of this practice was to have a large volume of obligations, under which the Center

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may or may not be incurring costs, in an unrecorded status until resource authority became available, at which time the obligations were reentered into the system.

Goddard's financial managers told us that, without implementing a new system, they did not know what additional action they could take to improve their funds control. They also stated that they had requested funds from NASA headquarters in the past to develop a new funds control system but that the request was denied because of the moratorium on new systems development pending the implementation of NAFIS. Although there is no target date for NAFIS implementation at Goddard, no interim corrective actions are planned, according to Goddard and NASA officials.

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### NASA Recorded Overobligations

Since NASA did not have the required agency-level status of funds reports, we reviewed NASA's general ledger year-end balances to determine whether they indicated that overobligations of appropriations or Centers' allotments had occurred. We also reviewed NASA's agencywide Financial and Contractual Status (FACS) system reports and Centers' status of funds reports to determine whether they showed any overobligations of resource authority. These reports showed, in a number of instances, that NASA had recorded obligations in excess of appropriations, allotments, and resource authority. However, until we brought these instances to NASA's attention, NASA had not investigated them to determine whether they resulted from accounting errors, which should have been corrected, or whether they represented violations of the Anti-deficiency Act, which should be reported to the President and the Congress.

### Recorded Obligations Exceeded Appropriations and Allotments

NASA's general ledger account balances indicated that NASA may have incurred obligations in excess of appropriations and allotments during the past 5 years. For example, in our May 7, 1992 testimony before the House Committee on Science, Space and Technology, Subcommittee on Investigations and Oversight,<sup>6</sup> we stated that we had identified

- three instances, totaling \$521,915, where recorded obligations exceeded two appropriations<sup>6</sup> in fiscal years 1988 through 1990 and

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<sup>6</sup>Financial Management: NASA's Decisions Are Based on Unreliable Systems Data and Reports (GAO/T-AFMD-92-0, May 7, 1992).

<sup>6</sup>The specific appropriation accounts were Research and Program Management and Space Flight, Control, and Data Communications.

- twenty-two instances, totaling \$13 million, where recorded obligations exceeded six of the nine allotments for four appropriations <sup>7</sup> from fiscal year 1991 back to at least fiscal year 1986.

Since our May 7, 1992, testimony, Comptroller officials have investigated these instances. On June 4, 1992, they advised us that the appearance of overobligations was a result of accounting and posting errors which would be corrected. An Office of Inspector General official subsequently advised us that NASA's Administrator had requested that OIG staff audit the documentation for the corrections.

We also questioned 13 occurrences totaling over \$3.7 million in negative fiscal 1991 year-end balances in NASA's general ledger account for Reserve for Receipt of Reimbursable Orders. While NASA Comptroller officials told us that these negative balances would also indicate funds control problems, they did not plan to investigate them until after the recorded overobligations of appropriations and allotments were investigated and resolved.

#### Overobligations of Resource Authority

NASA's agencywide FACS system reports as of September 30, 1991, and status of funds reports prepared by the four Centers we reviewed indicated numerous instances where obligations exceeded resource authority for individual projects. For example, we identified overobligations of resource authority in NASA's FACS reports, including the following.

- Four occurrences totaling \$143 million within the Research and Program Management appropriation for program years 1990 and 1991.
- Twenty-six occurrences totaling \$1.3 million within the Space Flight, Control, and Data Communications appropriation for program years 1990 and prior.
- Forty-nine occurrences totaling almost \$3 million within the Research and Development appropriation for program years 1991 and prior.

Our review of the Centers' status of funds reports disclosed the following instances where resource authority was exceeded at the project level.

- Six instances at Marshall where cumulative obligations exceeded specific projects' available resource authority by \$8.3 million during April 1991.
- Seven instances at Kennedy, as of April 30, 1991, where the Research and Program Management appropriation obligations and expenditures

<sup>7</sup>The two additional appropriations were Construction of Facilities and Research and Development.

exceeded resource authority. Together these totaled \$157,378. In another instance, Research and Development appropriation obligations exceeded resource authority by \$1.5 million. Also, as of March 31, 1991, total expenditures exceeded resource authority and obligations for the Space Flight, Control, and Data Communications appropriation by over \$2.2 million. At Kennedy, transactions exceeded resource authority by varying amounts for several months during fiscal years 1990 and 1991.

## NASA Used Space Shuttle Funds for Unauthorized Purposes

One of the fundamental statutes dealing with the use of appropriated funds is 31 U.S.C. 1301(a), which states that “[a]ppropriations shall be applied only to the objects for which the appropriations were made except as otherwise provided by law.” This law prohibits charging items to the wrong appropriation.

During our review of contractor cost reports at the Johnson Space Center, we found that Johnson had improperly charged the \$2.1 billion 1987 no-year<sup>8</sup> appropriation for orbiter production by at least \$13.4 million, including \$1 million for upgrading the waste collection system (toilet) for an existing shuttle, the Columbia—Orbiter Vehicle (OV)-102, and about \$12.4 million in costs to upgrade a carbon dioxide removal system in the Extended Duration Orbiter program. NASA used the no-year appropriation to finance production of the OV-105, which is called the Endeavour. NASA’s original OV-105 waste collection system project was expanded to include two flight units—one for the OV-105 and one for the OV-102. However, because the OV-102 became operational in 1981 and was no longer in production, the costs for upgrading its waste collection system should not have been considered “orbiter production” costs, but rather operation and maintenance costs. Likewise, the carbon dioxide removal system upgrade was an operation and maintenance cost rather than an orbiter production cost. Therefore, these costs should have been charged to the appropriation which funds the operation of existing shuttles.

As the cost of the waste collection systems grew, and NASA began to deplete the 1987 no-year orbiter production appropriation, Johnson began to charge subsequent costs related to the OV-102’s waste collection system to the correct appropriation. We discussed these improprieties with Inspector General staff who told us that they plan to review these and other projects funded by the no-year appropriation to ensure that expenditures were proper.

<sup>8</sup>No-year appropriations remain available for incurring obligations for an indefinite period, usually until the related objectives have been accomplished.

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## Goddard Reprogrammed Funds Without Proper Authority

NASA's Financial Management Manual provides for the use of carrier accounts to record work-in-process performed by one Center division, such as Engineering, for another Center division until the work is complete or the benefitting division can be identified and costs distributed to the correct project. This use of carrier accounts is similar to other agencies' use of working funds, which are a type of revolving fund.<sup>9</sup> We found that without proper reprogramming authority, Goddard had overcharged benefitting programs by a total of \$6.8 million at the close of fiscal year 1991. According to Goddard officials, the overcharges were a type of surcharge which they planned to use to finance future needs, such as equipment replacements. However, NASA's Financial Management Manual does not provide authority to impose a surcharge.

