



NASA Advisory Council Meeting

**REPORT OF AUDIT &
FINANCE COMMITTEE**

**Robert Hanisee, Chairman
Hon. Ted McPherson
Hon. Michael Montelongo
Howard Stanislawski**

February 8, 2007



Corrective Action Plan (CAP) – Submitted February 2006

Plan articulated Four Reportable Conditions, Three of which were material:

1. Financial Systems, Analysis and Oversight (Material Weakness)
2. Fund Balance with Treasury (Material Weakness)
3. Property, Plant and Equipment (Material Weakness)
4. Environmental Liabilities

The Plan defines NASA's Goals, Objectives, Strategies, Due Dates and Responsibilities for Execution



Other Challenges Identified In CAP

- A. Resource Constraints – Hiring, Familiarization and Training Lag
- B. Management Change – In Areas such as PP&E requires a significant portion of NASA's workforce to change the way they perform their daily activities
- C. External Support – Requires support from NASA's Vendors and Contractors

OCFO required to:

- Evaluate the Risk
 - Evaluate the Cost
 - Evaluate the Benefit
 - Evaluate the Trade-Off

Of Each the Changes



CAP Progress Report

1. Financial Systems, Analysis and Oversight (Material Weakness)

Weaknesses identified in three (3) control areas:

- a. Access Control
- b. System Software
- c. Segregation of Duties

GFY05 – Audit trails established; Systems Transactions Linked Between Original, Reversal and Re-Post

Year-End Balance supported by Core Financial Systems

Center CFO and DCFO certification include statement that all corrections were fully documented for audit trail purposes

GFY06 – Some progress but still a long way to go

Need improvement in financial controls

Still a Material Weakness



CAP Progress Report **(cont.)**

2. Fund Balances with Treasury (Material Weakness)

Center CFO's perform monthly reconciliations – Certify completion with OCFO

GFY05 – Implemented at all Centers standard Reconciliation Procedures

Developed and Implemented a Standard Process to review and approve the write-off of unsupported differences

GFY06 – Progress made. Year-End only out of balance by \$10.7M Gross (\$5.0M Net).



CAP Progress Report (Cont'd)

3. Property, Plant and Equipment (Material Weakness)

**Accuracy and completeness of Financial records;
Accountability; Accuracy and Timeliness of Contractor
Provided Financial**

GFY05 – Implemented Contractor Held Asset Tracking System (CHATS)

Moved DCAA Reviews closer to Year-End

Recommended Accounting Change – Expense Theme Assets

GFY06 – NO Measurable Improvement. Expensing of Theme Assets only a partial solution. Need End to End revision. PPE systems not integrated with the Core Financial Module
Lacks sufficient manual preventative and detect type controls



CAP Progress Report

4. Environmental Liabilities

Need to generate auditable estimate of unfunded environmental liabilities; OCFO staff record in Core Financial System

GFY05 – NASA has developed and distributed to Centers procedures for Estimating Environmental Liabilities

GFY06 – Progress in Documenting the Unfunded Environmental Liability (UEL). Need to validate Integrated Data Evaluation and Analysis Library (IDEAL) software program. Need to benchmark against other Federal Entities and Commercial Companies



FY06 Letter on Audit of NASA Financial Statements

Ernst & Young Disclaimed an Opinion

Material weaknesses were found in NASA's Controls for:

1. Financial Systems, Analysis and Oversight used to prepare Financial Statements
2. Assuring that Property, Plant and Equipment and Materials are presented fairly in Financial Statements



FY06 Letter on Audit of NASA Financial Statements

Non-Compliance with Requirements of Federal Financial Management Improvement Act of 1996 (FFMIA)

Several Instances:

Some Systems, e.g. PP&E not integrated with Core Financial Module

Non-Compliance with certain provisions of the Anti-Deficiency Act and the Improper Payments Information Act



FY06 Letter on Audit of NASA Financial Statements

**NASA made Significant Progress in
Correcting two of four Deficiencies
noted in FY05 and the CAP**

1. Fund Balance with Treasury
2. Estimating Environmental Liabilities



FY06 Letter on Audit of NASA Financial Statements

Property, Plant and Equipment Accounting

Long Pole in Tent

PP&E Total - \$33.2 Billion

Theme Assets Total - \$12–15 Billion

Proposed Accounting for Theme Assets

Expense versus Capitalize and Depreciate

Seek FASAB Agreement



FY06 Letter on Audit of NASA Financial Statements

Non Theme Assets

Current Accounting – Expense All Cost
then review to determine which costs to
capitalize starting at Budget/
Procurement Cycle through Processing
and Disbursement of Funds



FY06 Letter on Audit of NASA Financial Statements

Contractor Held Property – Depend on DCAA

CHATS – Contractor-Held Asset Tracking System
– Monthly

NASA will implement SAP Property Module



Other Issues Update

SAP Version Update – Live Nov. 2006

Some Glitches – Posting Incorrect Data to Core Financial Model – a data mapping problem

SAP working on a patch – Should be ready late Feb. 2007

OCFO Staffing – Ceiling 123 – Down approx. 20 FTE's

Current Status – Agency wide Hiring Freeze

Financial Staff Turnover – GFY05 – 35%

GFY06 – 18%



Other Issues Update

Feb. 7, 2007 – Committee met with:

**Ernst & Young – Dan Murrin, Audit Partner
Donna France, Account manager**

**NASA OIG – Robert (Moose) Cobb, IG
Thomas Howard, Deputy IG**



Actions to Remediate Remaining Material Weaknesses The Way FORWARD

Property, Plant and Equipment

- Install SAP Property Management Module – In negotiations
- Integrate with Core Financial Module (IEMP)
- Create Early Audit Trail from Point of Budget Formulation, Obligation Recognition, Contract Development, Accounts Payable Recognition and Disbursement

Financial Systems, Analyses and Oversight

- Complete Sap Version Update
- Resolve Data Integrity Issues
- Strengthen Internal Controls
- Work the Problem



Actions to Remediate Remaining Material Weaknesses The Way FORWARD

Fund Balance with Treasury

- Close Out Old Contracts
- Identify Errors and Correct

Environmental Liability

- Train Remedial Project Managers
- Have Vendors Perform IV&V on IDEAL Software



Chairman's Agenda

Audit NASA's Financial and Cost Risk for:

1. ARES I and ARES V
2. ORION
3. COTS and ISS Programs

Preliminary Action:

Feb. 7, 2007 – Fact finding session with:

Cris Guidi – Program Executive – Constellation Program

Kathy Pollard – Manager, Program Planning & Controls
Office

Viga Kuapa – Risk Management Plan

Follow Up:

Committee Plans to attend Next Quarterly Financial
Program Review



NASA Shared Services Center

Committee Met with:

Rick Arbuthnot – Executive Director
Joyce Short – Deputy Director
Cindy Epperson – Director of Finance

PURPOSE – Relieve Centers of High Volume Transactions
Save Money: Projection through 2015 - \$101 Million

Budget: \$50 Million

Employment Base: 500 NASA Civil Servant – 33%
Contractor Service Provider – 66%

March 1, 2006 – Went Live with 14 Functions (4 Financial)
17 More Transferred in 2006

Recommend Close Monitoring by Deputy CFO