FINANCIAL MANAGEMENT AT NASA: CHALLENGES AND NEXT STEPS

JOINT HEARING

BEFORE THE

SUBCOMMITTEE ON SPACE AND AERONAUTICS

COMMITTEE ON SCIENCE

HOUSE OF REPRESENTATIVES

AND THE

SUBCOMMITTEE ON GOVERNMENT MANAGEMENT, FINANCE, AND ACCOUNTABILITY

COMMITTEE ON GOVERNMENT REFORM

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FINANCIAL MANAGEMENT AT NASA: CHALLENGES AND NEXT STEPS

THURSDAY, OCTOBER 27, 2005

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON SPACE AND AERONAUTICS,
COMMITTEE ON SCIENCE, JOINT WITH THE
SUBCOMMITTEE ON GOVERNMENT MANAGEMENT,
FINANCE, AND ACCOUNTABILITY
COMMITTEE ON GOVERNMENT REFORM,
Washington, DC.

The Subcommittees met, pursuant to call, at 10:00 a.m., in Room 2318 of the Rayburn House Office Building, Hon. Ken Calvert [Chairman of the Subcommittee on Space and Aeronautics] presiding.

SUBCOMMITTEE ON GOVERNMENT MANAGEMENT, FINANCE, AND ACCOUNTABILITY
COMMITTEE ON GOVERNMENT REFORM
U.S. HOUSE OF REPRESENTATIVES
WASHINGTON, DC 20515

SUBCOMMITTEE ON SPACE AND AERONAUTICS

COMMITTEE ON SCIENCE
U.S. HOUSE OF REPRESENTATIVES
WASHINGTON, DC 20515

Joint Hearing on

Financial Management at NASA: Challenges and Next Steps

Thursday, October 27, 2005
10:00 a.m. – 12:00 p.m.
2318 Rayburn House Office Building

WITNESS LIST

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Chief Financial Officier
NASA

Mr. Patrick Ciganer
Executive Officer
Integrated Financial Management Program
NASA

Hon. Robert Cobb
Inspector General
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Mr. Gregory Kutz
Managing Director
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GAO.

Accompanied by

Mr. Allen Li
Director
Acquisition and Sourcing Management.
GAO

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HEARING CHARTER

SUBCOMMITTEE ON SPACE AND AERONAUTICS
COMMITTEE ON SCIENCE, JOINTLY WITH THE
SUBCOMMITTEE ON GOVERNMENT MANAGEMENT, FINANCE, AND ACCOUNTABILITY
COMMITTEE ON GOVERNMENT REFORM
U.S. HOUSE OF REPRESENTATIVES

Financial Management at NASA: Challenges and Next Steps

THURSDAY, OCTOBER 27, 2005
10:00 A.M.—12:00 P.M.
2318 RAYBURN HOUSE OFFICE BUILDING

Purpose

On Thursday, October 27, 2005 at 10:00, the Committee on Science, Subcommittee on Space and Aeronautics and the Committee on Government Reform, Subcommittee on Government Management, Finance and Accountability, will hold a joint hearing to examine the difficulties that the National Aeronautics and Space Administration (NASA) faces in managing and reporting on its finances, the effects these difficulties have on NASA's ability to manage its programs, and NASA's current and planned efforts to address these challenges.

For several years, NASA has had significant difficulties in managing its financial operations. Auditors have not been able to sufficiently audit NASA's financial statements for three of the past four years, citing a lack of documentation and weak controls over numerous processes. The Government Accountability Office (GAO) has issued reports about NASA's inability to manage and account for the costs of its programs. In 2003, NASA replaced ten disparate accounting systems with one agency-wide financial management system. However, this system has had numerous operational problems that NASA has been trying to resolve since its inception. While NASA has made some improvements to some aspects of its financial management, it still has numerous, significant problems to overcome.

Overarching Questions

The Committee plans to explore the following overarching questions at the hearing:

1. What are the key financial management challenges at NASA? What are their underlying causes?
2. What effects do these challenges have on NASA's ability to manage its programs and its resources?
3. What progress has NASA made in addressing these challenges? What further actions are planned? Are these actions adequate?

Witnesses

Mr. Robert Cobb is the Inspector General of NASA.

Ms. Gwendolyn Sykes is the Chief Financial Officer of NASA.

Mr. Patrick Ciganer is the Executive Officer for NASA's Integrated Financial Management Program.

Mr. Gregory Kutz is the Managing Director of Forensic Audits and Special Investigations at GAO. Accompanying Mr. Kutz will be **Mr. Allen Li,** Director, Acquisition and Sourcing Management.

Issues

The hearing will cover the following issues with regard to NASA's ability to manage its finances:

- **Unsatisfactory Audit Results—**In three of the past four years, independent auditors have been unable to give NASA's financial records a clean opinion, and the Government Accountability Office (GAO) has called into question the reliability of the remaining year's audit.
- **Lack of an Improvement Plan—**While NASA originally disputed the findings of the GAO and the Agency's independent auditors, it later accepted all of them and agreed to implement each of the recommendations. In 2004, NASA committed to developing a plan for implementing each of the recommendations and to providing the Office of the Inspector General and the Science Committee with a copy of the plan. However, NASA has yet to provide anything other than an executive summary.
- **Problems Remain in NASA's New Financial Management System—**NASA has purchased a complex system to manage its finances and other aspects of the Agency, such as human resources. In 2003, NASA brought online the Core Financial module, bringing all ten NASA centers under a single accounting system for the first time. However, in 2004, outside auditors found that the Core Financial module failed to post certain transactions correctly, did not integrate well with other aspects of the financial management system, and did not contain sufficient controls to ensure that invalid data could be detected in a timely fashion. NASA is hoping that a major upgrade of its Core Financial module, which it plans to implement in fiscal year 2006, will help resolve many of these issues. Until then, NASA will not will not be able to comply fully with the *Federal Financial Management Improvement Act.* GAO has faulted NASA for rushing to implement the Core Financial module before it had developed an overall plan, or architecture, for the entire multi-module system. GAO has issued four reports identifying weaknesses in NASA's approach to implementing its financial management system and containing 45 recommendations to the Agency to correct these problems. At today's hearing, GAO is releasing a new report finding that NASA has fully implemented only three of these recommendations and partially implemented another 13.
- **Inability to Reconcile NASA's Balance with Treasury—**In 2003, NASA's independent auditors found that the Agency could not reconcile a net difference of $1.7 billion between its financial records and NASA's balance in the U.S. Treasury. But the "gross" value, or the absolute value of each unreconciled transaction added up to $8.6 billion, according to the auditors. As of March 2005, NASA's Inspector General determined that the Agency had successfully reconciled all but $144 million of the net difference, but that the absolute value of the unreconciled transactions continued to exceed $7 billion. In September, NASA's Chief Financial Officer (CFO) provided each NASA Center guidelines for writing off portions of the remaining unreconciled transactions. According to NASA, its balance now agrees with the Treasury after Centers wrote off a total of $14 million in unreconcilable transactions. However it is unclear what the absolute value is of these transactions adds up to.
- **Weak Internal Controls Remain—**NASA's independent auditors have said repeatedly that NASA needs to strengthen its internal controls—the policies and practices intended to provide reasonable assurance about the accuracy of its financial information—especially given weaknesses in the Agency's Core Financial module. Such controls help an agency ensure that its employees or contractors are not abusing their purchasing authority or otherwise committing fraud. NASA's Office of the Inspector General said that NASA still must make substantial adjustments to its quarterly financial statements produced by the Core Financial module and that the Agency continues to fail to provide sufficient documentation for financial data to ensure its reliability. Under such conditions, according to the Office of Inspector General, NASA is less likely to detect waste, fraud, or abuse.
- **Contract Management at High Risk for Waste, Fraud, and Abuse—**Since 1990, GAO has consistently identified NASA's contract management practices as vulnerable to waste, fraud, and abuse, primarily due to NASA's lack of a modern financial system that can provide reliable information on contract spending and performance. NASA has been developing a Contract Management software package, but according to the Office of Inspector General, that software lacks the financial capabilities necessary to help the Agency address GAO's concerns. NASA plans to upgrade its Contract Management software at some later date to provide the necessary financial data.

- **Inability to Account for Physical Property—**NASA reports that the value of its physical assets, including rockets, satellites and other hardware, totals more than $38 billion. However, NASA relies heavily on its contractors to accurately report the value of these assets to the Agency, a serious weakness according to NASA's independent auditors. While the auditors have noted some recent improvements, NASA's Office of Inspector General noted that NASA cannot hope to receive a clean audit opinion until this issue is resolved.

Overview

Agencies need accurate, timely financial information to know how much their activities cost and to estimate their future costs. They also need effective controls over their operations that are designed to prevent or detect the occurrence of fraud, waste, or abuse of taxpayers' dollars. Moreover, Congress needs reliable financial information from agencies in order to carry out effective oversight of their operations.

Over the past several years, auditors have repeatedly reported on NASA's weak financial management and unreliable financial data. In three of the past four years, independent auditors reported that they were unable to express an opinion on NASA's financial statements. For example, for fiscal year 2003, NASA made $565 billion in adjustments—more than 37 times its total budget for that year—to correct errors and make other changes to its accounting records. The auditors could not find adequate documentation to support these adjustments. For fiscal year 2002, NASA received an unqualified[1] or "clean" audit opinion on its financial statements. However, a subsequent review by the Government Accountability Office (GAO) called into question the reliability of that audit. The following table summarizes NASA's financial audit results for the past five years.

Results of NASA's Recent Financial Audits

Fiscal Year	Audit Results
2000	"Clean" or unqualified opinion. Auditor was Arthur Andersen.
2001	New auditor, Pricewaterhouse Coopers (PWC), issued a disclaimer[2] of opinion.
2002	PWC gave a clean opinion. However, GAO reviewed the audit and questioned its reliability.
2003	PWC issued a disclaimer of opinion.
2004	New auditor, Ernst & Young, issued a disclaimer of opinion.

[2] A disclaimer of opinion means that the auditors were unable to determine the accuracy of the financial statements. This situation can occur if the organization has significant weaknesses in its internal controls or if the auditors are unable to perform sufficient audit work.

NASA's lack of reliable financial information can affect its ability to accurately track funds, manage the costs of its programs, and develop accurate cost estimates. For example, as a result of cost growth on the International Space Station in 2000, Congress legislated a cost cap for the program and directed GAO to verify that NASA was accurately accounting for all costs associated with the program. From 2001 through 2005, GAO repeatedly tried to determine if NASA was complying with the Congressional limits. However, because of poor record-keeping, NASA has been unable to provide GAO adequate information on how much money had been obligated for the Station.

NASA's new Administrator, Dr. Michael Griffin, has expressed his intent to make improvement of NASA's financial management a priority. In his testimony before the Committee on Science in June of this year, he called the status of NASA's financial management "deplorable." He also said that it was unacceptable for NASA to be unable to meet the same financial standards to which it holds its contractors.

NASA's financial management weaknesses can be attributed primarily to two overarching conditions: the lack of an integrated financial management system and the lack of sufficient internal control policies and procedures. In the past few years,

[1] An unqualified opinion means that the financial statements fairly present an organization's financial position and results of operations in conformance with generally accepted accounting principles.

NASA has been working to address both of these issues and has made some progress, although much is left to do.

During fiscal year 2003, NASA implemented a new finance and accounting system throughout the entire Agency. However, this system is not fully integrated with other financial-related systems, such as property management systems, and is not fully functioning as intended. GAO issued a series of reports in 2003 about weaknesses in NASA's implementation of the system. At this hearing, GAO is releasing a follow-up report about the status of its recommendations from the earlier reports.

In September 2004, NASA published a new set of NASA Financial Management Requirements as well as supplemental policy guidance for a number of issues. In addition, NASA has continued to make other changes in its financial operations during fiscal year 2005. For example, it began requiring the Chief Financial Officers (CFOs) at each of its ten field Centers to report directly to the NASA CFO, rather than to Center Directors, to help ensure that all Centers follow the same procedures. However, the Centers are somewhat resistant to change and have continued to follow some of their own procedures and use some of their own systems for specific purposes, despite the CFO's efforts to standardize all procedures throughout the Agency. The impact that NASA's various new policies and procedures have on control over its financial operations cannot yet be determined, but should become more evident as the results of NASA's financial audit for fiscal year 2005 are released.