The overcharges had the effect of reprogramming funds—outside the budget process—from the programs and projects for which they were originally intended to overhead expenses, such as equipment replacement items for the Engineering Directorate. The Agency Accounts and Reports Branch Chief told us that he had directed Goddard to use the surplus by the close of fiscal year 1992 and to refrain from future overcharges. However, he said that Goddard responded that it would not be able to spend all of the surplus until the end of fiscal year 1993. NASA did not direct Goddard to return the funds to the projects that were overcharged.

NASA's Comptroller identified this problem in its July 1988 and its December 1989 financial management functional review reports. The 1988 report identified \$15 million in overcharges as a result of charging user assessments in addition to actual costs. The 1989 review report identified \$12 million in overcharges and stated that any additional overcharges to cover equipment replacement should be obligated by fiscal year-end and not carried forward. As of May 1992, this problem remained uncorrected.

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## NAFIS Will Not Address Funds Control Problems for Many Years

According to NASA headquarters officials, funds control is a key element of NASA's new NAFIS accounting system design, and NAFIS is to address many of the funds control system weaknesses we identified. However, in May 1992, NASA's Comptroller testified that NAFIS implementation will not be completed until 1996 at Marshall, which is the developmental Center for the system, and no target date has been set for full implementation at all Centers or for the financial reporting components at NASA headquarters. Further, NAFIS, as planned, will not handle accounting for carrier accounts,

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<sup>9</sup>Revolving funds are appropriation accounts authorized to be credited with collections from entities benefitting from work performed. These collections are then used to finance a continuing cycle of business-type operations.

nor does NASA plan to expand funds control to carrier accounts by issuing resource authority as a basis for monitoring their obligations. Centers will continue to maintain their own unique systems for carrier accounts and then enter totals into NAFIS.

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## Conclusions

NASA's budgetary funds control systems were not adequate to ensure that obligations did not exceed funding limits. NASA did not have agencywide reports to monitor Centers' status of funds. Moreover, while NASA's financial reports showed that NASA had recorded obligations in excess of funding limits, NASA officials had not detected or investigated these instances in order to take corrective action until we brought them to their attention.

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## Recommendations

We recommend that the NASA Administrator direct the Comptroller to take the following actions.

- Enforce allotment and resource authority limitations. In this regard, consider adopting a policy for issuing allotments quarterly.
- Require NASA's Agency Accounts and Reports Branch to develop agencywide reports which provide timely information on the status of funds so that NASA's agency-level financial managers have a means of (1) monitoring obligations and expenditures to avoid potential deficiencies, (2) detecting overobligations and correcting the control weaknesses that allow them to occur, and (3) identifying and reporting any Anti-deficiency Act violations.
- Pending NAFIS implementation, require interim system improvements at Goddard to ensure that reports on funds available for obligation are timely and reliable.

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## Agency Comments and Our Evaluation

NASA agreed with our recommendations and stated that it would adopt a policy for issuing allotments quarterly beginning in fiscal year 1993. However, NASA noted that allotment authority is controlled at the Center level, and the process is reviewed by NASA headquarters during biannual financial management functional reviews. Nevertheless, NASA agreed with the need to generate an agencywide allotment ledger by the end of fiscal year 1992 that could be used to monitor NASA's status of funds.

NASA disagreed with our presentation of the finding that there were eight instances (seven instances totaling \$157,378 and one instance totaling

\$1.5 million) where Kennedy's obligations and expenditures had exceeded resource authority limits, an administrative funds control violation. NASA stated that the instances we referred to involved program year 1980 reimbursable funding transactions that were erroneously recorded when data from a prior accounting system were converted to a new system in 1983. NASA also emphasized that our findings only showed that the Center had exceeded resource authority limits, not allotment limits.

As stated in our report, we based our findings on a review of Kennedy's status of funds report as of April 30, 1991, which showed that cumulative obligations exceeded cumulative resource authority. The Center and headquarters reports we reviewed are the reports NASA's managers use to monitor obligations for funds control purposes. Further, NASA's regulations state that cumulative obligations are not to exceed cumulative resource authority. While we did not investigate the individual transactions that supported these totals, NASA's contention that the apparent overobligations resulted from an error that remained uncorrected for 8 years indicates a serious lack of funds control. Also, whether the funding in question was reimbursable or direct is irrelevant, since NASA is required to control both. Kennedy officials should ensure that errors in its status of funds reports are corrected promptly.

In commenting on our finding that NASA's reports showed instances where allotment and resource authority limits had been exceeded, NASA stated that, in some cases, the apparent overobligations resulted from posting errors. NASA agreed, however, that the reports we reviewed did contain negative balances that needed to be researched to ensure that funds control violations had not occurred. The NASA OIG is currently reviewing this area to determine if the apparent overobligations are, in fact, due to posting errors.

# NASA's Accounting Systems and Processes Did Not Produce Reliable Financial Reports

NASA's reporting on the billions of dollars it spends each year to carry out its programs and operations was not reliable due to fundamental weaknesses in its accounting systems and processes. These weaknesses include nonintegrated systems and a failure to routinely identify and investigate apparent errors in account balances. Also, NASA had not corrected financial management weaknesses identified through internal management reviews. As a result, many of NASA's account balances were incorrect and discrepancies between NASA's primary and subsidiary accounts and between NASA's and Treasury's records had not been resolved. These unresolved discrepancies indicate that either NASA's or Treasury's records, or both, contained errors. NASA has resolved some of the errors we identified during our review and has made adjustments totaling hundreds of millions of dollars to its fiscal 1991 year-end financial reports to Treasury.

Although NASA plans to begin implementing a new standardized agencywide accounting system, NAFIS, in March 1995, it had not prepared an implementation plan to (1) guide each Center's efforts to resolve discrepancies in current accounting data, (2) determine hardware, facility, and staffing needs, (3) and convert from their various manual and automated systems. NASA also plans to develop financial statements for fiscal year 1992 and have them audited by its Office of Inspector General. Under the current conditions, development of accurate financial statements will be difficult.

## NASA's Systems Did Not Facilitate Resolution of Discrepancies

We examined NASA's agencywide account balances and found that NASA does not and, in some cases, cannot perform reconciliations to ensure that detailed subsidiary records for accounts payable and accounts receivable at its eight Centers and its Headquarters Accounting Branch support its general ledger balances. As of fiscal 1991 year-end, NASA, as a whole, had several millions of dollars in unresolved discrepancies. Reconciliations are a basic accounting procedure for identifying and resolving errors. According to GAO's Title 2, appendix III, general ledger balances must be reconciled with subsidiary accounts and records, including cash receipts, accounts receivable, travel advances, inventories, accounts payable, and other liabilities. The reconciliations may be performed either manually or by computer, but they must be performed promptly to reduce discrepancies and ensure accuracy.

