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General Accounting Office
Washington, D.C. 20548

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**Accounting and Financial
Management Division**

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June 11, 1993

The Honorable Daniel S. Goldin
Administrator
National Aeronautics and
Space Administration

Dear Mr. Goldin:

We have reviewed the National Aeronautics and Space Administration's (NASA) December 1992 report under the Federal Managers' Financial Integrity Act (FMFIA) and NASA's August 1992 5-Year Financial Management Plan under the Chief Financial Officers (CFO) Act. The FMFIA report asserts that, except for the material weaknesses and material nonconformances addressed in the detailed information, NASA's internal management control and financial systems, taken as a whole, provide reasonable assurance that the objectives of FMFIA have been achieved and that its accounting systems are generally in conformance with the Comptroller General's principles and standards. The 5-Year CFO Plan presents NASA's strategy for improving financial management over the next several years.

NASA's FMFIA report does not accurately characterize or fully disclose the extensive weaknesses in NASA's internal management controls and the failure of its accounting systems to conform to the Comptroller General's accounting principles and standards. Our October 1992 report¹ highlighted significant financial management and accounting system deficiencies that seriously weakened NASA's ability to safeguard, manage, and control its \$15 billion in fiscal year 1992 budget authority and over \$14 billion in contractor-held property. Weaknesses included inaccurate contractor cost reporting, inadequate financial control and reporting over contractor-held property, inadequate budgetary controls, and unreliable accounting systems and financial reports.

¹Financial Management: NASA's Financial Reports Are Based on Unreliable Data. (GAO/AFMD-93-3, October 29, 1992).

GAO/AFMD-93-65R, NASA's FMFIA Assertions and CFO Plan

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Further, NASA's planned corrective actions do not address all identified weaknesses. For example, NASA's FMFIA report does not address corrective actions needed to improve controls over budgetary resources. In addition, NASA's 1992 5-Year CFO Plan does not address the full range of corrective actions needed for NASA to effect financial management improvements. For example, its 1992 5-Year CFO Plan excludes corrective actions on contract management, which is designated as a high-risk area by both the Office of Management and Budget (OMB) and GAO. Contracts, the primary means by which NASA accomplishes its mission, involve accountability for about 90 percent of NASA's budget.

REQUIREMENTS FOR AGENCY FMFIA REPORTS AND CFO PLANS

The FMFIA and its implementing guidance² require that heads of federal agencies annually report to the President and the Congress by December 31 on whether (1) their internal control systems are effective, (2) their accounting systems conform to the Comptroller General's accounting principles and standards, and (3) they have planned and/or implemented actions to correct identified weaknesses. Most importantly, the FMFIA process makes agency management responsible for assessing its own operations and is intended to produce vital information that top management can use to control costs and improve operations.

Complementing FMFIA, 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 financial management 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.

The FMFIA assessment process--by requiring identification, disclosure, and corrective action on material internal control and accounting system weaknesses--and the CFO Act concept--by strengthening financial management leadership, reporting, and planning--provide important tools for achieving needed financial management reforms by federal agencies.

²OMB guidance includes Circular A-123, "Internal Control Systems," Circular A-127, "Financial Management Systems," and annual memoranda issued to agencies.

1992 FMFIA REPORT ASSERTIONS OVERSTATED

NASA's statement of assurance that, except for certain material weaknesses and material nonconformances addressed in the detailed information, NASA's internal control and accounting systems, taken as a whole, provide reasonable assurance that the objectives of the Federal Managers' Financial Integrity Act have been achieved does not accurately characterize or fully disclose the extensive weaknesses in NASA's internal management controls and accounting systems. Our October 1992 report identified specific weaknesses which show that NASA's internal controls and accounting systems do not provide the assurance required by FMFIA in several critical financial management areas. For example, we reported that periodic reports on contract costs, for which NASA pays contractors hundreds of millions of dollars annually, are often late, insufficiently detailed, and sometimes not received at all. As a result, NASA and the Congress were making billion dollar decisions using unreliable program, project, and contract cost data. We also reported that NASA lacks control over government-owned, contractor-held property. NASA's internal financial controls did not ensure that contractor-held property was properly accounted for or that the value of this property, which NASA reported to be over \$13 billion in fiscal year 1991 and over \$14 billion in fiscal year 1992, was accurate.

