



# **NASA FY 2003 Contractor-Held Property Reporting**

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**NPMA Conference – IPO Workshop**

**Jacksonville, Florida**

**July 14, 2003**



# 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 excessed 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)

# Corrective Action: Materials



## 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



- Completed 1. Determine which changes are necessary
- ◆ Strengthening Guidance
  - ◆ Increasing/Decreasing Requirements
- In process 2. Rewrite NF1018 form and related NASA FAR Supplement (NFS)
- In process 3. Make any contractual changes
- In process 4. Training
- Upcoming 5. Strengthen NASA reviews & validation

# Validation of Contractor- Held Property – The “NASA” Way



**(K) Knowledge**

**Accountability**

**Synergy**

**Analyze**



# KNOWLEDGE

- ◆ **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



# KNOWLEDGE (continued)

- ◆ **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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