At two of the four Centers we reviewed, systems and processes were not integrated, standard, or fully automated, thereby requiring multiple data



entry and cumbersome, sometimes manual, reconciliations. Some account reconciliations were not performed because systems contained data at different levels of detail and Centers could not resolve differences between subsidiary and general ledger account balances. In addition, supporting documentation for some transactions was lacking. Unsupported adjustments made by Center program analysts to contractors' cost report data used to establish accounts payable, as discussed in chapter 2, have contributed to this problem.

While NASA's Financial Management Manual states that subsidiary account balances should agree with the general ledger, its list of subsidiary accounts to be maintained excludes several accounts, including accounts payable. Moreover, one Center's accounting staff told us they did not believe that these accounts needed to be reconciled with their general ledger. We discussed this Center's interpretation of NASA's policy requirement for reconciliations with NASA's Agency Accounts and Reports Branch Chief. He told us that he would prepare written guidance to the Centers to clarify that reconciliations between subsidiary and general ledger accounts are required. The following discussion highlights the results of our work at the four Centers we visited.

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### **Goddard's Systems and Subsidiary Records Did Not Support Timely Reconciliations**

Because Goddard did not maintain accounts payable subsidiary ledgers, it was extremely difficult to determine and verify general ledger accounts payable balances. In the absence of subsidiary ledgers, Goddard's Accounts Payable Section Chief told us that the Center's accounting staff performed time-consuming research of various source documents and made numerous calculations from unpaid invoices to calculate an estimated general ledger accounts payable balance. At fiscal 1990 year-end, Goddard reported about \$634 million in estimated total accounts payable.

Although Goddard maintained subsidiary records for other accounts in its Fiscal Accounting System, which is Goddard's primary accounting system, we found that it did not routinely reconcile these records with its related general ledger accounts. As a result, significant variances existed for many years. For example, as of April 30, 1991, Goddard's general ledger and data in its Fiscal Accounting System differed by over \$42 million. Goddard officials told us that they would not be able to resolve all variances for fiscal years prior to 1988 because detailed supporting documentation had not been retained.

Further, until recently, Goddard had not resolved differences between its general ledger and its SF-224, Statement of Transactions, report to Treasury. In July 1990, a backlog of unreconciled differences between Goddard's and Treasury's records resulted in a balance of approximately \$1.5 million in the Budget Clearing Account maintained by Treasury for Goddard's collections. Treasury uses this account to record differences that have gone unreconciled by an agency for more than 6 months. Goddard officials informed us that the monthly reconciliations with Treasury had not been performed promptly because their nonintegrated, manual systems made the reconciliations very difficult and because a number of changes had been made in the staff responsible for the reconciliations, due to the reorganization of Goddard's Financial Management Division. In October 1990, to help avoid further reconciliation backlogs, Goddard assigned a staff member to resolve monthly Statement of Differences items. However, because adjusting transactions for retirement accounts were not properly recorded, differences in the clearing account continued until fiscal 1991 year-end. As of September 30, 1991, unreconciled differences remained for the most recent 6 months, including \$20,450 for collections and \$31,860 for disbursements.

A Goddard system development official told us that, in mid-March 1992, the Center implemented an automated interface between Goddard's Invoice Payment System and its Fiscal Accounting System and general ledger which will allow the subsidiary account entries in the payment system to update both the fiscal system and the general ledger. Although this improvement should aid Goddard in minimizing future variances, if prior variances are not resolved, the cumulative financial data will continue to be unreliable.

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**Kennedy Had Not  
Performed Accounts  
Payable Reconciliations**

We found that for two of Kennedy's general ledger control accounts, Accounts Payable to Government Agencies and Accounts Payable to Others, reconciliations with subsidiary accounts had not been made since 1987. Although Kennedy personnel attempted a reconciliation of these accounts in June 1991, they were unable to resolve a difference of about \$491,000, out of a total accounts payable of over \$32 million, between the Center's general ledger and its accounts payable.

Kennedy officials told us that it was not possible to resolve these discrepancies because they originated prior to Kennedy's 1983 conversion to the Space, Transportation, Accounting and Resources System, and supporting documentation was not retained. However, subsequent to our

work at Kennedy, NASA's Agency Accounts and Reports Branch Chief told us that Kennedy had resolved \$324,656 of the discrepancies. He said that in September 1991, Kennedy adjusted both its General Ledger Accounts System and FACS system reports to NASA headquarters to reflect the corrected balances. However, because the documentation subsequently provided by Kennedy only showed total adjustments by account without reasons or documentation for individual adjustments, we were not able to determine if the adjustments were proper.

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### Johnson Corrected Past Discrepancies

During the course of our review, Johnson corrected numerous discrepancies between its subsidiary accounts payable records and its general ledger. As of September 30, 1989, Johnson's Statement of Differences with Treasury showed discrepancies totaling \$1,416,637 in accounts payable. In April 1990, Johnson's financial managers explained that the discrepancies had not been resolved because of staff shortages and new, inexperienced staff. However, at fiscal 1990 year-end, differences had been reduced to \$167,281 for accounts payable and no differences showed on the fiscal 1991 year-end Treasury statements.

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### Discrepancies Were Not Identified at Marshall

At Marshall, we found neither discrepancies between the Center's general ledger and subsidiary accounts payable at fiscal 1991 year-end nor differences between Marshall and Treasury collection and disbursement data. Marshall maintains an integrated, automated accounting system that facilitates reconciliations. Because integrated, automated systems generally require that data be entered only once with that one entry updating all pertinent accounts, discrepancies are less likely to occur than with nonintegrated or manual systems.

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### NASA Had Reimbursable Accounting and Reporting Problems

According to NASA's internal reviews, for years, NASA has been unable to resolve millions of dollars in discrepancies between two systems that account for reimbursable activity. Also, NASA's Centers continued to report delinquencies in reimbursable accounts receivable, which are due, in many cases, to a lack of adequate documentation to support billings and collections. Reimbursable accounting covers work performed by one Center for another Center; another government agency, such as the Air Force; foreign governments; universities; or other nongovernment entities, where costs are to be repaid by the organization requesting the work. At Goddard alone, NASA headquarters identified uncollected reimbursable accounts receivable totaling over \$27 million. Uncollected reimbursements

also contributed to NASA's funds control weaknesses discussed in chapter 4. In addition, since 1987, NASA headquarters has reported problems in reimbursable accounting that indicate possible billing errors, overpayments, and recording errors that have gone uncorrected. NASA's longstanding unresolved reimbursable accounting problems impair its ability to collect amounts owed by its customers and accurately report on the results of its reimbursable activities. Failure to collect payment for reimbursable work also means that NASA has used its budget authority to fund work for other federal agencies.

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### **Reimbursable Differences Between Systems**

NASA maintains reimbursable accounting data in two different systems. NASA's official agencywide Financial and Contractual Status (FACS) system contains reimbursable accounting data at the total contract level and is maintained by NASA's Agency Accounts and Reports Branch. The Reimbursable Obligation and Cost Reporting System (ROCRS) is maintained separately at each NASA Center and contains data by reimbursable agreement number. According to NASA's Agency Accounts and Reports Branch Chief, unresolved differences existed between the two systems because separate postings of data to ROCRS and FACS sometimes resulted in errors, and Centers' ROCRS data were not totaled by contract number to support a reconciliation with FACS data. Because ROCRS was not automated at all Centers, and automated ROCRS data was not integrated with FACS, reconciliation of ROCRS data to FACS had to be performed manually. Furthermore, because manual reconciliations are cumbersome, they were not always performed promptly, according to the Agency Accounts and Reports Branch Chief.

NASA headquarters managers told us that during 1988, and again in 1990, the Director of the Financial Management Division at NASA headquarters notified all Center Financial Management Officers of discrepancies between their monthly ROCRS and FACS reports and asked the Centers to resolve them. While NASA headquarters officials told us that some discrepancies were resolved, they could not provide us with documentation to support the adjustments. As a result, we could not determine if the discrepancies had been resolved properly.

As of September 30, 1991, NASA's reports showed that reimbursable obligations recorded in the two systems for all NASA locations differed by a net amount of over \$13 million and reimbursable costs differed by a net of about \$2 million. Errors in individual accounts, some of which were overstated and others which were understated, totaled more. The

Johnson, Stennis, and Ames Centers had the largest differences. As a result, NASA cannot ensure that it is billing for all reimbursable costs or that its financial reports are accurate.

**Headquarters' Reports Indicated Other Reimbursable Accounting Weaknesses**

Our review of NASA's headquarters accounting reports on reimbursable activity identified other conditions that indicated weaknesses in NASA's ability to manage and properly account for its reimbursable activity. These conditions included (1) costs in excess of obligations and resource authority, (2) obligations in excess of resource authority (which indicate that work is being performed beyond agreed-upon amounts and possibly without budget authority), and (3) improper negative balances (which could indicate that NASA collected overpayments which may need to be refunded). Although NASA's Agency Accounts and Reports Branch has monitored these conditions since 1988 and was attempting to identify and correct the related problems at the Centers, NASA's reimbursable accounting reports showed numerous instances of improper account balances at fiscal 1991 year-end. Table 5.1 shows the number of reported occurrences for four conditions at three of the Centers included in our review.

**Table 5.1: Improper Fiscal 1991 Year-end Account Balances Related to Reimbursable Accounting Identified by Headquarters**

| Condition                                | NASA Center <sup>a</sup> |           |           | Total      |
|--|--------------------------|-----------|-----------|------------|
|  | Goddard                  | Johnson   | Marshall  |            |
| Cost exceeding obligations               | 27                       | 13        | 20        | 60         |
| Obligations exceeding resource authority | 14                       | 8         | 12        | 34         |
| Cost exceeding resource authority        | 23                       | 13        | 16        | 52         |
| Paid bills exceeding cost                | 31                       | 22        | 18        | 71         |
| <b>Total</b>                             | <b>95</b>                | <b>56</b> | <b>66</b> | <b>217</b> |

<sup>a</sup>NASA's reports contained no differences for Kennedy, since its accounting system automatically adjusts costs, obligations, and commitments based on a paid billing. We did not thoroughly investigate Kennedy's system to determine if the automatic adjustments were proper.

In addition to Center-level reimbursable accounting and reporting problems, our review of NASA's general ledger reports identified 22 occurrences of negative fiscal year-end appropriated fund cash balances with the Treasury, totaling over \$70 million, generally caused by reimbursable accounts receivables that may have been uncollectable. According to OMB regulations, reimbursable authority is not to be allotted

unless there is reasonable assurance that, by fiscal year-end, collections will be made and credited to the appropriation account that incurred the obligation.

NASA's failure to collect payments on reimbursable work resulted in a loss of offsetting collections to its appropriation accounts and contributed to the negative cash balances.

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**Goddard Had Serious  
Reimbursable Accounting  
Problems**

In April 1988, NASA headquarters identified uncollected reimbursable accounts receivable at Goddard totaling over \$27 million. The uncollected reimbursable receivables existed because, in some cases, Goddard had not maintained documentation to support its billings and requesting agencies refused to pay them. In other cases, Goddard had not billed for services performed. This situation was so severe, that in 1990, NASA headquarters sent a team to assist the Center in resolving the delinquencies. As of July 1991, the team had helped Goddard (1) collect \$22.9 million of the delinquent receivables, including \$19 million of \$23 million owed by the Air Force, and (2) write off \$774,000 in uncollectible receivables.

In discussing the resolution of Goddard's uncollected reimbursements with NASA headquarters officials, we determined that Goddard handled the write-off of \$774,000 in uncollected balances improperly. NASA officials told us that Goddard's "write-offs" were accomplished by reducing the amounts on the reimbursable billings and adjusting the supporting reimbursable agreements to match the amounts collected. Goddard then reduced the accounts receivable balances by transferring the reimbursable account activity to direct appropriations. This action served to conceal the losses. Although GAO's Title 7 requires agencies to submit requests to GAO for settlement of losses over \$1,000, NASA officials told us that they routinely write off uncollected receivables against an Uncollected Receivables account without submitting them to GAO. The resultant losses are covered by appropriated fund miscellaneous receipts. Goddard did not use the write-off account or request settlement from GAO because, after adjusting the documentation and the related accounting entries, which in effect concealed the reimbursable losses, there was no amount to write off.

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**Goddard Did Not  
Implement Internal Review  
Recommendations**

Internal financial management functional reviews performed at Goddard in July 1988 and December 1989 by the NASA Comptroller identified a number of problems in reimbursable accounting and reporting and

uncollected receivables. The 1988 review identified problems with Goddard's billings and receipts and recommended reconciliation of all reimbursable accounts receivable. The 1989 review identified a number of problems, including

- 644 reimbursable work orders from fiscal years 1980 to 1989 that had not been fully billed;
- reimbursable costs that exceeded obligations due to lack of controls, system edits, and management oversight;
- discrepancies between the reimbursable file for deposits of advances and the general ledger; and
- unsupported billings in October 1989 totaling \$1 million that did not balance to the general ledger, billings that were never forwarded to NASA headquarters for issuance, and 22 billings that had been paid in 1988, the amounts of which did not agree with the general ledger.

The internal review report stated that these problems resulted in a Reimbursable Aging Report that was understated by \$5.8 million. Goddard's reimbursable accounting weaknesses were identified as material in NASA's 1989 FMFIA report. According to NASA's December 1991 FMFIA report, corrective actions on Goddard's accounting systems are to include design and implementation of a new accounts receivable system which is targeted for completion in December 1992.

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## **NASA's Systems Did Not Facilitate Financial Reporting**

NASA's financial reports to Treasury for fiscal years 1990 and 1991 were unreliable because they were based on general ledger account balances that contained unsupported adjustments and uncorrected errors, resulting in extensive misstatements. If these practices continue, they will diminish the reliability of NASA's fiscal year 1992 financial statements, which NASA's Office of Inspector General plans to audit. NASA's unreliable financial data can also impact governmentwide reports developed by Treasury and OMB. For example, Treasury uses agency reports to prepare consolidated governmentwide reports, which provide information to the Congress and the public about overall government performance and stewardship. OMB includes selected accounting data in schedules presented in the President's Budget to compare actual to budgeted activity. Incorrect agency financial reports also adversely affect Treasury's and OMB's ability to evaluate an agency's financial performance.

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## **NASA Had Improper General Ledger Account Balances**

NASA's general ledger had numerous accounts with improper balances that NASA had not investigated and resolved. Improper balances, such as a credit balance in an account that should have a debit balance, indicate that errors or irregularities have occurred. These improper balances, totaling millions of dollars for fiscal years 1990 and 1991, covered all categories of accounting transactions—assets, liabilities, and equity. The related accounting problems include funds control problems we identified in chapter 4, such as negative unobligated allotments (obligations in excess of allotments) and negative appropriated fund balances with Treasury, which may have resulted from uncollected reimbursable accounts receivable. In addition, we identified improper balances in expired accounts,<sup>1</sup> which indicated that the problems had existed for several years. We also identified improper negative balances for disbursed appropriations, accounts payable to other government agencies, liabilities on accrued annual leave and capital leases, unbilled accounts receivable, and accounts payable funded by carrier accounts. These improper balances indicate possible overpayments and uncollected accounts receivable.

We discussed these improper balances with NASA headquarters officials, including the Chief of NASA's Agency Accounts and Reports Branch, who was aware of problems in the general ledger balances but was unaware that they were as extensive as our review disclosed. NASA headquarters officials told us that they could not explain the improper balances and that staff shortages in the Agency Accounts and Reports Branch precluded them from routinely analyzing accounts to detect and correct errors before they were included in NASA's official reports to Treasury.

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## **NASA's Official Financial Reports Contained Errors**

In reviewing NASA's official year-end financial reports to Treasury, we found numerous undocumented adjustments, errors, and omissions. The Chief of NASA's Agency Accounts and Reports Branch said that NASA adjusts its financial report data to agree with Treasury's balances and to eliminate improper negative balances, even though discrepancies have not been resolved. This is because Treasury considers its records official and will not accept agency balances that differ from its own, unless an agency can explain and document the differences, and because Treasury will not accept improper negative balances. NASA's Agency Accounts and Reports Branch Chief told us that NASA had to revise its fiscal 1991 TFS-2108, Year-End Closing Statement, two times before Treasury would accept it.

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<sup>1</sup>An expired account consists of prior year appropriations which are no longer available for incurring new obligations but are available to pay bills for existing obligations and liabilities previously incurred.



The Branch Chief told us that required revisions included adjustments to (1) show negative expired account balances as positive unobligated balances and (2) eliminate discrepancies between Goddard's and Treasury's reimbursable account balances. In these instances, the adjusted balances would also be reflected on NASA's SF-220, Report on Financial Position; SF-221, Report on Operations; SF-222, Report on Cash Flow; and SF-223, Report on Reconciliation.

Our review of NASA's fiscal 1991 year-end SF-220, Report on Financial Position, identified unsupported adjustments, misstatements, and omissions. We discussed these errors and adjustments with NASA's Agency Accounts and Reports Branch Chief to determine the causes of these problems. The following examples describe the errors we identified, the reasons they occurred, and NASA's corrections.

- NASA reported a zero balance for "accounts receivable" because the accountant preparing the report misunderstood the instructions. NASA's corrected statement shows the balance to be \$427,070,354.
- "Trust fund balances" were reported as zero because the actual balance had been included with "unexpended appropriations." The corrected total for NASA's Miscellaneous Trust Fund is shown as \$554,419.
- The "accounts payable" balance reported did not agree with the general ledger. NASA's Branch Chief told us that the reported balance was adjusted to agree with Treasury's total because of unresolved discrepancies.
- "Accrued payroll and benefits" was reported as zero because the balance was included in the total for "accounts payable." The amount shown on NASA's corrected statement is \$83,178,432.

After we discussed the errors in NASA's fiscal 1991 year-end Report on Financial Position with NASA's Branch Chief, he told us that he had subsequently discussed the misstatements with a Treasury official who advised him that NASA must correct this report as well as its related financial reports. NASA provided the corrected SF-220 as well as corrections for related fiscal 1991 year-end reports to Treasury on March 10, 1992.

According to NASA's Branch Chief, not all accounts payable discrepancies are NASA errors. Some are a result of late receipt of information by NASA on foreign payments the State Department made on NASA's behalf. Others are a result of differences between NASA and Federal Reserve Bank posting dates on collections or posting errors made to Treasury General Accounts

in commercial banks.<sup>2</sup> The Branch Chief told us he planned to meet with State and Treasury Department officials to attempt to resolve these problems.

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## NAFIS Will Not Address Accounting Systems Problems for Many Years

The NASA Accounting and Financial Information System (NAFIS) is expected to improve the reliability of NASA's general ledger accounts and resulting reports. The system is designed to be a standardized, integrated accounting system and to implement the federal government's Standard General Ledger. However, as previously discussed, the implementation of NAFIS is not scheduled to begin until March 1995. Although Goddard and other Centers have made some interim system improvements, they will not address the fundamental deficiencies we identified. Also, unless NASA resolves existing discrepancies and corrects its improper accounting practices, the NAFIS system implementation will not produce reliable data and reports.