Detailed information in NASA's 1992 FMFIA report indicates that NASA has over 60 corrective actions underway to address weaknesses identified in our October 1992 report. In addition, NASA's FMFIA report identifies numerous actions underway to correct weaknesses identified in other GAO audit reports, including contract management, computer security, environmental program, and institutional contracting practices.³ However, corrective actions included in NASA's 1992 report do not address all identified weaknesses, such as the need for assurance that appropriations are used for authorized purposes. Also, NASA's FMFIA assessments do not cover the NASA Comptroller's agencywide financial management activities, and some weaknesses identified by NASA in the past, including deficiencies in contractor cost reporting and controls over contractor-held property, were not disclosed in NASA's previous FMFIA reports.

NASA's statement of assurance is contradicted by other overall statements made by NASA. For example, NASA's FMFIA report states that "(a)udits, functional reviews, and other evaluations have revealed several material weaknesses and material nonconformances in individual systems." It also states that "...four additional material nonconformances related to financial systems are being reported this year." This

³Enclosure I lists these and other related GAO products.

information does not support NASA's overall statement of assurance nor does it disclose the nature of specific weaknesses which include NASA's accounting systems, budget controls, property controls, contract management, and computer security.

Compliance With Comptroller General Principles

NASA's FMFIA report states that "(t)he results of...GAO audits...have provided assurance that the accounting systems are generally in conformance with the principles and standards prescribed by the Comptroller General...." However, our October 1992 report identified a number of material internal control weaknesses and material system nonconformances, including inaccurate contractor cost reporting, inadequate financial control and reporting over contractor-held property, inadequate budgetary controls, and unreliable accounting systems and financial reports which show that NASA is not in conformance with the Comptroller General's principles and standards. For example, NASA has not performed many required reconciliations between subsidiary and general ledger accounts, and its Financial Management Manual does not require reconciliations of many accounts, including accounts payable, as required by the Comptroller General's accounting standards, which NASA maintains that it follows.

Corrective Actions Dependent Upon New Accounting System

Many of the planned corrective actions for NASA's internal controls, accounting systems, and financial reporting are dependent upon implementation of a single financial accounting system--the NASA Accounting and Financial Information System (NAFIS). Our October 1992 report stated that NASA's accounting systems and processes were not adequate to provide reliable financial management reports and that its budgetary controls were not adequate to ensure that obligations and expenditures were proper and did not exceed budget authority.

NASA has placed a moratorium on major system modifications because NAFIS implementation is to accomplish overall financial system improvements. However, because NASA may not complete NAFIS implementation for several years, we are concerned that the small number of interim systems improvements which have been approved will not sufficiently address NASA's financial system weaknesses, or the weaknesses at its field locations. For example, two interim system improvements at the Goddard Space Center--development of a Consolidated Budget System and an Integrated Financial Statements System--which are planned for completion in late 1994 and early 1995, will not fully resolve Goddard's system weaknesses. In addition, while efforts to develop NAFIS were begun in 1988, and NASA plans to begin implementation at two field installations in 1995, it has not prepared a system

implementation plan or established target dates for implementing the agency-level component or implementing the system at NASA's other seven installations. We raised these concerns in our August 1991⁴ and October 1992 reports.

Also, until NAFIS is fully implemented, NASA's headquarters and installation-level financial systems and data will require extensive manual monitoring and reconciliation to ensure that controls are effective and management reports are reliable. Funds control is an example of an area where extensive manual monitoring and reconciliation will be needed until planned systems are in place. NASA's December 1992 FMFIA report discloses that preparation of a new agency-level allotment ledger for funds control reporting will require reconciliation with installation reports. Given NASA's numerous nonintegrated systems and the accounting errors, omissions, and unauthorized adjustments to accounting data that we identified in our October 1992 report, NASA's other accounting processes will also require close monitoring and reconciliation.

The development of a new accounting system will not ensure that NASA's financial data and reports are reliable unless NASA also corrects the underlying control problems. Because accounting systems report recorded transactions, management controls are needed to ensure that recorded transactions are for authorized purposes and that they are recorded to the proper appropriation. Our October 1992 report stated that NASA inappropriately recorded some maintenance costs for an existing space shuttle to the appropriation for production of a new shuttle. These costs should have been charged to the appropriation which funds the operation of existing shuttles. If uncorrected, this internal control weakness would leave NASA open to misuse of appropriations. NASA's 1992 FMFIA report does not address this weakness or actions to correct it.