Financial Management System Issues

Until 2003, each of NASA's ten Centers and NASA Headquarters had their own separate accounting systems that were operated independently and were incompatible with each other. As a result, NASA did not have the ability to accumulate agency-wide financial data on a routine, systematic basis. Instead, it obtained NASA-wide data only through periodic data calls. NASA had made two attempts to develop an agency-wide system in the past—once in the late 1980s and again in the late 1990s—but both efforts were eventually abandoned. Because of its lack of an agency-wide system, NASA has not been in compliance with the Federal Financial Management Improvement Act (FFMIA) of 1996, which requires federal agencies to have integrated financial management systems that comply with specific federal requirements.

In 2000, NASA began its third attempt to modernize its financial management systems and processes as it began developing an integrated financial management system, now called the Integrated Enterprise Management Program or IEMP.[3] This system was initially planned to consist of nine modules that would support a wide range of business activities, including asset management, accounting and financial operations, and human capital management. As IEMP has progressed, NASA has changed some of its plans and has encountered significant problems in developing some of the modules, as explained further below. NASA initially planned to complete IEMP in fiscal year 2008 with an estimated life-cycle cost of almost $1 billion. NASA has stated that it still intends to complete development of IEMP by the end of 2008. However, it is unclear how NASA will meet this deadline after recently deciding to delay development of one module—the Integrated Asset Management module—until NASA changes its asset management procedures.

Except for the Core Financial module, the IEMP modules that have been implemented so far tend to be the less complex modules. The following table summarizes the status of IEMP's modules as currently defined.

[3] NASA recently renamed the system IEMP. Previously, it was called the Integrated Financial Management Program (IFMP).

Status of IEMP Modules

Module	Status
Resume Management	Implementation completed in FY 2002
Position Description	Implementation completed in FY 2002
Core Financial	Implemented in FY 2003; major upgrade to be completed in FY 2006 (see discussion below)
Travel Manager	Implementation completed in FY 2003
Budget Formulation	Development completed in FY 2004 but not implemented because of change in NASA budget structure
Contract Management	Under development; implementation planned for FY 2006
Integrated Asset Management	Development began in FY 2004; late in FY 2005, project was put on hold until NASA changes its asset management procedures
Recruitment	Implementation completed in October 2005
Labor Distribution	Implementation completed in October 2005
Payroll	Turned over NASA payroll function to Department of Interior's payroll system in fiscal year 2005

Core Financial Module

During fiscal year 2003, NASA implemented the most significant module of IEMP, the Core Financial module, which performs most of the Agency's accounting and financial functions. The Core Financial module uses enterprise resource planning (ERP)[4] software from SAP, a large German company and one of only a handful of companies that make ERP software. SAP's software is used by many Fortune 500 companies and by other federal agencies, including the Department of Defense and Customs and Border Patrol. NASA hired the consulting firm Accenture to develop and implement the module using SAP's software.

With the implementation of the Core Financial module, all ten NASA Centers and Headquarters began using one accounting system for the first time in NASA's history. However, the operation of the module has experienced problems since its inception. In their report on NASA's fiscal year 2004 financial statements, NASA's financial auditors stated that the Core Financial module:

- does not post certain transactions correctly,
- does not provide some information needed to support financial statements,
- is not integrated with certain subsidiary systems, and
- does not contain sufficient controls to detect and correct invalid data in a timely fashion.

These problems have occurred largely because NASA did not follow appropriate procedures for developing and implementing a complex system such as IEMP, and the core financial module in particular. GAO identified a number of weaknesses in the procedures that NASA followed, which are described further below.

Because of these weaknesses, NASA is still not in compliance with Federal Financial Management Improvement Act (FFMIA). NASA has been striving to stabilize and improve the operations of the Core Financial module since its implementation. It is now planning to install a major software upgrade for this module in fiscal year 2006, using a new version of SAP software, which it expects to significantly improve the module's performance and reliability.

Other IEMP Modules

NASA has had some difficulties in developing other modules of IEMP as well. During fiscal year 2004, it almost completed development and implementation of a Budget Formulation module at a reported cost of $29 million. This module was expected to significantly improve and streamline NASA's process for developing its annual budget. However, in late 2004, NASA changed its budget structure. Because

[4] ERP software consists of multiple, integrated modules designed to perform all business-related functions of an organization, such as planning, inventory control, finance, and human resource management.

the Budget Formulation module was based on the old budget structure, NASA shelved the module and decided to revise its old budget system for use with the new budget structure.

NASA had also recently begun the early stages of developing an Integrated Asset Management module which would maintain information on all of NASA's physical assets and automatically provide relevant information to the Core Financial module. However, during fiscal year 2005, NASA put this project on hold for two years until it revises its procedures for managing its physical assets.

GAO Recommendations on IEMP

In 2003, GAO issued four reports that identified weaknesses in NASA's strategy for developing and implementing IEMP. These weaknesses included the processes that NASA followed to acquire system software, the identification, management, and testing of system specifications, and IEMP cost control. In its reports, GAO expressed concern about the impact these weaknesses could ultimately have on the system's performance.

Another major weakness identified by GAO was NASA's lack of an enterprise architecture to guide the development and implementation of IEMP. An enterprise architecture is an organizational blueprint that defines—in both business and technology terms—how an organization operates today, how it intends to operate in the future, and how it will transition to the future state. The Clinger-Cohen Act of 1996 requires agencies to develop, maintain, and implement such architectures for use in managing the integration of their business processes and systems.

To help correct the identified weaknesses in IEMP, GAO made a total of 45 recommendations to NASA. GAO recently completed a follow-up review to determine the extent to which NASA has addressed its recommendations. At this hearing, GAO will be releasing a report that discusses the results of its review and the status of NASA's efforts to address its recommendations. GAO found that NASA's overall progress has been slow, particularly with respect to establishing an enterprise architecture, but it has made some progress in other areas such as enhancing the Core Financial module's ability to provide project management information. Of GAO's 45 recommendations, the report indicates that NASA has fully implemented three recommendations and has partially implemented another 13 recommendations. A summary of the status of GAO's recommendations is provided in Appendix A.

Internal Control Issues

An integrated financial management system can only function as well as an agency's underlying policies and procedures. Those policies and procedures that help ensure the accuracy and timeliness of financial data are called internal controls. Federal agencies are required to have internal controls in place to provide reasonable assurance that transactions are processed and recorded properly, that financial reports are reliable, and that the Agency complies with all applicable laws and regulations. Internal controls should also provide reasonable assurance regarding the prevention or prompt detection of any fraud, waste, or abuse.

Because of the weaknesses in the Core Financial module and in various NASA processes, NASA's independent auditors pointed out the need for additional controls to ensure that transactions are recorded accurately and that any errors are detected and corrected in a timely manner. The auditors noted that internal control weaknesses included the Core Financial module's inability to track non-routine or correction entries, the lack of formalized policies and procedures for certain processes, such as the development of financial statements, and a lack of adequate documentation to support certain transactions. The auditors made a number of recommendations to improve controls, such as enhanced reconciliation and analytical procedures. They also noted that as of September 2004, NASA had developed revised policies and procedures to address several of the noted weaknesses. However, because these new policies and procedures were not in place until the end of the fiscal year, the auditors could not assess their effectiveness.

The following sections address specific internal control issues.

Fund Balance with Treasury

An agency's Fund Balance with Treasury account is similar to a bank account in that it represents money that the Agency can spend for authorized transactions. A key control in ensuring that an agency's transactions are accurately recorded is the reconciliation of its Fund Balance with Treasury account with the U.S. Treasury's records.

For fiscal year 2003, NASA's auditors found that NASA could not reconcile the difference between its Fund Balance account and the Treasury's records. The balance in NASA's Fund Balance account exceeded Treasury's records by a net amount

of $1.7 billion. However, the absolute value of the differences for the individual transactions comprising the unreconciled amount was $8.6 billion. NASA attributed much of the unreconciled amount to difficulties in converting the data to the new Core Financial module, although it has not yet analyzed all transactions or determined how many transactions comprise this difference.

During fiscal years 2004 and 2005, NASA worked on analyzing and resolving the Fund Balance difference from fiscal year 2003. NASA's Office of Inspector General reviewed NASA's efforts to reconcile its Fund Balance account and in March 2005, reported that NASA's efforts had resolved $1.6 billion of the net difference, leaving a remaining unreconciled net difference of $144 million. However, the Office of Inspector General also pointed out that the absolute value of unreconciled differences for individual transactions was still over $7 billion.

Although it did not resolve all differences for the individual transactions from fiscal year 2003, NASA reported that its Fund Balance account balance agreed with the Treasury's balance as of September 30, 2005. To make the balances agree, NASA increased its Fund Balance account by $14 million to eliminate a difference that could not be traced to specific transactions. NASA also said that it had developed new procedures to avoid unreconcilable differences in the Fund Balance account in the future. It developed its own software program that compares the Fund Balance account balances for each NASA Center with the Treasury's balances on a monthly basis. The Centers are expected to resolve any differences each month and certify their results to the NASA CFO. Because these procedures are new, it is too early to know if they are effective.

Physical Assets

NASA reported the value of its Property, Plant, and Equipment (PP&E) and Materials to be almost $38 billion in fiscal year 2004. For several years, NASA's auditors have reported that the Agency has serious weaknesses in internal controls over these assets, primarily because of NASA's heavy reliance on its contractors to accurately report costs to the Agency. In 2004, about $8.5 billion of NASA's PP&E was held by contractors. Contractor-held assets include everything from office supplies to rockets and buildings. Rather than maintaining its own records of these assets, NASA relies on quarterly or monthly reporting by the contractors. While NASA periodically reviews the contractors' controls over the reporting of these assets, NASA's auditors have found these procedures to be insufficient in the past.

NASA also relies on contractors to report the costs of developing or building its numerous large, complex assets such rockets, satellites, and exploration equipment. When such assets are completed and turned over to NASA, NASA has no systematic process to ensure that the assets are properly recorded in its records. Instead, it relies on periodic data calls to ensure that all assets are identified, and on property managers to record the cost of the asset based on their review of certain accounting codes within the Core Financial module. This process does not provide a means to ensure that all costs for NASA's assets are recorded.

In fiscal year 2004, NASA took some steps to improve controls over its assets. It developed a quality assurance program in which it uses services of the Defense Contract Audit Agency to review policies and procedures and to test transactions at its most significant contractors. It also increased the required frequency of reporting by contractors. Its auditors reported that they had noted some improvement as a result of these efforts. In addition, NASA recently established a team to work on developing new procedures for controlling and recording the costs of property.

Contract Management

Since 1990, GAO has identified NASA's contract management as a high-risk area because of vulnerabilities to waste, fraud, and abuse. GAO attributes these vulnerabilities primarily to NASA's lack of a modern financial system that can provide reliable information on contract spending and performance. Also, GAO found that NASA lacked data analysis tools and adequately trained staff to perform cost analyses, including a contract management method called "earned value management."

Although NASA obtains detailed cost and performance information for some of its larger contracts, this information is not recorded in the Core Financial module because the module's accounting code structure, which was carried over from NASA's legacy accounting systems, is not designed to handle this level of detailed information. However, detailed cost information is needed by both program managers and cost estimators. To improve the Core Financial module's ability to maintain detailed, useful cost information, NASA has a project underway, called Project Management Information Improvement (PMI^2), to align its accounting code structure with its technical work breakdown structure. NASA reported that it completed the

first phase of this effort this month. In addition to providing better cost information, NASA expects this new structure to also improve its ability to account for assets.

Environmental Liability

In their annual financial statements, agencies are required to report the estimated amount of liability they have incurred for environmental cleanup as a result of their activities. For fiscal year 2004, NASA reported this liability to be almost $1 billion. However, its financial auditors reported that NASA lacked sufficient, auditable evidence for this estimate. They also noted that the personnel who prepared the estimate had inadequate training and guidance to follow, and NASA lacked quality control procedures to ensure the accuracy of the estimate.

OMB Circular A–123

The Office of Management and Budget (OMB) recently revised its Circular A–123, *Management's Responsibility for Internal Control,* to strengthen agency management's responsibility for internal control over financial reporting. The revised Circular, which became effective this month with the start of fiscal year 2006, contains provisions similar to those in the *Sarbanes-Oxley Act of 2002* for publicly traded companies. Previously, Circular A-123 required management to assess and report annually on overall internal controls within an agency, including a corrective action plan for any known weaknesses. The newly revised Circular now requires, in addition to previous requirements, that management provide a separate assurance statement on the effectiveness of internal control over financial reporting. To provide this assurance statement, agencies are required to document their controls over financial reporting, follow specific procedures for assessing these controls, and document these assessment procedures.

In preparation for complying with the revised Circular, NASA submitted a *Financial Management Internal Control Plan* to OMB in August 2005. The plan outlines steps NASA has already taken as well as steps it plans to take to meet the new requirements of the Circular. OMB's opinion of this plan is not known.

Questions Asked of the Witnesses:

In their letters of invitation, the witnesses were asked to address the following questions in their testimony:

Mr. Robert Cobb:

1. What progress has NASA made in addressing the financial management challenges identified in the audit reports from the past two years? Specifically, address each of the following areas identified in previous audits:
   - internal control weaknesses and financial statement preparation procedures, including inconsistent procedures among NASA Centers;
   - discrepancies in Fund Balance with Treasury;
   - controls over Property, Plant, and Equipment, and Materials; and
   - controls over estimating NASA's environmental liability.
2. What financial management challenges remain? What are the underlying causes of these challenges? How will the new requirements levied in Office of Management Budget Circular A–123, "Management's Responsibility for Internal Control" present new challenges to NASA's financial management efforts?
3. What progress has NASA made in implementing an integrated financial management system? How have the problems with the financial management system affected the Agency's ability to effectively manage its programs?
4. What does NASA need to do to address its remaining financial management deficiencies, including staffing, budget, etc.? What areas of NASA's current corrective action plan need increased attention?

Ms. Gwendolyn Sykes:

1. What specific steps has NASA taken to address the financial management challenges identified in the audit reports from the past two years? Specifically address each of the following areas identified in previous audits:
   - internal control weaknesses and financial statement preparation procedures, including inconsistent procedures among NASA Centers;
   - discrepancies in Fund Balance with Treasury;
   - controls over Property, Plant, and Equipment, and Materials; and

- controls over estimating NASA's environmental liability.

2. What financial management challenges remain? What specific plans does NASA have to address these challenges, including specific milestones or target dates? What is the status of efforts to implement the new requirements levied in Office of Management and Budget Circular A–123, "Management's Responsibility for Internal Control"?
3. How have delays and other changes in the planned implementation of the new financial management system affected NASA's ability to address its financial management challenges?

Mr. Ciganer:

1. What is NASA doing to correct the weaknesses with the Core Financial module of the Integrated Enterprise Management Program (IEMP) identified in previous audit reports? Specifically address each of the following:
   - the system's inability to process certain types of transactions and to produce transaction-level details;
   - the system's lack of integration with certain subsidiary systems such as the property systems; and
   - security controls over IEMP.
2. GAO found deficiencies with NASA's approach to developing and implementing the IEMP. GAO recommended that NASA employ "best practices" such as identifying all system requirements up front, rigorous testing, and disciplined management. What actions has NASA taken to ensure that it follows "best practices" in developing and implementing IEMP modules, such as the upgrade to the Core Financial module and the planned Integrated Asset Management module?
3. What is the status of NASA's effort to develop a life-cycle cost estimate for IEMP? What is the current estimate of the life-cycle cost for the IEMP and when will IEMP be fully operational?

Mr. Gregory Kutz:

1. Please provide your assessment of NASA's key financial management challenges. What are the underlying causes of these challenges and how do these compare with problems found at other federal agencies? Have NASA's financial management problems resulted in additional costs to taxpayers?
2. What progress has NASA made in implementing the recommendations from GAO's series of reports released in 2003 on NASA financial management? Which recommendations have yet to be fully addressed by NASA that are of greatest concern?
3. What does NASA need to do to address its financial management deficiencies? What areas of NASA's current corrective action plan need increased attention?

APPENDIX A

GAO's Assessment of NASA's Progress Toward Implementing GAO's Recommendations

Recommendations	Closed	Partially Implemented	Open	Comments
Recommendations to improve NASA's procedures for managing the acquisition of systems. (2 recommendations) *GAO-03-507*	0	2	0	Key elements of dependency analysis methodology still lacking. Suitability of already acquired components not evaluated before acquiring additional components.
Recommendations regarding development and use of enterprise architecture. (22 recommendations) *GAO-04-43*	1	4	17	Architecture still missing important content and key architecture management processes not yet established. Already-implemented system components not mapped to architecture.
Recommendations to minimize the risks of relying on already-deployed IEMP components with known weaknesses, such as the Core Financial module. (6 recommendations) *GAO-03-507*	0	0	6	NASA did not develop a formal corrective action plan to mitigate risks.
Recommendations regarding defining IEMP management needs and reengineering business processes. (2 recommendations) *GAO-03-507*	1	0	1	Stakeholders engaged to define program management needs. Plans to reengineer contractor cost reporting processes still several years away.
Recommendations to improve NASA's management and testing of system requirements prior to implementing a system. (3 recommendations) *GAO-03-507*	0	3	0	New requirements management methodology and tools acquired for future modules, but core financial module requirements not yet fully defined.
Recommendations to improve external financial reporting. (4 recommendations) *GAO-04-151*	0	0	4	Little progress made in developing a detailed plan for delivering a financial system that substantially complies with federal standards.
Recommendations regarding IFMP program life-cycle cost estimates and funding reserves. (6 recommendations) *GAO-04-118*	1	4	1	Significant progress made in preparing life-cycle cost estimate, but consistency and support for estimates still lacking.
Total	**3**	**13**	**29**	

APPENDIX B

Glossary

Audit opinions:

Disclaimer of opinion—when auditors are unable to determine the reliability of financial statements. This situation can occur if an organization has significant weaknesses in its internal controls or if the auditors are unable to perform sufficient audit work.

Qualified opinion—when auditors find one or more items in the financial statements that do not conform with generally accepted accounting principles. However, the auditors do not believe that these items are so significant as to invalidate the financial statements taken as a whole.

Unqualified opinion—when auditors believe the financial statements fairly present an organization's financial position and results of operations in conformance with generally accepted accounting principles.

Enterprise architecture—an organizational blueprint that defines—in both business and technology terms—how an organization operates today, how it intends to operate in the future, and how it will transition to the future state.

Enterprise Resource Planning or ERP—a type of software that consists of multiple, integrated modules designed to perform all business-related functions of an organization, such as planning, inventory control, finance, and human resource management.

Material weakness—a reportable condition in which the design or operation of one or more internal controls does not, in the auditor's opinion, provide reasonable assurance that any significant misstatements in amounts would occur and not be detected in a timely manner by employees carrying out their normal functions.

Reportable condition—when a significant deficiency exists in the design or operation of an internal control that, in the auditor's judgment, could adversely affect an agency's ability to record and report financial data in compliance with generally accepted accounting principles.

Chairman CALVERT. Good morning. This morning I want to welcome Congressman Todd Platts, Chairman of the Subcommittee on Government Management, Finance, and Accountability of the House Committee on Government Reform, as we co-chair this important joint hearing on NASA's financial management system. I want to also welcome my friend and Ranking Democrat Mark Udall, and I am not sure, but Ranking Democrat Edolphus Towns of the Subcommittee on Government Management, Finance, and Accountability may be with us shortly.

As you know, I am a strong supporter of NASA. I want NASA to be successful. However, as a businessman, I also know that without sound financial management, NASA will not be able to achieve the goals set for its programs. Sound financial management is an integral part of good management of any organization. I have met with Ms. Sykes and Mr. Ciganer and know that they are working very hard to fix the problems with NASA's financial management operations.

The Government Accountability Office will be releasing a report at this hearing today that summarizes NASA's progress in implementing the recommendations made by GAO over the last two years. The GAO found that NASA has closed out only three of the 45 recommendations, and 13 of the recommendations have been partially implemented. This leaves 29 recommendations that are still open. While NASA has made some progress, clearly, there is a long way to go.

When I met with Ms. Sykes and Mr. Ciganer, they told me that they have made some important improvements to NASA's financial management system: monthly statements are now more timely for the programs and centers, although there are certain concerns over the accuracy of these statements; NASA has improved controls over its assets; and, the financial management teams at NASA centers now report to the Agency CFO, Ms. Sykes. Although there are definitely many financial management problems ahead for NASA, I am hopeful that the Agency may be turning the corner in a more positive direction as it wrestles with these very difficult but critical financial management challenges.

I am concerned that in three of the past four years, independent auditors have been unable to give NASA's financial records a passing grade. Administrator Griffin, when he testified before the Science Committee in June, characterized the status of NASA's financial management as "deplorable." Not only is financial management critical to successful operation of the Agency, but we in the Congress also need reliable financial information in order to carry out effective oversight. We don't want to risk the future of NASA's new programs and ventures by having them built on a shaky financial infrastructure. I want to see this great nation lead in the areas of exploration, aeronautics, and the sciences, and I don't want us to risk this leadership with unstable underpinnings in the Agency's financial system.

I look forward to hearing from our witnesses today as they identify the problems that NASA is facing, as well as offer solutions so that NASA can address these challenges and manage its important programs successfully.

[The prepared statement of Chairman Calvert follows:]

PREPARED STATEMENT OF CHAIRMAN KEN CALVERT

This morning, I want to welcome Congressman Todd Platts, Chairman of the Subcommittee on Government Management, Finance, and Accountability of the House Committee on Government Reform, as we co-chair this important joint hearing on NASA's Financial Management system. I also want to welcome my Ranking Democrat Mark Udall and Ranking Democrat Edolphus Towns, of the same Subcommittee on Government Management, Finance and Accountability.

As you know, I am a strong supporter of NASA. I want NASA to be successful. However, as a businessman, I also know that without sound financial management, NASA will not be able to achieve the goals set for its programs. Sound financial management is an integral part of good management within any organization. I have met with Ms. Sykes and Mr. Ciganer and know that they are working very hard to fix the problems with NASA's financial management operations.

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Chairman CALVERT. With that, I would like to recognize Mr. Platts for his opening.

Mr. PLATTS. Chairman Calvert, thank you for convening this hearing today and for your clear interest in important management issues at NASA. Please also know that I share your support for NASA and its very important mission to our nation, our citizens, and, really, all of humanity.

As you are aware, my Subcommittee looked at the topic of financial management at NASA last year, and this remains a top priority. We have a responsibility to the taxpayers to ensure accountability, especially during times of heightened fiscal responsibility and tightening budgets.

In order to support America's space program, Congress and the public needs credible, reliable financial data to support the decisions we make, and NASA must demonstrate effective stewardship over the taxpayers we entrust to them. Management issues cannot be overlooked in the context of the broader policies that will shape NASA's future, and I commend you, Mr. Chairman, for recognizing this important fact. Without sound management and account-

ability, even the most forward-looking and innovative programs are unlikely to be successful.

Financial management at NASA has produced mixed results, from clean opinions in the 1990s to disclaimers in the past few years. Clearly, this needs to be addressed, and the efforts underway to modernize NASA's financial systems through the Integrated Enterprise Management program are the key to success, whether it be in data conversion problems, it is the IEMP, combined with the strong commitment from NASA's leadership, that will eventually put NASA back on track.

Mr. Chairman, I welcome the opportunity provided by this joint hearing to work closely with your staff to ensure that NASA has the tools in place to succeed.

And I certainly thank each of our witnesses who are here with us today for the written testimony that they have provided and for their statements that they are about to provide to us here in this hearing.

Thank you, Mr. Chairman.

Chairman CALVERT. I thank the gentleman.

Mr. Udall.

Mr. UDALL. Thank you, Mr. Chairman. Good morning to the panel.

In addition, I want to welcome Chairman Platts and Ranking Member Towns and the rest of your Subcommittee to the hearing.

The topic of today's hearing, the status of NASA's financial management system is an important one, as we have already heard from the two distinguished Chairmen here. I am pleased that our two subcommittees are working together to determine what kind of job NASA is doing on financial management and what the Agency needs to do to improve its performance.

This challenge was put starkly in a September 9 letter to Chairman Boehlert and Ranking Member Gordon that accompanied the GAO report on this topic that is being released today.

If I might, I want to quote the GAO: "As we and others have reported in the past, the National Aeronautics and Space Administration has fundamental problems with its financial management operations that undermine its external financial reporting ability and thwart its efforts to effectively manage and oversee its major programs."

That is a sobering assessment.

In addition, the NASA Inspector General will testify today that NASA's financial statements will again fail to receive a passing grade from NASA's independent auditors, with the auditors citing, to quote the IG, "instances of noncompliance with generally accepted accounting principles, reportable conditions in internal controls, and noncompliance with the *Federal Financial Management Improvement Act* and the *Improper Payments Information Act of 2002.*"

Equally troubling, the IG will testify that: "The Agency has not been able to articulate with clarity comprehensive action plans for how it will address its internal control weaknesses or its financial management problems."

Now to be fair, NASA has a tough challenge in trying to develop an integrated financial management system for an agency that has

had a large number of independent "legacy" systems at its centers. And both the IG and the GAO will testify that NASA has made some progress over the past several years.

Yet, they both indicate that NASA has a very long road ahead of it, with success not yet assured. I hope today's hearing will shed some light on the challenges that NASA is going to have to address as well as help identify the most promising approaches for NASA to take.

That said, Mr. Chairman, again, I want to welcome the witnesses, and I look forward to your testimony.

[The prepared statement of Mr. Udall follows:]

PREPARED STATEMENT OF REPRESENTATIVE MARK UDALL

Good morning. I want to welcome the witnesses to today's hearing.

In addition, I want to welcome Chairman Platts and Ranking Member Towns and the other Members of the Government Management, Finance, and Accountability Subcommittee to our hearing room.

The topic of today's hearing—the status of NASA's financial management system—is an important one. And I'm pleased that our two subcommittees are working together to determine what kind of job NASA is doing on financial management, and what the Agency needs to do to improve its performance.

The challenge facing NASA was put starkly in a September 9th letter to Chairman Boehlert and Ranking Member Gordon that accompanied the GAO report on this topic that is being released today.

To quote GAO: *"As we and others have reported in the past, the National Aeronautics and Space Administration (NASA) has fundamental problems with its financial management operations that undermine its external financial reporting ability and thwart its efforts to effectively manage and oversee its major programs."*

That is a very sobering assessment.

In addition, the NASA Inspector General will testify today that NASA financial statements will again fail to receive a passing grade from NASA's independent auditors, with the auditors citing [to quote the IG] *"instances of noncompliance with generally accepted accounting principles, reportable conditions (with most being material weaknesses) in internal controls, and noncompliance with the* Federal Financial Management Improvement Act *and the* Improper Payments Information Act of 2002*."*

Equally troubling, the IG will testify that: *"The Agency has not been able to articulate with clarity comprehensive action plans for how it will address its internal control weaknesses or its financial management problems."*

In fairness, NASA has a tough challenge in trying to develop an integrated financial management system for an agency that has had a large number of independent "legacy" systems at its Centers. And both the IG and the GAO will testify that NASA has made *some* progress over the past several years.

Yet, they also both indicate that NASA has a very long road ahead of it, with success not yet assured. I hope today's hearing will shed some light on the challenges that NASA is going to have to address, as well as help identify the most promising approaches for NASA to take.

That said, I again want to welcome our witnesses, and I look forward to your testimony.

Thank you and I yield back the balance of my time.

Chairman CALVERT. I thank the gentleman.

[The prepared statement of Mr. Towns follows:]

PREPARED STATEMENT OF REPRESENTATIVE ED TOWNS

Thank you, Mr. Chairman, for holding today's hearing on the state of financial management at NASA. As a supporter of NASA's core mission of space exploration and its efforts that enable us to further understand the science of human development, I approach today's hearing with mixed emotions. While I'm pleased to see that the Agency is working to remedy both its financial affairs as well as recent setbacks for its Shuttle program, I remain concerned that its pursuit of an unqualified audit opinion remains bogged down in mismanagement and deeply flawed accounting practices.

For the second year in a row, NASA has been given a "disclaimer" rating on its annual financial statements, and is one of only five federal agencies to be rated as such. While, on balance, most agencies across the Federal Government have contributed to the goal of achieving a government-wide clean audit opinion, NASA has proven to be a weight on the process. If NASA is to be deemed worthy of additional funding in an era of scarce discretionary resources, it must improve upon its efforts to identify and remedy both short- and long-term structural deficiencies.

The recent audit opinion for NASA clearly details the depth of its financial management problems, particularly within financial management systems that are crucial for measuring Agency activities and performance. While I realize that agency conversion to a new financial management program is daunting, it does not explain the broad deficiencies in Agency controls and accounting for NASA owned contractor-held assets.

Since 1990, NASA has been deemed a "high-risk" agency by GAO for its failure to implement adequate financial management practices, while continued Agency attempts at financial systems integration has already cost taxpayers nearly $200 million. More, deficiencies in preparing Agency financial statements and reconciling its fund balances with Treasury place NASA in violation of multiple requirements by OMB and under the *Federal Financial Management Improvement Act of 1996*. For these reasons, I believe only long-term systemic financial management reform will enable NASA to achieve a clean audit.

I look forward to hearing from our witnesses about the ways in which NASA can improve its audit results through internal accountability and more effective financial management of its scarce resources.

[The prepared statement of Ms. Jackson Lee follows:]

PREPARED STATEMENT OF REPRESENTATIVE SHEILA JACKSON LEE

I thank Chairman Calvert and Ranking Member Udall as well as Chairman Platts and Ranking Member Towns for your efforts in holding today's joint hearing on the financial management of NASA. Furthermore, the distinguished panels of witnesses are to be thanked for their responsiveness to our call to testify.

Important to today's hearing is the fact that of the $15 million net increase in appropriations passed in the FY 2006 Science, State, Justice, and Commerce (SSJC) bill (H.R. 2862), $31 million was cut from "corporate administrative costs." The upcoming budget reconciliation proposals exacerbated by the outlays made to assist victims of the two—now three major hurricanes make the job of responsibly focusing resources very difficult. Hence, our oversight will be crucial in underscoring the priorities.

Funding-wise, the Administration will face a crisis in terms of its workforce. The way that the request is structured, the number of full-time equivalents (FTEs) will be reduced from 19,227 in FY 2005 to 16,738 by the end of FY 2006.

Relative to space exploration, our Hubble Space Telescope mission seems tenuous given the $220 million discrepancy between the House and Senate passed appropriations for a servicing project.

One of my questions will be to NASA's Chief Financial Officer and to the Program Executive Officer of the Integrated Enterprise Management Division as to how or whether the FY 2006 budget request accounts for proposals to fund the Vision—the program that calls for NASA to return humans to the Moon by 2020 and eventually to Mars. The following excerpt from a CRS Report entitled "The National Aeronautics and Space Administration's FY 2006 Budget Request: Description, Analysis, and Issues for Congress":[1]

> The President did not propose adding significant sums to NASA's budget to pay for the Vision. Instead, most of the funding was to be redirected from NASA's other activities. For example, the White House announced that $12.6 billion would be made available for the Vision from FY 2005–2009, but only $1 billion of that was new money. The remaining $11.6 billion would come from other NASA activities. Taking most of the requisite funds from other NASA programs instead of adding new money for the Agency could mitigate concerns that the Vision might increase the deficit or detract from other national priorities.

This excerpt illustrates the extent of the judgment that must be exercised in deciding how much funding will go to important exploratory and research projects such as Vision given the fact that other programs will suffer with certainty.

[1] RL32988 at 17 (updated October 7, 2005).

At Dr. Griffin's April 2005 confirmation hearing, he indicated that "the total amount of NASA funding is not the problem, . . .NASA received approximately the same amount of money in its first 16 years as it has in the past 16 years. Instead. . .it is a matter of setting priorities." His chief priorities as enumerated were returning the Shuttle to flight and making each flight as safe as possible, completing construction of the Space Station by 2010, terminating the Shuttle in 2010, and accelerating the development of the CEV to minimize the gap between when the Shuttle ends and the CEV is available. I will look to query the witnesses as to where they would make cuts to meet these goals given the proposed funding expected to come out of the Conference Report on the SSJC Appropriations Act for FY 2006.

Chairs and Ranking Members, again, I show my appreciation to you for the effort expended in putting today's hearing together, and I look forward to receiving answers to the important questions that we pose.

Chairman CALVERT. We are going to start testimony from each of our witnesses. We have a five-minute rule here, just to remind you. Certainly, your entire statement will be entered into the record, so understand the green light means there are four minutes, the yellow light means there is a minute left, and the red light means you are out of time. So let us try to stay as much as possible to the five-minute rule so we have plenty of time for questions.

And with that, Ms. Sykes, you are recognized for five minutes.

STATEMENT OF HON. GWENDOLYN SYKES, CHIEF FINANCIAL OFFICER, NASA

Ms. SYKES. Thank you, Chairman Calvert.

Chairman Calvert, Chairman Platts, and Members of the Subcommittee, I am here this morning to give you an update on the challenges and steps that NASA has taken to improve its financial management performance.

Since I last reported to the Subcommittee on Government Efficiency and Financial Management on May 19, 2004, NASA has taken actions towards enhancing its financial performance. A significant step in the right direction is now all ten Center CFOs report directly to the Agency CFO.

Prior to my arrival and my hearing with the Subcommittee, the NASA Center CFOs reported directly to the directors of each of the NASA Centers. With the support of the Subcommittee on Government Efficiency and Financial Management, NASA's financial leadership was realigned under the Agency CFO, and we are developing into a strong, unified community with common objectives.

Given the challenges that lay ahead for our agency as it relates to financial management, we CFOs meet on a quarterly basis to plan, update, and track our progress in addressing key issues that relate to our overall financial management plan.

Today, I have my team here with me. We have Tommy Moyles, Robert Gardner, Bruce Ward, Nancy Abell, John Beall, Napoleon Carroll, Kenneth Winter, Susan Foster, Jim Bevis, and Dale Johnson. These are the Center CFOs that are with me here today as one of the examples of the many changes that we have made in the area of financial management since our last report to Congress.

As you recall, the integration of the NASA Financial Management began back in 2003 with the implementation of the Core Financial System. Before Core Financial, all of the NASA's ten Centers operated separately and succinctly with regard to financial

management objectives, processes, and systems. A loose set of financial management policies provided high-level guidance.

Today, every Center operates under one transaction-based financial system as the system of record for the financial management at NASA. Today, every Center, in fact, everyone at NASA, operates under the newly-revised financial management requirement, providing common policies and procedures for all financial operations.

The changes NASA has been making to integrate and improve its financial management have not been easy nor problem-free. The introduction of the Core Financial System highlighted differences and process of accounting treatment, small or large, across all of our Centers. The consolidation of unlike data caused by these differences resulted in serious conversion-related account balances.

The introduction of new ways of recording and posting financial data highlighted issues with the initial configuration of our system. NASA's implementation of the SAP software for Core Finance was the beta for the future agencies and their efforts on an enterprise system for financial management.

As the beta organization, we have encountered configuration issues in the data being posted to incorrect accounts. This means that NASA has had to spend an inordinate amount of time reconciling accounts and implementing compensating controls to ensure the accuracy of the information being placed within our system.

Our research tells us that these are typical issues that any major financial system implementation faces. This doesn't make it easier, but it helps us to stay focused on the goal of being able to provide project and program managers with the timely, accurate, and reliable data so they can manage their programs effectively and efficiently. We have taken steps to address the root causes of these issues, but the fact remains that NASA did receive a disclaimer of its financial statements during the fiscal year 2004 financial statement audit, and four major weaknesses were identified.

In my written testimony, I have described in detail the progress NASA has made in addressing these weaknesses and the steps taken to address known systemic issues.

Let me briefly highlight some of the actions that we have taken to date.

The first noted weakness concerned the problem with Fund Balance with Treasury. Difference in NASA's Fund Balance with Treasury, basically the difference between our checkbook and the balance at the bank, Treasury, stood at $1.743 billion in fiscal year 2003. This difference was the result of imbalances and errors resulting from conversion of our data from the ten NASA Centers.

As of September 30, 2005, two years later, after careful study and analysis and correction, NASA's current difference with Treasury is $46.6 million. This is still a lot of money, but our monthly reconciliation process established over the past year tells us that over 80 percent of the difference is related to unsettled intergovernmental transactions, and the remaining 20 percent are the reconciling differences.

The process that NASA has put in place requiring that each Center perform monthly reconciliations of its Fund Balance with Treasury accounts helps ensure that NASA's differences never again grow beyond our current control. And the certifications of the rec-

onciliation that the CFOs seated behind me must provide on a monthly basis give me even greater confidence that our Fund Balance with Treasury issues are fully being addressed.

NASA's auditors also identified issues with our ability to prepare financial statements. Several software-related issues limit our ability to provide auditors with sufficient transactions and audit trails with credible balances for key accounts. We have made progress in resolving the underlying issues in contributing to those weaknesses through software fixes and improved financial management preparation. As a result, our year-end financial statements were generated directly from our Core Financial System with our balance sheet in balance where assets equal liabilities.

NASA is making steady progress in its goal toward solid financial management. I stand firm in my commitment to improving NASA's financial management performance and ensuring that all stakeholders have a clear and accurate assessment of how NASA's resources are being used and providing decision-makers with the access to accurate, timely, and reliable data.

Thank you, Chairman Calvert.

[The prepared statement of Ms. Sykes follows:]

PREPARED STATEMENT OF GWENDOLYN SYKES

Chairman Calvert, Chairman Platts and Members of the Subcommittees, I am pleased to be here this morning to give you an update on the progress of NASA's efforts to improve our financial management performance. Since I last reported to the Subcommittee on Government Efficiency and Financial Management on May 19, 2004, NASA has taken many steps toward improved financial performance, and I am proud to be able to speak with you today about those steps, and the results we have achieved in moving the Agency forward in financial management.

Over the past 17 months, much has changed at NASA. As you are aware, NASA has recently embarked on its new Vision for Space Exploration, leading us to re-evaluate operational and planned missions in light of our new goals. We, in the Office of the Chief Financial Officer (OCFO), are working in close partnership with the NASA Mission Directorates, programs and projects to support these efforts.

The confirmation of Dr. Michael Griffin as NASA Administrator has also helped to emphasize the importance of effective financial management across all parts of the Agency. In response to guidance from the Administrator upon his confirmation, Patrick Ciganer and I convened a Senior Advisory Group consisting of leaders from the Federal Government including the Under Secretary of Education and the Controller of the Office of Management and Budget (OMB). We worked closely with the advisory group to review the current financial management improvement plan to ensure we had the right strategy, body of work, and resources to address the challenges that face NASA. The group's insight proved so effective that we have instituted monthly meetings, which we use to gain continued insight and guidance as we move forward on our path towards more effective financial management operations at NASA.

At that group's suggestion, and under the direct authority of the Administrator, we have also created a Financial Integration Team, or FIT, in recognition that many NASA organizations outside of the OCFO have responsibility for, and contribute to, our Agency's financial health. Their full support is essential to improving NASA's financial management and the FIT has been instrumental in coordinating Agency-wide resources to address and resolve the financial challenges that you have asked me to report on today.

In my 2004 testimony, I described several of the challenges facing NASA in the area of financial management. Additional challenges were highlighted in the audit of our financial statements for that year. I would like to provide an update to you today on the progress we have made and the challenges we continue to address.

Fund Balance With Treasury

NASA's September 30, 2003, Fund Balance with Treasury (FBWT) contained a $1.743 billion discrepancy between the U.S. Treasury (Treasury) balance and the amount that was reported from the NASA Integrated Enterprise Management Pro-

gram Core Financial System. Since that time, NASA has taken several corrective actions to significantly reduce our differences with Treasury's balances and improve internal controls over data integrity.

In FY 2003 and FY 2004 a material weakness was reported for differences in NASA's FBWT account balance. Differences were due in large part to the consolidation of imbalances from ten disparate accounting systems and data integrity issues associated with the conversion process and implementation of the Core Financial System.

Furthermore, the FY 2004 financial statement audit report indicated that NASA lacked formalized procedures to analyze accounting data. It also found that a strong oversight function was needed to ensure that periodic analyses and reconciliations are completed to detect and resolve errors and irregularities in a timely manner.

To address these findings, NASA developed and implemented standard monthly reconciliation and correction policies and procedures for its FBWT accounts. These have been formally published in NASA's Financial Management Requirements. NASA has also implemented monthly Headquarters reviews of those reconciliations to ensure compliance with NASA policy and to increase oversight of the Agency's FBWT and any associated differences.

Through these efforts, NASA has reduced its differences in the amounts reported by Treasury and NASA's books of record for FBWT by over 97 percent. The September 2005, year-end FBWT difference was $46.5 million, versus the $1.743 billion difference reported at year-end of FY 2003. Of this $46.5 million FBWT difference, $35.8 million is due to September's increase in transactions with other intergovernmental entities. The remaining $10.7 million has been reconciled.

NASA is implementing an agency-wide automated tool to assist all Centers in the reconciliation of FBWT. This tool will provide increased speed and accuracy in identifying and reconciling differences with Treasury. It will also increase NASA's visibility at Headquarters into the actions taken by NASA Centers to identify and correct differences with Treasury.

FY 2005 Year-End Close

Contributing to our control weaknesses last year were several software related issues that limited our ability to provide the auditors with sufficient transaction audit trails and with credible balances to support key accounts. While we were able to provide the information to the auditors using systems and processes outside of our Core Financial System, our inability to provide them through the system resulted in a negative audit finding.

Over the past year, we have made progress toward resolving the underlying issues contributing to those weaknesses. The result of our improvements is that most of our financial statements are generated directly from our Core Financial system, using the transactional data mapped detail by detail to financial statements.

This year's publication of the NASA Financial Management Procedures, a companion set of guidance to NASA's Financial Management Requirements (FMR), provided guidelines that improved the consistency, effectiveness and accuracy of NASA's year-end closing process. NASA also increased its testing of the financial statement preparation process and implemented monthly and quarterly financial statement analysis accompanied by greater supporting detail and enhanced controls.

We will continue to monitor our financial statement procedures to seek opportunities for streamlining our process.

Environmental Liabilities

For FY 2004, NASA's financial statement auditors identified weaknesses in NASA's estimation of its environmental liabilities (e.g., asbestos removal, groundwater contamination clean-up, etc.). Key issues included insufficient definition of roles and responsibilities among all parties involved in estimating these liabilities, and insufficient policies, procedures and training in the estimation process.

The resolution of this weakness requires close coordination and cooperation across several NASA organizations. OCFO and NASA's Environmental Management Division (EMD) have partnered to coordinate policies, processes and controls for estimating NASA's environmental liabilities. We have developed and documented environmental liabilities estimating procedures and distributed them to all Centers. These procedures will be enhanced in FY 2006 to ensure greater consistency and reliability in NASA's estimates. In addition, the partnership will establish a robust quality assurance process.

In conjunction with EMD, OCFO has also developed and conducted policy and guidance training for estimating environmental liabilities. Beginning in FY 2006, OCFO will enhance training and include the Center CFO staff as an integral part of the estimate preparation and review process.

While we have accomplished a great deal toward addressing this reportable condition, it will take time to realize results. Therefore, these results are unlikely to be reflected in NASA's 2005 financial audit.

Property, Plant and Equipment

The last major finding from NASA's financial statement audits concerns weaknesses in NASA's ability to recognize and account for its property, plant, and equipment (PP&E), and in particular its "theme assets" or, the products, such as the Space Shuttle and Hubble Space Telescope, that are developed in direct support of NASA's mission. NASA's FY 2004 audit report recommended that NASA review its accounting policies governing how the Agency determines the value of these products as they are being developed. NASA auditors also cited the need for improved processes and controls for tracking parts and components.

In response, NASA reviewed and evaluated its capitalization policy for these products to determine if the policy provided useful, meaningful and timely financial information to decision-makers and stakeholders as suggested by the objectives of federal financial reporting. Based on that evaluation, NASA has revised its capitalization policy and is currently formulating supporting procedures for implementing the approach.

Beyond accounting treatment, resolving PP&E valuation and controls weaknesses requires the integration and improvement of overall acquisition, development, and disposal processes. The FIT established a cross-functional PP&E team comprised of members representing NASA's Institutional Management, Procurement, and Financial Management functions. The team is conducting a comprehensive review of NASA's product acquisition, development, disposal, and accounting processes and controls and developing recommendations for improving them. These recommendations will be evaluated for implementation over the course of the next several months.

While taking steps to improve its internal processes, NASA has also taken steps to improve contractor compliance with NASA's PP&E policies. Contractors currently hold over $9 billion worth of NASA PP&E, representing a significant and material portion of our balance sheet. We are working directly with our contractors to ensure they have proper training and controls to implement policy. We have also expanded our contract with the Defense Contract Audit Agency to increase our oversight of contractor compliance.

Improving these processes will not only enable NASA to improve its ability to accurately control and value assets but will also help pave the way for the successful implementation of NASA's Integrated Asset Management (IAM) module. Ultimately, IAM, an integral part of the Agency's Integrated Enterprise Management (IEM) system will integrate, automate and strengthen control of NASA's PP&E processes. The recent re-phasing of IAM's schedule is based on priority being given to the SAP Version Upgrade in October 2006, and the introduction of NASA's new budget structure. Given the changes to the schedule, the PP&E recommendations will include internal controls designed to address weaknesses so that PP&E processes are improved before IAM is implemented.

Internal Controls

OMB recently released enhanced guidance for improving internal controls over financial reporting and documentation in OMB Circular A–123, "Management's Responsibility for Internal Control." In August 2005, we provided NASA's high-level plan for implementing the new requirements to OMB. Our goal is to satisfy the requirement by applying the guidance to four key accounts in FY 2006: FBWT, Materials and Supplies, PP&E, and Environmental Liabilities. We have crafted a plan that should move us toward successful compliance with the new requirement.

To set the stage for work that will be done this fiscal year, agency-wide financial management internal control assistance visits, risk-assessments and self-assessments were conducted at all ten NASA Centers in FY 2005. Those activities helped refocus and reinvigorated interest in financial internal controls across the Agency and provided information that will serve as a baseline for the upcoming FY 2006 internal controls assessments.

Overall Improvements

To ensure that these improvements are sustained, OCFO has also taken steps to enhance our workforce and improve our internal processes. Over the past several years, OCFO staffing levels have been inadequate to successfully address our challenges and operate on a going forward basis. We simply have not had the staff, in terms of both head-count and skill set mix, to contend with the many changes we have faced. New responsibilities, new systems, new processes, new federal require-

ments and changing expectations from our customers all require a flexible, well-trained and appropriately staffed financial management organization.

To address these issues, the NASA Administrator has made a personal commitment towards improving our posture, including approving staff increases in FY 2005. In the past month, we have begun to increase our staff in the budget and accounting functions. In addition, we have undertaken a series of workforce development initiatives aimed at enhancing and improving the skills of our staff. One of our first priorities has been to ensure that we are providing staff with the skills and tools they need to respond to changes in policy, process and procedures related to the implementation of the Core Financial System. Prior to the implementation of Core Financial, the NASA community participated in extensive preparatory training. We are now supplementing that training with refresher courses that incorporate our lessons learned.

Within OCFO, we are also establishing a training curriculum to help ensure that the financial community is equipped with the skills and knowledge required to fulfill current job responsibilities while developing new analytical skills needed to fulfill new roles. Recognizing our obligation to provide the NASA community with the tools and knowledge need to make sound financial and resource decisions, OCFO has also developed and piloted a course entitled "Financial Management for Non-Financial Managers." We are currently exploring ways to roll-out the course to the broader NASA community in 2006.

NASA has also lacked consistent policies and processes. Through NASA's Financial Management Requirements (FMR), we have established a single set of policies for NASA financial management. All Centers, all programs, all projects and all institutional functions are required to adopt and comply with these policies. The implementation of the FMR is helping us to both increase the consistency in philosophies and approaches to the treatment of financial management across NASA and to generate constructive debate about the ways in which we have chosen to move forward. As a result, new processes have been developed and implemented across the Agency that incorporate best practices from our Centers and programs.

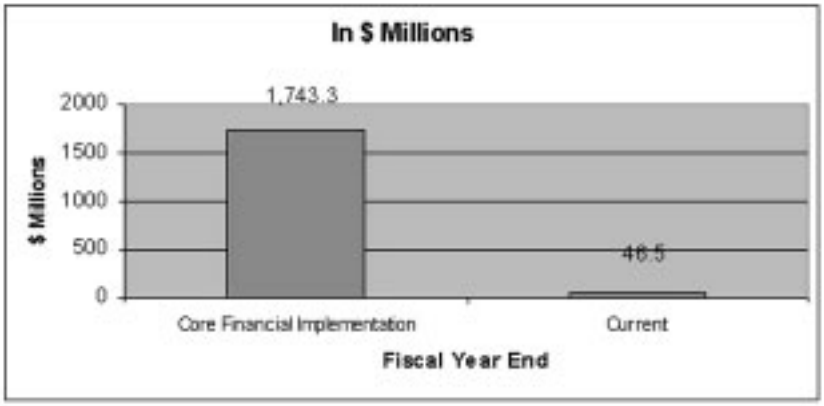
In summary, NASA is making steady progress in addressing the Agency's financial management challenges. I am confident that we are well on our way toward enhancing financial management at NASA, one step at a time. Even though NASA may not receive a clean opinion on our statements in 2005, the Agency has made headway and we will continue to push forward in meeting this challenge.

I reiterate my full commitment to improving NASA's financial management performance, to ensuring that all stakeholders have a clear and accurate assessment of how NASA's resources are being used, and to providing decision-makers with access to accurate, timely and reliable data. We are making steady, measurable progress toward those goals.

Mr. Chairmen, I would be pleased to respond to questions.

Fund Balance With Treasury

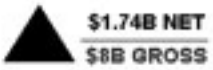
NASA's Net Difference with Treasury



FBWT: Net vs. Gross

FY 2003

DIFFERENCE BETWEEN TREASURY AND NASA FUND BALANCES



$1.74B NET
$8B GROSS

Difference between gross and net, transferring $10 from checking account to savings account

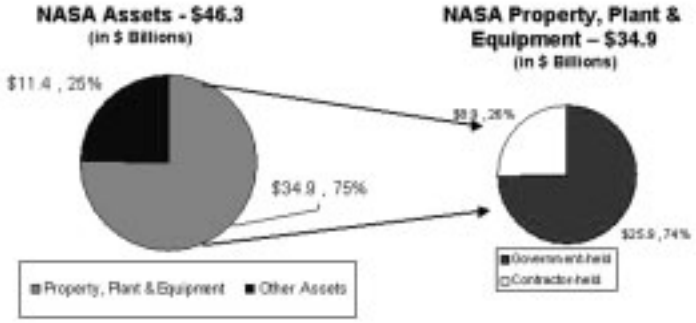
CHECKING ACCOUNT	CLEARING ACCOUNT	SAVINGS ACCOUNT
$10.00	+ $10.00 (2)	+ $10.00 (4)
- $10.00 (1)	- $10.00 (3)	

$10 NET
$40 GROSS

NASA Property, Plant and Equipment (PP&E)

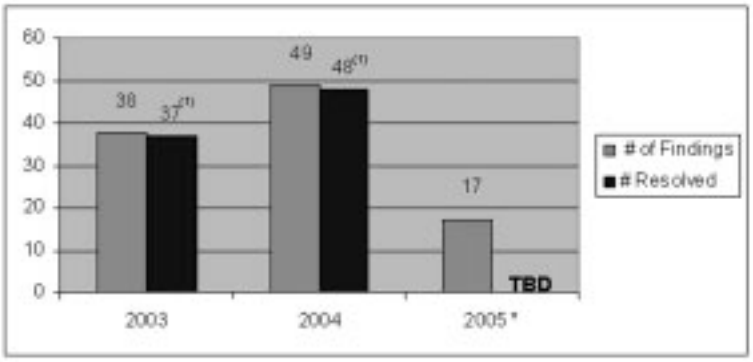
PP&E comprises 75% of NASA's total Balance Sheet assets …

… of which NASA contractors hold 25%, or almost $9 billion



Source: NASA 2005 Financial Statements (unaudited)

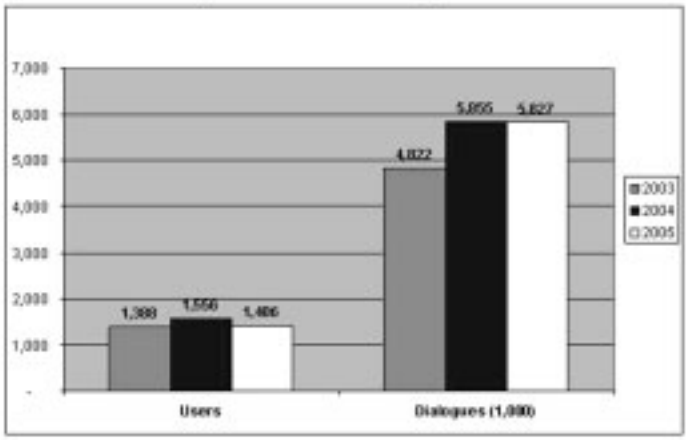
IT Security Audit Findings



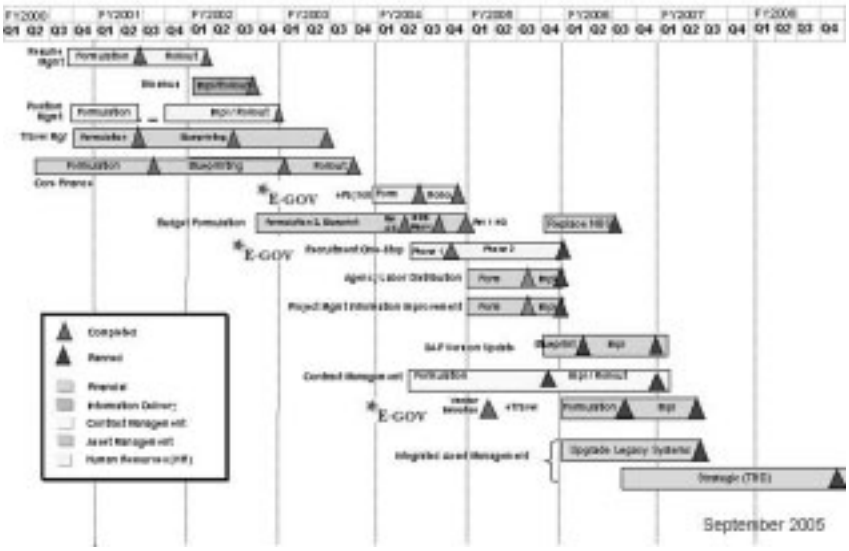
(1) Due to reporting nature, findings were closed the next fiscal year. However, they are portrayed in the same row for ease of viewing.

* Preliminary based on auditor exit briefing (September 2005)

Core Financial User & Related System Usage



Integrated Enterprise Management Program (IEMP) Development Schedule



BIOGRAPHY FOR GWENDOLYN SYKES

Gwendolyn Sykes is the Chief Financial Officer for the National Aeronautics and Space Administration (NASA). Through her leadership, Ms. Sykes ensures the financial health of the organization, including responsibility for ensuring that NASA resources are effectively employed toward the achievement of NASA's strategic plan. She manages the organization's budget and financial operations, directs the preparation and submission of annual financial and budgetary reports, and coordinates Agency financial management activities with other federal agencies. She also is an active participant with other agency Chief Financial Officers in supporting implementation of the President's Management Agenda.

Ms. Sykes joined NASA in November 2002 when she was selected as the Deputy Chief Financial Officer for Financial Management. Since that time, she has made significant strides toward improving agency-wide financial integrity. She has launched several management initiatives, aligned with the principles of the Federal Government's Joint Financial Management Improvement Program (JFMIP), designed to improve NASA's financial health and performance. Her leadership and resourcefulness are invaluable assets to the NASA community.

Prior to arriving at NASA, Ms. Sykes provided program and financial control support to the Under Secretary of Defense (Comptroller). She was instrumental in instituting streamlined financial reporting requirements and developing electronic financial management reports, significantly reducing the amount of paper work that flowed from the Department of Defense to the Department of Treasury and the Office of Management and Budget.

Ms. Sykes began her public service career with the Defense Contract Audit Agency. Subsequently, she served as a legislative correspondent for Senator Ted Stevens, where she coordinated activities related to protecting Alaska's vital fishery industry during the Valdez oil spill.

In 20303, Ms. Sykes was awarded the NASA Exceptional Achievement Medal for outstanding budgetary and financial management leadership of the NASA financial community. She is considered an expert in the areas of accounting and financial management, and frequently lectures at a variety of financial management conferences and symposia.

Ms. Sykes holds a Bachelor's degree in Accounting from The Catholic University of America and a Master's degree in Public Administration from The American University. She is a Certified Government Financial Manager.

Chairman CALVERT. Thank you.

Next, Patrick Ciganer is the Executive Officer of the Integrated Financial Management Program in NASA.

You are recognized, sir, for five minutes.

STATEMENT OF MR. PATRICK CIGANER, EXECUTIVE OFFICER, INTEGRATED FINANCIAL MANAGEMENT PROGRAM, NASA

Mr. CIGANER. Thank you. Thank you, Mr. Chairman.

Mr. Chairman and Members of the Subcommittee, I am here this morning to report on the current state of NASA's long-term plan to deploy and operate the broad range of new processes and systems collectively developed under our Integrated Enterprise Management Program initiative.

The overall objective of this effort is to enable the Agency to operate and manage more efficiently and transparently its major programs and initiatives. In summary, we are aiming at providing the necessary tools and information to allow NASA to make better business decisions in planning and managing its investments and major undertakings. This objective goes beyond just being able to consistently identify and record accounting information. In order to succeed, we must generate timely and reliable accounting, financial, and project information supporting all levels of our agency's decision-making process.

For historical context, in fiscal year 2000, after two previously unsuccessful attempts in the previous decade, NASA initiated a

long-term, agency-wide effort aimed at operating under a single, integrated suite of financial, project, contract, and human capital management tools.

To reach this goal, NASA selected an Enterprise Resource Planning suite of commercial-off-the-shelf software applications and designed and implemented new processes and operating practices consistent with the selected systems and tools.

For its financial accounting and reporting, the Agency licensed the Core Financial software application from SAP, and the integration support was provided by our Center. In implementing this application, NASA became one of the first agencies in the U.S. government to deploy a single ERP-based accounting system.

It should also be noted that, in contrast to many private sector organizations of this size and complexity, due to resource and budgetary constraints, NASA did not have the ability of running its legacy accounting system in parallel to its new system for a few months before cutting over. Additionally, and again in contrast to most organizations in the private sector, a very large volume of detailed historical accounting and contractual data had to be converted at the same time to enable the generation of regulatory-compliant financial statements and related audit trails.

When we last presented our status before Congress in May 2004, the Agency had been operating for eight months using our new Core Financial module, which replaced over 10 major and 140 minor local and often incompatible accounting systems and subsystems. Incidentally, NASA also migrated to full cost accounting and reporting as part of this implementation.

We are now entering our third fiscal year of operation under this new accounting and financial reporting environment, along with using several other related human capital and business management tools, which are also part of the IEMP initiative.

The operation of our Core Financial module has allowed NASA over the past two years to identify additional agency-specific system and process areas, which needed further improvement. We have worked closely with both our integrator and software vendor to develop those identified enhancements, and most of them are part of our forthcoming 2006 upgrade to our current software version.

Additionally, as the quality of our historical and current financial information gradually improved over the past two years, we are now ready to enter the next phase of our plan, which is to provide an enhanced correlation of accounting and project management financial information. This added functionality is also a key component in being able to generate more realistic and dependable cost estimates for our project and programs.

We are more than halfway through the full implementation of the current IEM planned functionality. Forthcoming capabilities in the next three years will include standardized contract generation, monitoring and reporting, enhanced tracking and management of environmentally-sensitive assets, integrated inventory controls and automated warehousing systems, agency-wide property and equipment management, deeper integration of contractor-held property valuation procedures and reporting methodologies, and the deployment of more powerful project and program management tools in-

cluding Earned Value Management applications and an agency-wide Labor Distribution system. As you can see, those capabilities will take us beyond financial accounting and reporting into fundamentally transforming how NASA manages itself. That is our goal.

Experience has shown that in significant business transformation efforts, the technical facet of the implementation is usually easier to manage than the training component. One can design and deploy a very powerful system meeting all of the internal and external requirements, but if no one uses it, or has great difficulty using it, in the long term, this effort might be left wanting. We are addressing this important issue by enhancing the collection of end-user feedback and focusing on improved training approaches and communication.

We have also been working closely with GAO in identifying areas of possible improvement for the implementation of our forthcoming modules. We fully endorsed and adopted all GAO recommendations for all future module development. The development and implementation of IEMP will be completed in fiscal year 2008, and the current life cycle cost estimate for this development and implementation is $662.6 million. We are also updating our program life cycle cost estimate.

In conclusion, NASA is again involved in a multi-year, complex, difficult, and far-reaching initiative. In this instance, though, the objective is far more prosaic than what our deep space exploration or human space flight missions aim to accomplish, but not less important. We clearly understand that, if we are to meet our long-term goals as an agency, we must continuously improve not only the accounting of our finances, but the way we manage our investments, our programs, and our people.

[The prepared statement of Mr. Ciganer follows:]

PREPARED STATEMENT OF PATRICK CIGANER

Mr. Chairmen and Members of the Subcommittees, I am here this morning to report on the current state of NASA's long-term plan to deploy and operate a broad range of new processes and systems collectively developed under our Integrated Enterprise Management Program (IEMP) initiative. The overall objective of this effort is to enable the Agency to operate and manage more efficiently and transparently its major programs and initiatives. In summary, we are aiming at providing the necessary tools and information to allow NASA to make better business decisions in planning and managing its investments and major undertakings. This objective goes beyond being able to record accounting information. In order to succeed, we must generate timely and reliable financial information for decision-making.

For historical context, in FY 2000, after two previously unsuccessful attempts in the previous decade, NASA initiated a long-term, Agency-wide effort aimed at operating under a single, integrated suite of financial, project, contract and human capital management tools. To reach this goal, NASA selected an Enterprise Resource Planning (ERP) suite of commercial-off-the-shelf (COTS) software applications and had to design and implement new Agency-specific processes and operating practices consistent with the selected systems and tools. For its financial accounting and reporting, the Agency licensed the Core Financial software application from SAP and its integration and deployment was performed by the IEM Program (then known as Integrated Financial Management, or IFM) throughout 2003 with primary integration support provided by Accenture. In implementing this application, NASA became one of the first agencies in the U.S. Government to deploy a single, ERP-based, Agency-wide integrated budget execution and accounting system and, as such, the Agency had to rely mostly on private sector experiences, lessons learned and best practices.

Core Financial, our new accounting system, would become the foundation upon which the rest of our new business capabilities would be subsequently built. Its successful rollout, adoption and operation would be critical to the success of all following planned improvements. It should also be noted that, in contrast to many private sector organizations of this size and complexity, due to resource and budgetary constraints, NASA did not have the ability of running its legacy accounting systems in parallel to its new system for a few months before "cutting over." Additionally, and again, in contrast to most organizations in the private sector, a very large volume of detailed historical accounting and contractual data had to be converted at the same time to enable the generation of regulatory-compliant financial statements and related audit trails. Finally, private sector statistics for this type and magnitude of conversion currently show that approximately seven out of 10 organizations attempting to convert to an ERP from distributed legacy systems fail in their first attempt.

When we last presented our status before the Subcommittee on Government Management, Finance and Accountability, in May 2004, the Agency had been operating for eight months using our new Core Financial module, which replaced over 10 major and 140 minor local and often incompatible accounting systems and subsystems. This conversion also required fundamentally new procedures and processes to be implemented and used. Incidentally, in addition to the rollout of the Core Financial module, NASA also migrated in parallel to full cost accounting and reporting.

We are now entering our third fiscal year of operation under this new financial accounting and reporting environment, along with using several other related human capital and business management tools which are also part of our IEMP initiative. I would like to take this opportunity to update the Subcommittees on the current status of the various facets of this far-ranging effort and report on our forthcoming next phase of upgrades, deployments and related challenges.

The deployment and subsequent initial "live" operation of our Core Financial module has allowed NASA, over the past two years, to identify additional Agency-specific system and process areas which needed further improvement in order to efficiently log and report in detail certain types of transactions and postings to our General Ledger and related reporting environments and databases. We have worked closely with both our software vendor and our integrator to develop those identified enhancements and most of them are part of our forthcoming 2006 scheduled upgrade to our existing version of the software application.

Additionally, as the quality of our historical and current financial information gradually improved over the past two years through the ability, brought by the conversion of the legacy data to our new system, to identify erroneous or incomplete historical information, we are now ready to enter the next phase of our plan which is to provide an enhanced correlation of accounting and project management financial information. This will specifically help our program and project analysts and managers in their upcoming decisions related to assessing the cost-benefit performance of individual project task elements and program components. This Project Management Information Initiative (PMII) is being deployed Agency-wide as we speak and was developed in close coordination with our Programmatic and Financial users. This added functionality is also a key component in being able to better manage the cost elements of our existing programs and develop a reliable and accurate empirical knowledge base to be used in generating more realistic and dependable cost estimates for future projects and initiatives.

We are more than halfway through the full implementation of the current IEM planned functionality. Forthcoming capabilities in the next three years will include standardized contract generation, monitoring and reporting, enhanced tracking and management of environmentally sensitive assets, integrated inventory controls and automated warehousing systems, Agency-wide property and equipment management, deeper integration of contractor-held property valuation procedures and reporting methodologies and the deployment of more powerful project and program management tools including Earned Value Management applications and an Agency-wide Labor Distribution system. As you can see, those capabilities will take us beyond financial accounting and reporting into fundamentally transforming how NASA manages itself. That is our goal.

As we move forward, one of our major challenges is to effectively analyze current policies, procedures and systems related to those activities and then determine whether the best and most cost-effective solution lies in integrating, updating or replacing existing processes and systems.

For example, in the case of aircraft maintenance, one of our Centers has developed for internal use a system capable, through manageable upgrades, of meeting our Agency-wide requirements. After completing a detailed cost-benefit analysis, we

decided to enhance this system for Agency-wide deployment in 2007 rather than purchasing and deploying a completely new application and retiring all existing legacy systems.

Our approach with existing legacy systems is to map them against our planned requirements and determine, on a case by case basis, what implementation strategy to adopt moving forward. One of the key elements in this decision process is weighing the training impact of migrating varied user communities to fundamentally different operating environments. Experience over the past two decades has shown that in significant business transformation efforts, the technical facet of the implementation strategy element is usually easier to manage than the training component. In summary, one can design and deploy a very powerful system meeting all of the internal and external technical and operational requirements, but if no one uses it or has great difficulty using it, in the long-term, this effort might be left wanting.. . .

We are addressing this important issue by enhancing the collection of end-user feedback and focusing on a "Train the Trainer" approach in our methodology, where highly respected and knowledgeable subject matter experts are selected and used to lead our field training activities thereby increasing the initial acceptance in the information being presented.

We also respect and pro-actively support the dynamic nature of our Agency. Our original IEM plan and schedule was generated in 2000; since then, although we have been reasonably successful to date in keeping our program on budget and within schedule, some of our Agency priorities have changed and related requirements have evolved. We try to be flexible enough to accommodate those changes as demonstrated by the recent scheduling of our PMII and Core Financial Upgrade projects ahead of several (but not all) of the modules of our Integrated Asset Management project.

Another daunting challenge was to build and deploy systems meeting required levels of security while minimizing the operational impact on authorized users. Since the system went into full-scale deployment in October 2003, we have extensively used input and recommendations from our external auditors and oversight organizations, who analyzed our initial operations to improve both our internal controls and operational security protocols and measures. The forthcoming FY 2005 audit results should indicate how far we have gone in this effort, but this is clearly a long-term process. Successfully managing the conversion to such a broad, complex and deeply distributed universe of integrated processes, controls and systems takes time, resolve and patience.

In addition to consistently trying to enhance our project development approach with each new module through an exhaustive and inclusive internal "lessons learned" process, we have also been working closely with the Government Accountability Office (GAO) in continuously identifying areas of possible improvements for the design, development and deployment of our forthcoming modules. We fully endorse GAO recommendations in module development and are implementing all new modules using an enhanced methodology which was adopted following Industry "best practices."

For example, in late 2003, our operation facility, the IEMP Competency Center, deployed a Test Management software tool that has since provided the basis for improved requirements management and regression testing of existing and forthcoming systems. This tool was quite helpful in defining the front-end requirements and priorities of our 2006 major version upgrade to the Core Financial module. Additionally, a separate Quality Assurance team was established last year as part of the Competency Center to focus on improving requirements collection and documentation for all current and future IEMP modules. Following this deployment, in February 2004, the Quality Assurance team deployed another automated tool giving us an additional level of control over managing, correlating and prioritizing the several thousands of detailed requirements associated with the development, configuration and performance of individual modules.

Now, after two years, our operating framework is fairly stable and our aim is to steadily improve our requirements management procedures for both existing and future modules. As stated in the related GAO report on future IEM module development and deployment, NASA is addressing the remaining outstanding requirements documentation issues from the initial Core Financial module deployment analysis in time to integrate them into the design, development, and testing associated with the SAP Version Upgrade activities scheduled for FY 2006. As this will be a complex and challenging task, we plan to continue working closely with GAO on these activities and adopt their recommendations as efficiently as possible.

Specifically, a recent GAO report section titled, "Improvements Made to NASA's IEMP (IFMP) Life-Cycle Cost Estimate (LCCE) and Processes for Calculating Fund-

ing Reserves," has been a gratifying observation, but, as also noted by the GAO, NASA's LCCE was a "work in progress." Since then, the quality and detail of the information contained in our LCCE has steadily improved as we continue to refine the mapping of IEMP data sources to the new PMII Work Breakdown Structure (WBS) in our LCCE. The development and implementation of IEMP will be completed in FY 2008, and the current LCCE for this development and implementation is $662.6 million.

We are in the process of producing the most recent update to our Program Life Cycle Cost Estimate, to be included in our current budget cycle. Our record in the past four years in estimating the life cycle cost of our deployed modules has been reasonably good. However, we are cognizant of the fact that, as we move forward, from trying to meet the discrete requirements of our accounting community, to meeting the requirements of highly distributed and individual organizations in program management, asset management and contract management, we will face increasingly complex Life Cycle Cost Estimating challenges. In this instance, past successes are not indications of future successes.

In conclusion, NASA is again involved in a multi-year, complex, difficult and far reaching initiative. In this instance though, the objective is far more prosaic than what our deep space exploration or human space flight missions aim to accomplish, but not less important. We clearly understand that, if we are to meet our long-term goals as an Agency, we must continuously improve not only the accounting of our finances but the way we manage our investments, our programs and our people.

Mr. Chairmen, I would be pleased to respond to questions.

BIOGRAPHY FOR PATRICK CIGANER

Mr. Ciganer was initially asked by NASA in 2001 to help develop a set of recommendations for improving the Financial Management of the International Space Station program. His analysis and recommendations on Financial Management are part of the Young Commission report. Prior to accepting his current position with NASA's Office of the Administrator in February 2002 as Special Assistant to the Administrator for Financial Management and, subsequently, Program Executive Officer for the Integrated Enterprise Management Program (IEMP), Mr. Ciganer was a financial executive in the private sector where, over the past two decades, he supervised and participated in the deployment of several successful Enterprise Resource Planning and Financial Management information systems and organizations.

In his current capacity as Program Executive Officer for Integrated Enterprise Management, Mr. Ciganer has overall responsibility for the formulation, implementation and management of the Integrated Enterprise Management Program (IEMP), whose long-term objective is to enable NASA to operate and manage more efficiently and transparently its major programs and initiatives.

Until accepting his current appointment in NASA's Office of the Administrator in early 2002, and for most of his professional career, Mr. Ciganer has been an executive in the private sector, in both COO and CFO positions. Most recently, prior to moving to NASA, Mr. Ciganer was the Chief Financial Officer of Mobileway Inc., (Now Mobile 365), a telecommunication company with operations in the U.S., Europe and Asia. Over the past two decades, he has held executive positions in both private and public companies including IWC, Trimble Navigation and Cygna Corporation. He started his career in at Bank of America's where he was part of the Bank's first deployment of a worldwide financial information system.

Mr. Ciganer did his undergraduate work in Economics at Georgetown University and pursued his Graduate studies in Finance at San Francisco State University. Over the past fifteen years, he has been a frequent guest lecturer in financial management and advanced information systems at several organizations including Stanford's ACE executive program, Case Western's Weatherhead Graduate School of Management, Golden Gate University School of Business, the U.S. Merchant Marine Academy at King's Point, and China's Shanghai University.

Chairman CALVERT. I thank the gentleman.

Mr. Cobb, the Inspector General for NASA.

STATEMENT OF HON. ROBERT W. COBB, INSPECTOR GENERAL, NASA

Mr. COBB. Chairman Calvert, Chairman Platts, Ranking Members, and Members of the Subcommittee, thank you for the oppor-

tunity to discuss NASA's financial management challenges and next steps.

NASA does not currently have a financial system that can properly account for the taxpayers' dollars or support program managers with accurate financial information necessary to carry out their responsibilities. In fiscal years 2003 and 2004, the Independent Public Accountant auditing NASA's financial statements was unable to render an opinion on those statements. The primary reason was that NASA could not provide sufficient evidence to support the statements throughout the year and at year-end. My office, which hires and supervises the auditor, expects that the auditor will be unable to render an opinion on NASA's fiscal year 2005 statements for the same reason. The auditor's report is due by November 15.

Auditor's reports have identified material weaknesses in NASA's internal controls and cited instances of noncompliance with generally accepted accounting principles, and the *Federal Financial Management Improvement Act* and the *Improper Payments Act—Information Act of 2002.* For example, NASA does not have sufficient controls over property, plant, and equipment, and materials, which represents 75 percent of NASA assets, to reasonably assure that these assets are properly valued. This is particularly important given that NASA relies on its contractors to value a significant portion of government property that they hold.

NASA does not have sufficient controls for ensuring that the fund balance carried in its records reconciles with that of the United States Treasury. The Agency could not reconcile its balance over the last couple of years, and there are still unresolved differences.

Also, in fiscal year 2003, the Agency transferred incomplete and inaccurate data to its integrated financial system, and in some cases, posted that data to wrong accounts. Now two years later, the Agency still cannot produce auditable financial statements because data in the integrated system continues to be incomplete and inaccurate.

NASA has demonstrated some progress in addressing material weaknesses. For example, one material weakness dealing with the inadequacy of information security controls over the integrated system has been mostly resolved this year.

NASA also achieved some limited success in producing adjusted financial statements from its Core Financial module. We are assessing the appropriateness and accuracy of the adjustments.

We also note that the Office of Chief Financial Officer has filled key leadership positions and established a Quality Assurance Office. In addition, the Center Chief Financial Officers now report to the NASA Chief Financial Officer instead of the Center directors.

NASA has also made progress in implementing the Integrated Enterprise Management Program and is using several modules in addition to the Core Financial module. However, NASA has had trouble in implementing systems that are critical for budget development and property reporting. Specifically, NASA canceled the Budget Formulation module in November 2004 and it postponed the Integrated Asset Management module, which was to be used

for the—to account for the Agency's contractor-held assets and other property.

Over the last 3½ years in my service as Inspector General, we have seen the Agency begin a number of initiatives to address its challenges. But these plans have not been adequately developed or put into final form. They have never gotten to a point where if you actually executed the plans you would have great confidence that the material weaknesses would be resolved.

When I testified before Chairman Platts' Subcommittee on May 19, 2004, I noted that the high-level goals of the draft plan as of that date appeared to be appropriate given the state of NASA's financial systems and underlying records. However, as the Agency attempted to develop details on how it would address specific weaknesses, we found that it did not articulate a clear strategy to resolve the weaknesses. In November 2004 and in March and April of 2005, we recommended that the Chief Financial Officer articulate a strategy that discusses the scope of each problem, the actions required to resolve the problem, and the personnel and other resources that will be required.

In addition, we recommended that the Chief Financial Officer work with NASA leadership to get concurrence on the plan and present it to the Administrator for approval. These recommendations have never been implemented.

Our continuing efforts to obtain comprehensive corrective action plans to address the internal control deficiencies identified during NASA's financial statement audits have largely been unsuccessful. My office, along with the Chief Financial Officer, is currently engaged in a conversation with the Administrator in identifying the best path forward.

I am encouraged by the Administrator's lack of tolerance for the status quo, a financial system that does not provide proper accountability, or accurate financial information to program managers.

Thank you.

[The prepared statement of Mr. Cobb follows:]

PREPARED STATEMENT OF ROBERT W. COBB

Chairmen, Ranking Members, and Members of the Subcommittees:

Thank you for the opportunity to discuss financial management at the National Aeronautics and Space Administration (NASA). The Office of Inspector General (OIG) has identified NASA's efforts to improve financial management as one of the most serious management and performance challenges facing Agency leadership.

My testimony will address the specific questions in your letter of October 7, 2005, regarding NASA's financial management challenges and next steps.

Implementation of the Core Financial Module

NASA received a disclaimer of opinion on its financial statements as a result of the Independent Public Accountant (IPA) audits in FY 2003 by PricewaterhouseCoopers and in FY 2004 by Ernst & Young LLP (E&Y); a disclaimer of opinion is expected from E&Y again for FY 2005 because NASA has been unable to provide auditable financial statements and sufficient evidence to support statements throughout the fiscal year. The reports that the IPAs have submitted identify instances of noncompliance with generally accepted accounting principles, reportable

conditions[1] (with most being material weaknesses[2]) in internal controls, and noncompliance with the *Federal Financial Management Improvement Act* (FFMIA) and the *Improper Payments Information Act of 2002* (IPIA). Many of the weaknesses the audits disclosed resulted from a lack of effective internal control procedures and continued data integrity issues, as well as problems related to NASA's conversion in FY 2003 from 10 separate systems to a new single Integrated Enterprise Management Program (IEMP).[3] NASA implemented the Core Financial module[4] in FY 2003. Now, two years later, the Agency cannot produce auditable financial statements because the data in the module is incomplete and inaccurate.

Persistent Internal Control Weaknesses

Internal control weaknesses from FY 2004 still exist today, which have impacted the FY 2005 audit, and data conversion issues have not been fully resolved. For example, incomplete data was transferred to the Core Financial module and, in some cases, that data was posted to the wrong accounts. NASA's continued problems in resolving its internal control weaknesses have contributed to its inability to produce complete and accurate financial statements. Many of NASA's internal control deficiencies are material weaknesses that have been reported for several years, as shown in Table 1. Two of the most significant material weaknesses are property, plant, and equipment and materials (PP&E) and Fund Balance with Treasury (FBWT).

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[1] American Institute of Certified Public Accountants standards define reportable conditions as significant deficiencies in the design or operation of internal control that, in the auditor's judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

[2] American Institute of Certified Public Accountants standards define a material weakness as a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

[3] IEMP was previously referred to as the Integrated Financial Management Program (IFMP). The IEMP processes NASA's significant financial applications.

[4] The Core Financial module consists of the standard general ledger, accounts receivable, accounts payable, purchasing, cost management, and general systems management.

Table 1. Internal Control Deficiencies

	Fiscal Year	2005	2004	2003	2002	2001
	Independent Public Accountant	E&Y	E&Y	PwC[1]	PwC	PwC
	Audit Opinion	Disclaimer[2]	Disclaimer	Disclaimer	Unqualified	Disclaimer
Internal Control Deficiencies	General Controls Environment[3]	—	material weakness	reportable condition	reportable condition	—
	Property, Plant, and Equipment and Materials	material weakness	material weakness	material weakness	material weakness	material weakness
	Financial Statement Preparation Process and Oversight	material weakness	material weakness	material weakness	material weakness	—
	Fund Balance with Treasury	material weakness	material weakness	material weakness	—	—
	Audit Trail and Documentation to Support Financial Statements[4]	—	—	material weakness	—	—
	Environmental Liability Estimation	reportable condition	reportable condition	—	—	reportable condition
	Information Systems Controls[5]	—	—	—	—	reportable condition

[1] PricewaterhouseCoopers.

[2] Expected, based on E&Y's preliminary testing.

[3] General Controls Environment weaknesses have been mostly resolved for FY 2005. The segregation of duties component of this weakness will be included in the Financial Statement Preparation Process and Oversight weakness in FY 2005.

[4] The weakness on Audit Trail cited in FY 2003 continued to exist in FY 2004 and FY 2005; however, the auditor included it in the overall Financial Statement Preparation Process and Oversight weakness in FY 2004 and is expected to do the same in FY 2005.

[5] This area includes disaster recovery tests, systems constraints, logical access controls, and access controls to mainframe, and included four individual reportable conditions cited in FY 2001 that continued to exist in FY 2002; however, the auditor included them in the General Controls Environment weakness in FY 2002.

Inadequate Corrective Action Plans

The Agency has not been able to articulate with clarity comprehensive action plans for how it will address its internal control weaknesses or its financial management problems. Over the past three and one half years, the Agency has attempted to develop several corrective action plans to correct the identified weaknesses, but those plans have not outlined a clear strategy for resolving those weaknesses, nor have they been put into final form. My office continues to work with the Office of the Chief Financial Officer (OCFO), as it has for the past three and one half years, toward solutions. NASA must solve these issues by coordinating and implementing corrective action plans that are the product of NASA program and institutional leadership, within parameters set by financial management and accounting laws and regulations. The plans must be detailed enough to ensure successful implementation with desired results.

You have asked:

- **What progress has NASA made in addressing the financial management challenges identified in the audit reports from the past two years?**

NASA has demonstrated some limited progress in addressing three of its four reported material weaknesses and one reportable condition from the FY 2004 audit. NASA has made significant progress in correcting the fourth material weakness reported by E&Y in FY 2004, "Improvements in the IFMP Control Environment" (included as part of the General Controls Environment shown in Table 1).

NASA also achieved some limited success in producing interim financial statements from its Core Financial module, although many manual adjustments were still necessary. NASA generated its year-end financial statements directly from the Core Financial module. It accomplished this by posting adjustments in the module, rather than manually adjusting the financial statements. We are assessing the appropriateness and accuracy of those posted adjustments. Other areas of progress include the implementation of reconciliation procedures for selected general ledger accounts and preparing checklists for Centers to complete and sign to certify the transactions. We also note that the OCFO has added additional personnel, filled key

leadership positions, and established a Quality Assurance office. The Quality Assurance office has the responsibility of providing oversight and quality control reviews of financial management and assisting the Centers with compliance issues. In addition, the Center Chief Financial Officers now report to the NASA Chief Financial Officer instead of the Center directors.

NASA also made some progress on the material weakness in "Property, Plant, and Equipment and Materials" by developing an Internet-based Contractor Held Asset Tracking System (CHATS) for contractors to report information on their contractor-held, NASA-owned property.

- **Specifically, address each of the following areas identified in previous audits: . . .internal control weaknesses and financial statement preparation procedures;**

NASA's procedures for preparing financial statements have improved since the preparation of the FY 2004 statements. Specifically, the OCFO implemented a checklist for completing the statements, supervisory reviews of the statements are now documented, and an analysis for each line item is now prepared to ensure adjustments are made when required.

For the three interim (quarterly) reporting periods during FY 2005, the OCFO produced its quarterly financial statements from the Core Financial module but had to make many high dollar-value line item adjustments. Those adjustments had to be made because of data integrity and configuration issues with the Core Financial module. For example, "unexpended appropriations" was decreased by $1.157 billion; "cumulative result of operation" was increased by $626 million; and "appropriations received" was decreased by $296 million.

Based on reviews by E&Y and my office of the first, second, and third quarter statements, the Balance Sheet from the Core Financial module did not balance (i.e., assets do not equal liabilities plus equity). In addition, E&Y could not always find an audit trail from the Core Financial module general ledger accounts to the financial statements. NASA needs to consistently ensure that the general ledger accounts are properly mapped to the financial statements and adjustments are properly supported. Also, Statement of Federal Financial Accounting Standards (SFFAS) No. 4, *Managerial Cost Accounting Concepts and Standards for the Federal Government,* requires that financial reporting meet the objective of providing program managers with relevant and reliable information related to program costs. However, the OCFO does not report net costs by mission directorate.

Subsidiary Account Ledgers. During FY 2004, E&Y found that the OCFO could not routinely provide listings of subsidiary balances to support accounts receivable, accounts payable, and undelivered orders, as well as cash receipts and cash disbursements. These problems have not been fully resolved during the FY 2005 audit. In order for E&Y to test the account balances, NASA had to create reports from the subsidiary ledgers for accounts receivable, accounts payable, and undelivered orders. Once E&Y auditors started testing the sample account balances from those prepared reports, they noted that the subsidiary ledgers did not have running balances, but were just a list of actual transactions. As a result of receiving transaction data and not balances, E&Y had to redesign its testing procedures to recreate the account balances. In addition, when E&Y tried to test the account balances for cash receipts and cash disbursements, it determined that those accounts contained prior-year transactions. