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UNITED STATES GENERAL ACCOUNTING OFFICE
WASHINGTON, D.C. 20548

CIVIL DIVISION

NOV 6 1969

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Dear Mr. Moritz:

In previous correspondence and meetings with NASA officials, we discussed various problems associated with the implementation of an effective accounting system for NASA and we agreed to keep NASA informed of any subsequent findings in this area so that management could initiate corrective action in situations where it was not aware of the deficiencies. In connection with our current review of inventory management at several NASA centers, we noted certain deficiencies in the reporting of contractor-held property at the Goddard Space Flight Center (GSFC). These deficiencies, which had been previously brought to the attention of GSFC and NASA Headquarters officials, still existed even though GSFC had advised NASA Headquarters that corrective action had been taken. The following information, including relevant background data, is provided to facilitate your review of the matter.

As a result of our review and report on the need for improved compliance by GSFC with established accounting procedures for controlling equipment (B-164674, August 28, 1968), the Associate Administrators for Organization and Management and Space Science and Applications jointly established a review group for the purpose of examining the matters cited in our report. It was subsequently decided that the review group would expand its examination to include all categories of property.

One of the areas subsequently covered in the review and included in the "Report of the NASA review group for study of GSFC property control and accounting," dated September 23, 1968, concerned inadequate financial reporting of Government property in the possession of the contractors. The NASA review group submitted its draft report to GSFC on June 14, 1968, and at a meeting on July 18, 1968, GSFC representatives concurred in most of the findings. Some of the review group's findings relevant to contractor reporting on the NASA form 1018, of Government-owned property in their possession, were as follows:

1. Adequate control was not being exercised over the form 1018 reporting in that there was no systematic procedure for determining that reports had been received for all contracts requiring reporting.

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2. The forms 1018 were not being submitted promptly by the contractors and, on the basis of available records, it was estimated that as of May 1, 1968, 20 percent of the reports due from contractors on December 26, 1967, had not been received.

3. Form 1018 reports for contracts NAS5-3060 and -3526 with Bendix showed balances of $8.6 and $1.9 million, respectively, as of June 30, 1965, and these amounts were still included in the financial records even though the contracts had been completed as of September 30, 1965. Forms 1018 for the follow-on contracts, 9870 and 9968, contained the same balances as the earlier two contracts and these amounts were also included in the financial records, thereby creating a duplication of about $10.5 million.

The review group concluded that, as a result of these and other deficiencies, the NASA general ledger accounts were inaccurate. To assure the implementation of prompt and effective corrective action by GSFC for all property matters reviewed by the group, review and follow-up procedures were established consisting principally of (1) an initial implementation plan and schedule developed by GSFC, (2) periodic written status reports by GSFC on items included in the implementation plan, (3) evaluation of the status reports and feed back to GSFC, and (4) a final on-site review by the review group.

In accordance with the foregoing review and follow-up procedures, GSFC submitted an implementation plan to NASA Headquarters on December 5, 1968, and submitted quarterly status reports dated December 22, 1968, and May 14 and August 12, 1969. The corrective actions reported by GSFC relevant to each of the above three findings of the review group were briefly as follows:

1. GSFC reported that it had prepared a master list of contractors required to submit the form 1018.

2. In its May status report, GSFC stated that about 90 percent of the contractors required to submit forms 1018 for the period ended November 30, 1968, had done so. (GSFC did not state what percentage of the reports had been received by the December 26, 1968, reporting date or the number of reports used in the preparation of the November 30, trial balance.)

3. Specific mention was not made of completed contracts NAS5-3060 and -3526, but GSFC reported that it had purged

its list of active contracts requiring the submission of a form 1018 and that the listing prepared by the Contract Management Branch was constantly being cross checked with the Financial Management Division.

We examined a master list of contractors required to submit a form 1018, prepared by the Contract Management Branch, for the reporting period ended June 30, 1969, and found that of the 733 contractors who were listed as responsible for submitting a property report by July 26, 1969, 204 contractors had not done so as of October 6, 1969. Furthermore, it would have made little difference if all of the contractors had submitted their reports because the Accounting Branch did not use the master list or the June 30 reports for recording property values. Transactions recorded as of June 30, 1969, for the most part, were taken from property reports submitted for the period ended November 30, 1968. Moreover, we found that for 63 contracts the balances in the subsidiary property accounts at June 30, 1969, represented amounts that had been reported by the contractors for reporting periods prior to the one that ended November 30, 1968—some of the reporting periods extended back to 1965.

Also, we found that at June 30, 1969, the subsidiary property accounts contained balances for 82 contracts that were not included in the master list of active contracts requiring the submission of a property report. In addition, 76 other contracts with zero balances were included in the subsidiary property accounts but were not included in the master list of active contracts.

The failure to record data from contractor property reports in a timely manner and to purge inactive contracts from the records can have a significant effect on the validity of the accounting records. For example, in one case the subsidiary account for special test equipment showed a balance of $1.2 million at June 30, 1969. This amount had been reported by the contractor as of November 30, 1968; however, the contractor's property report dated July 17, 1969, for the period ended June 30, 1969, which is the report that should have been used, showed a balance of $12.9 million. Thus, the balance in the accounting records for just this one contract was understated by over $11 million. Also, the two contracts with Bendix, NAS5-3060 and -3526, completed in 1965, were still included in the accounting records as of June 30, 1969, even though the review group had identified them a year earlier and had directed attention to the $10.5 million overstatement of assets in the accounting records at that time.

We would also like to bring to your attention another deficiency noted by us, which although having less of an impact on the validity of the accounting records, indicates a need for greater management attention in

this general area. Under NASA reporting criteria, contractors generally are not required to report materials if the value of materials on hand is less than $25,000. We noted 13 instances in the June 30, 1969, trial balance of the subsidiary accounts for materials where the amounts of contractor-held materials had been arbitrarily recorded at $25,000. This was done, we were told, because the property reports, although showing no amounts for materials, had stated that the inventories were under $25,000. An official of the Financial Management Division concurred with our view that the practice of recording arbitrary amounts in the subsidiary records was not an acceptable practice and told us it would be discontinued.

In view of this practice and the untimely and inaccurate recording of property values from contractor reports, as noted above, we believe that there is a need for strengthening, what appears to be rather lax internal controls over the functions of the Accounting Branch. Further, as a result of these conditions, the validity of the $77 million in Government-owned, contractor-held property reported to NASA Headquarters by GSFC for the period ended June 30, 1969, is highly questionable.

On October 24, 1969, we discussed these matters with GSFC officials who did not disagree with our findings and assured us that corrective actions would be taken.

We would appreciate being advised of the steps to be taken by your office to insure that the corrective actions promised by GSFC have in fact been accomplished. We would be pleased to meet with you or your representatives to discuss this situation in further detail.

A copy of this report is being sent to the Director, GSFC.

Sincerely yours,

/s/ Morton E. Henig

Morton E. Henig
Assistant Director

Mr. Bernard Moritz, Acting
Associate Administrator
Office of Organization and
Management
National Aeronautics and
Space Administration
Washington, D.C. 20546