Goddard's Accounting Systems

NASA's 1992 FMFIA report states that system enhancements and other specific corrective actions have resulted in the Goddard Space Flight Center's Financial Accounting System coming into compliance with agency standards, except for the accounts receivable system, which NASA states will be brought into compliance when NAFIS is implemented. However, our October 1992 report identified a number of uncorrected accounting system weaknesses at Goddard, including the lack of a budgetary funds control system and the lack of integrated systems, which would

⁴Financial Management: Actions Needed to Ensure Effective Implementation of NASA's Accounting System, (GAO/AFMD-91-74, August 21, 1991).

provide automated reconciliations and controls between related systems. NASA's December 1992 response to our October 1992 report stated that actions are underway to develop a Consolidated Budget System and an Integrated Financial Statements System at Goddard. According to NASA's letter, the implementation target dates for these subsystems are November 1994 and January 1995, respectively. However, additional corrective actions on Goddard's systems, including these interim subsystems, are not included in NASA's 1992 FMFIA report. In addition, NASA's 1992 FMFIA report and its 1992 5-Year CFO Plan do not include target dates for NAFIS implementation at Goddard.

FMFIA Self-Assessments

Our October 1992 report stated that some of the Center-level control weaknesses we identified, including deficiencies in contractor cost reporting and controls over contractor-held property, were also identified in NASA's internal functional reviews, which serve as self-assessments under FMFIA. However, corrective action had not been taken, and NASA had not disclosed these weaknesses in its FMFIA reports. Our report also identified long-term uncorrected weaknesses in agency-level controls, systems, and financial reporting. NASA does not include agency-level Comptroller functions in its FMFIA assessments, nor does NASA's 1992 FMFIA report address the need for such agency-level assessments.

NASA has advised us that it will rely on its Office of Inspector General (OIG) reviews of agency-level Comptroller functions in the course of its financial statement audits to satisfy the self-assessment requirement of the act. While audit reports should be a key source for identifying material internal control weaknesses, they should not be the chief source used by an agency. Audit coverage of an agency's operations, by its very nature, encompasses only a small portion of those operations during any fiscal year. Consequently, audit coverage should not be relied on to identify most of an agency's material internal control weaknesses. Because relatively few of NASA's reported internal control weaknesses were self-identified, we believe that NASA's internal control evaluations have not achieved the intended benefits of the FMFIA process.

1992 5-YEAR CFO PLAN LIMITATIONS

Our October 1992 report identified factors for NASA's consideration in implementing the CFO Act, including (1) establishment of a CFO structure that optimizes the flow of resources to the central programmatic mission of the agency and (2) a financial management operation that consistently performs accounting and control functions at an acceptable level. However, NASA's 1992 5-Year CFO Plan does not provide for

broad financial management leadership or timely financial management systems improvement plans. Moreover, NASA does not yet have a CFO with authority over agencywide financial management policy and operations.

NASA's August 1992 5-Year CFO Plan, which is to chart the course for NASA financial management improvements over the next several years, does not provide for the CFO to have the broad financial management responsibility needed to ensure the accountability of program and procurement functions and thus help the agency head accomplish the agency's mission in a cost-effective manner. Many of the material financial management weaknesses identified in the details of NASA's 1992 FMFIA report relate to program and contract management and their resolution will require coordinated action by CFO, program, and procurement managers.

OMB's comments on NASA's 1992 5-Year CFO Plan noted that contract management should be included in future plans. We would add to this the need to explain in some detail the relationship between the CFO and NASA's Program Offices. Our work at NASA identified an environment where Program Offices have broad management authority for programs, budgets, and contract terms and conditions. In this environment, NASA's Offices of Comptroller and Procurement function in a reactive mode to proposals and decisions by the Program Offices. Our work shows that this management environment contributed significantly to NASA's budgetary funds control problems and its contract cost overruns.

The February 23, 1993, testimony of NASA managers before the House Science, Space, and Technology Committee, Subcommittee on Space, noted your recent action to establish a NASA Program Management Council to review program starts prior to and throughout the life of a contract. We believe such a management review process is a good step forward, but it should also involve the CFO to ensure financial management oversight and accountability.

Our August 1991 report recommended that NASA develop a NAFIS implementation plan and develop target dates along with complete cost estimates to ensure resources are available for timely implementation of NAFIS once design is complete. Our October 1992 report reiterated the need for NASA to develop a plan for timely and effective NAFIS implementation. NASA's 1992 CFO Plan, which addresses planned improvements over the next 5 years, however, does not include NAFIS implementation completion dates. This raises serious questions as to whether NASA will have an effective accounting system and funds controls in the foreseeable future. OMB's comments on NASA's CFO Plan also express concern about a timetable for NAFIS completion.

CONCLUSION

NASA's 1992 FMFIA report and 1992 5-Year CFO Plan do not clearly disclose NASA's material internal control and accounting system weaknesses or provide for all needed corrective actions. While NASA has addressed several of our audit findings and recommendations in the detailed sections of its 1992 FMFIA report, these weaknesses demonstrate that a broad statement of overall conformance is not warranted and does not fully disclose the seriousness of NASA's internal control and financial system weaknesses. NASA's 1992 5-Year CFO Plan misses the opportunity to establish broad financial management leadership to ensure accountability of program and contract managers for budgetary resources and mission accomplishment. If NASA is to achieve an overall management structure to support program management and budgetary decisions necessary to effectively carry out its mission, there must be a strong commitment to establishing a solid financial management environment capable of ensuring that reliable data is available to support management decisions. CFO leadership is critical to establishing such a financial management environment. Another important part of this commitment is identifying and disclosing material weaknesses in financial management controls and systems as a basis for ensuring that timely and effective corrective action is taken.

We are sending copies of this letter to the Office of Management and Budget; Chairmen and Ranking Minority Members of the Senate Committee on Governmental Affairs and House Committee on Government Operations; other cognizant appropriations and authorizing committees; and other interested parties. This letter was prepared under the direction of Donald R. Wurtz, Director, Financial Integrity Issues, who may be reached on (202) 512-0850 if you or your staff have any questions or would like to further discuss NASA's plans for corrective actions and overall financial management improvements.

Sincerely yours,



Donald H. Chapin
Assistant Comptroller General

RELATED GAO PRODUCTS

NASA Contract Management. (GAO/HR-93-11, December 1992).

NASA Issues. (GAO/OCG-93-27TR, December 1992).

Space Programs: NASA's Independent Cost Estimating Capability Needs Improvement. (GAO/NSIAD-93-73, November 5, 1992).

Earth Observing System: Information on NASA's Incorporation of Existing Data Into EOSDIS. (GAO/IMTEC-92-79, September 25, 1992).

Space Station: Resolving Conflict Over Integration Contractor's Role. (GAO/NSIAD-92-291BR, September 10, 1992).

NASA: Large Programs May Consume Increasing Share of Limited Future Budgets. (GAO/NSIAD-92-278, September 4, 1992).

NASA Procurement: Opportunities to Improve Contract Management. (GAO/T-NSIAD-92-33, May 7, 1992).

Financial Management: NASA's Decisions Are Based on Unreliable Systems Data and Reports. (GAO/T-AFMD-92-9, May 7, 1992).

Shuttle Rocket Motor Program: NASA Should Delay Awarding Some Construction Contracts. (GAO/NSIAD-92-201, April 27, 1992).

Space Station: Contract Oversight and Performance Provisions for Major Work Packages. (GAO/NSIAD-92-171BR, April 14, 1992).

NASA Procurement: Improving the Management of Delegated Contract Functions. (GAO/NSIAD-92-75, March 27, 1992).

NASA Budget: Potential Shortfalls in Funding NASA's 5-Year Plan. (GAO/NSIAD-92-18, March 17, 1992).

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

Space Projects: Status and Remaining Challenges of the Advanced X-ray Astrophysics Facility. (GAO/NSIAD-92-77, February 28, 1992).

NASA 5-Year Planning. (GAO/NSIAD-92-155R, February 19, 1992).

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

Earth Observing System: Information on NASA's Selection of Data Centers. (GAO/IMTEC-91-67, September 18, 1991).

Space Project Testing: Uniform Policies and Added Controls Would Strengthen Testing Activities. (GAO/NSIAD-91-248, September 16, 1991).

Space Communications: Better Understanding of Scheduling System Limitations Needed. (GAO/IMTEC-91-48, September 17, 1991).

Weather Satellites: Action Needed to Resolve Status of the U.S. Geostationary Satellite Program. (GAO/NSIAD-91-252, July 24, 1991).

Environmental Protection: Solving NASA's Current Problems Requires Agencywide Emphasis. (GAO/NSIAD-91-146, April 5, 1991).

Space Data: NASA's Future Data Volumes Create Formidable Challenges. (GAO/IMTEC-91-24, April 8, 1991).

Space Shuttle: NASA Should Implement Independent Oversight of Software Development. (GAO/IMTEC-91-20, February 22, 1991).

NASA Maintenance: Stronger Commitment Needed to Curb Facility Deterioration. (GAO/NSIAD-91-34, December 14, 1990).

Space Program Safety: Funding For NASA's Safety Organizations Should Be Centralized. (GAO/NSIAD-90-187, August 16, 1990).

NASA ADP Procurement: Contracting and Market Share Information. (GAO/IMTEC-90-39FS, April 20, 1990).

Space Operations: NASA Is Not Properly Safeguarding Valuable Data From Past Missions. (GAO/IMTEC-90-1, March 2, 1990).