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## Conclusions

NASA has not corrected long-standing accounting weaknesses, its accounting systems and processes do not produce reliable financial information, and its financial reports contain errors. NASA's Centers do not have adequate systems to generate reliable financial reports and, according to NASA officials, NASA's Agency Accounts and Reports Branch does not have adequate staff to detect and correct errors before they are presented in NASA's official financial reports. Given NASA's accounting system weaknesses and the errors we identified in its official reports to Treasury, NASA is likely to have difficulty preparing accurate fiscal 1992 year-end financial statements for the planned Office of Inspector General audit. Moreover, unless NASA's accounting system errors and procedures are corrected, its planned NAFIS system will also produce unreliable financial data.

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## Recommendations

To ensure accurate and reliable fiscal year-end financial reporting, we recommend that the NASA Administrator direct the Comptroller to

- require Centers to research and correct improper general ledger account balances and review the results of the Centers' reconciliations between general ledger control accounts and subsidiary accounts to ensure that

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<sup>2</sup>Treasury General Accounts are maintained in commercial banks that serve as depositories for federal agency payments.

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discrepancies are resolved and that general ledger and subsidiary balances agree, as required by NASA's Financial Management Manual;

- investigate and resolve agency-level accounting discrepancies, including improper general ledger balances;
- require that headquarters and Center-level accounting systems maintain subsidiary ledgers to facilitate account reconciliations and that supporting documentation be maintained for all accounting adjustments; and
- require that uncollected reimbursable receivables identified at NASA's Centers be properly settled and reported.

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## Agency Comments and Our Evaluation

In response to our finding that Kennedy had not fully resolved discrepancies in an attempt to reconcile its accounts payable general ledger accounts, NASA stated that the discrepancies have since been reconciled and that all corrections had been made as of January 31, 1992. NASA also stated that the general ledger accounts had been reconciled monthly since January 1992.

We have not reviewed the disposition of the discrepancies or verified that monthly reconciliations are now being performed. NASA headquarters may want to review this area when performing future financial management functional reviews at the Center.

# CFO Act Provides a Framework for Improving NASA's Financial Management

NASA faces major challenges in improving the reliability and usefulness of its financial data. The Chief Financial Officers Act of 1990 (Public Law 101-576) provides NASA a framework for improving its financial management environment by requiring that NASA develop 5-year plans for financial management and systems, consolidate financial management responsibilities, correct accounting and internal control weaknesses, and produce reliable financial reports. However, to achieve these financial management improvements, it will be important for NASA to formally recognize and correct the material weaknesses our review identified. To do so, NASA's Comptroller, who is the designated Chief Financial Officer (CFO), will require top management support and commitment.

On May 7, 1992, we testified before the House Committee on Science, Space and Technology, Subcommittee on Investigations and Oversight, on NASA's financial management weaknesses identified in this report. Following our testimony, on May 21, 1992, the new Administrator advised the Subcommittee that NASA had undertaken an intensive effort to resolve its negative general ledger account balances and that NASA also planned to address our remaining findings.

## CFO Act Requirements

The goal of the CFO Act is to establish financial management concepts that achieve improved financial systems and reliable financial information for decisionmakers. The act establishes a leadership structure, provides for long-range planning, requires audited financial statements, and strengthens accountability reporting. For example, the act establishes a CFO position at each of the departments and major executive agencies with responsibility for

- overseeing all financial management activities relating to agency programs and operations;
- establishing financial management systems that comply with applicable accounting principles, standards, and requirements, as well as internal control standards;
- preparing a plan to guide financial management systems development and operations;
- preparing an annual report which describes the agency's financial status and includes audited financial statements;
- developing and reporting cost data and performance measures;
- developing and implementing systems for reporting costs and managing assets, including those needed for credit management and property accounting;

- 
- integrating accounting and budget information and operations; and
  - directing and managing the recruitment, selection, and training of financial management personnel.

Each of these responsibilities is key to NASA's achieving the financial management structure and operational improvements needed for accomplishing the act's goal.

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## **Factors to Consider in Implementing the CFO Act**

As we discussed in previous chapters, NASA has several ongoing actions which address some of the issues mandated in the CFO Act, including development of a single, integrated financial system, NAFIS, and a planned OIG audit of its fiscal year 1992 financial statements. NASA can take additional actions to fully address the act's requirements.

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## **Consolidating Financial Management Systems**

In August 1991, we reported <sup>1</sup> on NASA's efforts to design and develop NAFIS. We concluded that NAFIS would cost more and take longer to implement than was currently planned without meeting OMB's mandate for an integrated financial management system. Our report recommended that the Administrator direct the Comptroller to identify and report in NASA's 5-year financial systems plan

- all project costs and milestones for fully developing and implementing NAFIS, including those for hardware and software, data cleanup, and data conversion of the Installation-level Accounting System and the Agencywide Reporting System components;
- all costs and milestones for the Accounting and Funds Control System (formerly the Control Tracking System) which is to be interfaced with NAFIS; and
- NASA's plans for standardizing its planning and budget systems and integrating or interfacing them with NAFIS to achieve the governmentwide mandate for a single, integrated financial management system.

The Comptroller's actions to develop complete estimates of costs and milestones, as well as guidelines for cleanup and conversion of data in NASA headquarters' financial reporting systems and its Centers' accounting systems, will help ensure effective implementation of NAFIS. In August 1991, we reported that NAFIS plans did not adequately address these issues. Our findings in the previous chapters, as well as the CFO Act's requirement

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

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for integrated budget and accounting systems, further support the need for NASA to implement our recommendations.

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## **Consolidating Financial Management Responsibilities**

The CFO Act stipulates that an agency CFO shall oversee all financial management activities relating to an agency's programs and operations. Further, the act calls for consolidating an agency's accounting, budgeting, and other financial management activities under the agency CFO, who is to report directly to the head of the agency on financial management matters.

In reviewing NASA's organizational structure, we noted that the management environment in its headquarters and Centers was decentralized. While the Centers' financial management officers are organizationally responsible to their respective Center Directors, they actually report to the NASA Comptroller. Divided organizational responsibilities need to be carefully monitored to ensure that an agency's financial management accountability and effectiveness are not weakened. For example, we found that many of the Centers' internal control and accounting systems weaknesses, which have been identified by the Comptroller's internal management reviews, had gone uncorrected. A stronger commitment by the Centers' financial management officers and the NASA Comptroller would help ensure that appropriate actions are taken to correct identified weaknesses.

Consolidating responsibility for financial management systems and related operations under the CFO poses a challenge. First, NASA must balance its emphasis on program execution with sound financial management practices. Second, the Comptroller must be willing to enforce financial management policies and take a leadership role in directing financial management improvements. Organizational commitment to financial management improvement can be strengthened by active Comptroller involvement in (1) directing, managing, and providing policy guidance and oversight of the agency's and Centers' financial management personnel, activities, and operations and (2) developing comprehensive agency financial management improvement and financial systems plans.

The Comptroller's actions to ensure consistent and effective implementation of NASA's accounting policies and internal controls and to develop corrective action plans for identified weaknesses are essential to improving NASA's financial management practices. Without sound financial management practices, NAFIS will not produce reliable financial reports.

OMB's February 27, 1991, guidance for implementing the CFO Act (OMB Bulletin 91-07) states that agency CFOs should have authority to establish, in coordination with program managers, an agencywide internal control process. The guidance also states that the CFO should have broad authority and responsibilities for financial management systems, which include (1) approving the design for information systems that provide financial and/or performance data used in financial statements, (2) ensuring that program information systems provide financial and programmatic data reliably, consistently, and promptly to agency financial management systems, and (3) evaluating the implementation and operation of such systems.

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## Financial Management Plans

The CFO Act requires OMB to prepare and submit to the Congress a governmentwide 5-year financial management plan beginning in 1992. The act also requires agency CFOs to prepare and annually revise agency plans to implement OMB's 5-year financial management plan.

OMB's 5-year plan is to include (1) a description of the existing financial management structure, (2) a strategy for developing and integrating individual agency accounting, financial information, and other financial management systems, (3) proposals to eliminate duplicate and other unnecessary systems, (4) financial management personnel needs, and (5) a plan for ensuring the annual audit of financial statements of selected executive agencies.

On April 13, 1992, OMB issued to the Congress its first 5-year plan for improving federal financial management. According to OMB, good financial management

- optimizes the flow of resources to the central programmatic mission of the agency, with administrative support in proper proportion to programmatic activities;
- consistently conforms to legal and administrative requirements and to financial measures, approaches, and standards that are promulgated separately from agency management;
- consistently performs basic financial functions, such as accounting, transactions processing, and asset management, at an acceptable level; and
- contributes information that is objectively important to the progress, performance, and success of the agency.

Under the CFO Act, OMB required agency 5-year plans to be submitted by August 31, 1992. OMB will be monitoring agency 5-year plans to ensure that they address the objectives of good financial management. Subsequent to our review, NASA officials told us that they had submitted the 5-year agency plan as required.

According to OMB's guidance, agency plans should include an overall financial management strategy, supporting plans for the eight financial management functional areas<sup>2</sup> included in OMB's governmentwide 5-year plan, and a status report. To effectively comply with this guidance, we believe it is important for NASA's plan to address how it will (1) establish linkages between accounting and budget information, (2) integrate programmatic and financial systems, (3) measure and report on costs and performance of its contracts, projects, and programs, and (4) link deficiencies identified in its audits, reviews, and annual Federal Managers' Financial Integrity Act (FMFIA) reports to plans for improved systems. Such a plan would help guide NASA's efforts to implement OMB's plan and help achieve improved financial management within the agency by focusing on accountability, efficiency and effectiveness, and better decision-making.

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### NASA Has Not Reported All Material Weaknesses in Annual FMFIA Reports

NASA's FMFIA reports and corrective action plans could have served as a useful basis for developing NASA's 5-year financial management plan. However, NASA's FMFIA reports have not identified many of the agency's material accounting and financial management weaknesses. The act requires agencies to evaluate internal controls, review accounting systems, and disclose the results so that identified weaknesses can be corrected. From 1983 to 1986, NASA was the only major agency not to report any financial management weaknesses in its accounting and financial systems and operations. In May 1984 and again in November 1985, our reports on NASA's program for implementing FMFIA concluded that there were several weaknesses worthy of reporting as material. These weaknesses involved NASA's property accounting and its accounting treatment of contractor costs that exceeded recorded obligations.

In 1987, NASA reported a material weakness which resulted in a cost in excess of obligations situation when contractor costs were incurred prior to obtaining the related resource authority. While NASA reported that this

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<sup>2</sup>The eight financial management functional areas included in OMB's July 2, 1992, *Guidance for Developing CFO Financial Management 5-Year Plans* are financial management organization, financial management personnel, accounting standards, financial systems, internal controls, asset management, communication with financial officers of contractors and grantees, and audited financial reporting.



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weakness was corrected during 1987, we found, as discussed in chapter 4, that NASA headquarters reports indicated that all Centers had continued to incur costs in excess of obligations through January 1991. In 1989, NASA also reported as a material weakness the accounting operations at the Goddard Space Flight Center. However, as of December 1991, NASA had not reported most of the material weaknesses we identified related to (1) contractor cost reporting, (2) budgetary funds control, (3) contractor-held property, and (4) accounting systems and financial reporting.

NASA pointed to various functional reviews,<sup>3</sup> internal reviews, and OIG audits as the basis for its assurance that expenditures complied with the law, resources were safeguarded, and results of operations were accurately reported. However, we found that while NASA headquarters performed cyclical financial management functional reviews of its Centers' financial operations, it excluded from the process the NASA Comptroller's Agency Accounts and Reports Branch, Budget Operations Office, and Resource Analysis Division. Respectively, these headquarters functions are responsible for accounting and reporting on the results of NASA's agencywide financial operations, issuing and controlling funding and obligations and expenditures for NASA's programs and operations, and preparing NASA's planning and budget estimates. NASA's OIG also had not reviewed these agencywide financial management operations. If these reviews had been performed, the material weaknesses we identified in budgetary controls, accounting and financial systems, and financial reporting might have been detected and corrected earlier.

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## Developing and Reporting Cost Data and Performance Measures

The CFO Act requires that agency financial management systems produce cost information and provide a means for the systematic measurement of performance. OMB guidance (OMB Bulletins 91-14 and 91-15) also requires that agency financial statements include information to assess management performance. Such information can be important in strengthening program management. Properly designed and reported performance indicators can be valuable tools to agency managers for identifying problems before they reach critical proportions, assessing alternative choices, and fostering economy and efficiency.

To comply with the act, agency financial management systems are to provide for the (1) systematic measurement of performance,

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<sup>3</sup>NASA headquarters performs financial management functional reviews at each of its Centers approximately every 2 years. The reviews include assessments of accounting functions such as general ledger, costs, revenues, property, and funds control.

(2) preparation and submission of timely performance reports to agency heads, and (3) linking of program and financial systems to integrate reporting on program performance, financial performance, and financial management performance information in annual financial statements. NAFIS, as planned, will not capture and report these data.

In order to develop accurate performance measures, it is important for NASA's Comptroller to (1) resolve the problems of undocumented and improper program analyst adjustments to contractor cost data, as discussed in chapter 2, and (2) ensure that costs are reported in accordance with NASA's prescribed work breakdown and agencywide accounting structures and are recorded in accordance with NASA's policies. It is also important for the Comptroller to work with program and procurement managers to ensure that existing data, as well as any data to be developed for performance measurement, are meaningful.

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### **Controlling Accounts Receivable and Accounting for Property**

In developing NASA's financial management plan, it is important that the Comptroller focus on actions to correct the accounting and control weaknesses over NASA's accounts receivable and property that we discussed in chapters 3 and 5. The CFO Act specifically charges agency CFOs with responsibility for implementing asset management systems, which would encompass accounts receivable and property control. This would involve (1) the authority to set and monitor policies for collecting receivables and guidelines for physical property, equipment, and inventory control and (2) the ability to monitor the application of these policies and guidelines. These issues deserve priority attention so that amounts owed the government can be properly accounted for and collected and government property can be accurately accounted for and controlled.

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### **Financial Management Staffing**

The CFO Act specifically gives agency CFOs responsibility for recruiting, selecting, and training personnel to carry out the agency's financial management functions. OMB's February 27, 1991, guidance states that agency CFOs should have authority to provide agencywide policy advice on financial management staffing matters. OMB's guidelines state that agency CFOs should be responsible for (1) approving job descriptions and skill requirements for the heads of agency component financial management activities, (2) approving the people selected to fill these positions, and (3) participating in their annual performance evaluations.

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In addition, an agency's overall financial management plan is to provide a framework for identifying and addressing potential staffing and resource problems. Supporting a continuing education policy for agency financial managers is also important in maintaining a well-trained and high caliber financial management work force. Such a policy was recommended by the Joint Financial Management Improvement Program <sup>4</sup> in its December 1990 report, Continuing Professional Education: Federal GS-510 Accountants.

Like many federal agencies, NASA faces the challenge of attracting and retaining an adequate number of people with the necessary skills to perform financial management operations. Also, as we discussed in chapters 4 and 5, adequate numbers of skilled, trained, and supervised accounting and budget staff will help ensure the accuracy of NASA's accounting data and reports, as well as the reliability of its certifications and budgetary funds controls.

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## Conclusions

The CFO Act provides a broad framework to strengthen agency financial management operations. NASA can use the act as a guide to making important financial management improvements. NASA faces major challenges in centralizing its financial management activities under the Comptroller, correcting its accounting and internal control weaknesses, developing integrated financial management systems, preparing financial statements that can successfully withstand audit scrutiny, and preparing and developing reliable cost and performance data. In the past, NASA has not identified all financial management weaknesses or planned corrective actions in its FMFIA reports. While the new Administrator has stated his support for financial management improvements, successfully addressing these issues will require sustained action on the part of NASA's Comptroller and the continuing support of NASA management.

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## Recommendations

We recommend that in future FMFIA reports, the Administrator disclose the material weaknesses we identified, along with planned corrective actions, in the areas of (1) contractor cost reporting, (2) budgetary funds control, (3) contractor-held property, and (4) accounting systems and financial reporting. These weaknesses and related corrective action plans should also be included in NASA's 5-year financial management plan required by the CFO Act.

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<sup>4</sup>The Joint Financial Management Improvement Program is a cooperative undertaking of OMB, the Department of the Treasury, GAO, and the Office of Personnel Management to improve financial management practices throughout the government.

In addition, we recommend that the Inspector General

- perform periodic reviews of NASA's Agency Accounts and Reports Branch and the Budget Operations Office to determine if (1) controls have been implemented to ensure that agencywide financial reports are accurate and reliable and (2) adjustments made to agency accounting data, including contractor cost data, are proper and
- assess NASA's controls for ensuring the receipt of accurate, timely, and useful contractor cost report information as part of its planned audit of NASA's fiscal year 1992 financial statements.

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## Agency Comments and Our Evaluation

NASA stated that in the absence of an appointed CFO, the NASA Comptroller has assumed responsibility for all financial management requirements of the CFO Act. NASA also stated that a 5-year plan had been prepared and submitted to OMB by August 31, 1992, as required. We did not review the plan to ensure it was in keeping with OMB's guidance.

NASA took exception to our assertion that it should report in their 5-year plan all costs and milestones associated with fully developing and implementing NAFIS, including those for hardware and software, data cleanup, and data conversion. NASA indicated that OMB does not currently require that costs be a part of this plan.

Although OMB's guidance does not require agencies to report costs of system development projects in their 5-year plans, the guidance states that "agency CFOs must identify implementation costs, in order to assess the realism of the plan in relation to projected funding availability, and as essential information for the annual budget process." In addition, regardless of how these costs are maintained and reported, it is important for the NASA Comptroller to identify all costs and milestones to ensure the NAFIS project is properly funded and managed. At the May 7, 1992, hearings before the House Committee on Science, Space, and Technology, Subcommittee on Investigations and Oversight, the NASA Comptroller testified that NASA had not yet prepared NAFIS conversion and implementation plans.

NASA also pointed out that the NASA Comptroller had actions underway to (1) help ensure that identified weaknesses are corrected, (2) enforce financial management policies, and (3) take a leadership role in directing financial management improvements. For example, the Comptroller had established a task force aimed at meeting all CFO Act requirements, as well

as requirements of other regulatory agencies governing the stewardship of federal funds. According to NASA, the task force will address several areas, including adequate staffing, standard organization, and performance measures. The results are to be presented to the NASA Administrator by the end of October 1992.

Regarding our recommendation that NASA disclose in future FMFIA reports the material weaknesses identified in our report, NASA stated that it will consider our findings related to contractor cost reporting, contractor-held property, and budgetary funds control, as well as those reported by the NASA OIG, in preparing this year's FMFIA report. However, NASA stated that based on the recent actions taken by Goddard to improve controls over contractor-held property, it does not believe a material weakness exists in this area. We disagree since we based our conclusion on more than the weakness identified at Goddard. Our detailed evaluation of NASA's comments regarding weaknesses in property accounting is included at the end of chapter 3.

In regard to reporting accounting systems and financial reporting as a material weakness, NASA stated that it already reports this weakness as a high risk area under FMFIA. NASA's December 1991 report stated that it lacked a single, standard accounting system and discussed the benefits it expected to derive in the future from a new system, NAFIS. However, we do not believe the discussion adequately described the material weaknesses we identified, which go beyond NASA's need for a single, standard system. For example, our report discusses several accounting and internal control problems that affect the reliability of data entered in NASA's systems and its financial reports on the results of operations.

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