NASA FY 2003
Contractor-Held Property Reporting

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Discussion Goals:

- Previous years’ audit findings;
- Solutions to audit recommendations;
- Clarification of NFS guidance;
- Quarterly Reporting Process;
- “NASA” Improvements to the NF 1018 process; and
- Open Forum
FY02 Audit Results

“Clean” opinion, but Material Weakness on Auditors Report on Internal Controls:

“NASA Lacks Adequate Controls to Reasonably Assure that Property, Plant and Equipment and Materials Are Presented Fairly in the Financial Statements”
Causes of Material Weakness

- Contractor-Held Property
  - Obsolete WIP & Materials
  - Materials vs. Equipment
  - Lack of Internal Controls
  - Inadequate Documentation
  - Work In Process (WIP) Reporting

- Assets in Space – Capitalization
Causes of Material Weakness

Obsolete WIP & Materials

- Obsolete or “no longer required” items not identified on NF1018
- No current guidance
- Lack of Internal Controls
Corrective Action:
Obsolete WIP & Materials

- Add definition and instructions in NFS
  - Obsolete or No Longer Required (i.e., old configuration)
  - No current plans for use in their intended purpose, but not exceeded due to NASA instructions
- Add to heritage and items in plant clearance column to the NF1018
Causes of Material Weakness

Materials vs. Equipment

- Useful life of two years or more
- Unit cost of $100K or more
- Consumables
- Items for production of new assets (as opposed to spares)
Non NF1018 Changes:
- Requested detailed data from contracts with large materials balance
- Study conducted by CPA firm
- Reclassify (for financial statements purposes only) materials with unit cost over $100K as equipment and depreciate based on related asset useful life.
Corrective Action: Materials

Strengthen Reporting:

- Require “Snapshot” of Materials
- Separate Breakout for Materials with unit prices under $100K vs. $100K & over
Causes of Material Weakness

Lack of Internal Controls

- Lack of guidance to contractors in the NFS
- Lack of procedures at Contractor locations

- Lack of reviews by contractors, NASA, and DoD delegated property administrators
Corrective Action: Internal Controls

Strengthen NF1018 Reporting:

- Increase Guidance
  1. Work In Process
  2. Software
  3. Reporting of Government-Furnished Property
  4. Use of Estimates
  5. Idle/Obsolete Property

- Require Prompt Error Reporting

- Stress Prime is responsible for Validation of NF 1018 Data, Including Subcontractors
Corrective Action: Internal Controls

Increase Reviews and Validations:

1. NASA reviews of selected contractors’ capitalized property & policies
2. Increase Validation of Contractors NF1018s and Transfers
3. Explore centralizing NF1018 processing, review & analysis
Causes of Material Weakness

Inadequate Documentation

- DCAA Audit found items with no supporting or inadequate documentation
- Unsupported Estimates
- Incomplete transfer or delivery documents
  - Signatures
  - Dates
  - Values
Corrective Action:
Inadequate Documentation

- Every value should be supported
- Dates, values & signatures required
- Send copies of Transfer & Delivery document to NASA
Corrective Action: Inadequate Documentation

Estimates for Fabricated Property:
- Materials (Use Actuals)
- GFE (Use Actuals)
- Labor
  - Rate (Use Actual, Forward-pricing or Composite)
  - Hours (Use Actuals or Estimates based on Actuals, or Historical data)
- Overhead, G&A, Fee, Transportation, etc. (Estimates acceptable, but must have basis)
- Periodically evaluate Model to ensure reasonableness
- Document Basis!!!
Causes of Material Weakness

Work In Process (WIP)

- Failure to Report
- Reporting Previously Delivered Items
- Inaccurate Valuation
- Inadequate Documentation
- Lack of Policies and Procedures
- Lack of Internal Controls
Corrective Action:
Contractor-Held Property

Strengthen Reporting:

- Require “Snapshot” of WIP
  - Detailed description of WIP
  - WIP for Assets in Space and Components (except for ISS) under fabrication, no longer reported on NF1018
Additional FY 2003 Considerations

- The FY 2003 Financial Statements will be completed and audited by November 15, 2003
- Quarterly financial statements required
Corrective Action:
Other Considerations

Interim Reporting:

- Quarterly Reporting of Detailed Data
  - Establish Baseline
  - Activity Data
  - Summary Data
- Quarterly Reporting Due Dates
  - June 30 – Due July 21
  - Sept 30 – Due Oct 15
Corrective Action: Other Considerations

Annual NF 1018 Report:

- Contractors Submitting Quarterly Data
  - Due November 30

- Contractors Not Submitting Quarterly Data
  - Due October 15
Action Plan

1. Determine which changes are necessary
   - Strengthening Guidance
   - Increasing/Decreasing Requirements

2. Rewrite NF1018 form and related NASA FAR Supplement (NFS)

3. Make any contractual changes

4. Training

5. Strengthen NASA reviews & validation
Validation of Contractor-Held Property – The “NASA” Way

(K) Knowledge
Accountability
Synergy
Analyze
Which Contracts Need to Report?
- Previous Years
- New Ones have NF1018 clauses
- New Ones without clause but have property

What are NASA’s contractors doing?
- Identify which contracts are responsible for property
- Identify which contracts are manufacturing property
- Identify which contracts are acquiring property for NASA
What should the contractors report?
- Based on knowledge of contract (purpose and value) does the NF1018 information appear accurate?

What does NASA need to record?
- Based on knowledge of on-site contracts does NASA need to record any property or work-in-process or software as NASA-held?
ACCOUNTABILITY

- What is each contractor accountable for?
- What is NASA accountable for?
- When contractor transfers accountability:
  - Was appropriate documentation adequately completed?
  - Did receiver accept accountability?
SYNERGY

- NASA/DCMA/ONR working together
  - DCMA/ONR
  - NASA IPOs/IPMS
  - NASA Finance
- Need to establish who is responsible for ensuring compliance with what functions?
- Need to establish team approach to gaining insight in contracts purpose, value, and property.
ANALYSIS

- Were there significant changes in property activity? Why?
- Were transfers and deletions information correct?
- If WIP went to zero did NASA receive anything?
- If one contractor (or business sector) is found to be in noncompliance review other related contracts?
- Am I getting all the system analysis I should be?
Issues / Questions

Questions?

Other issues / problems
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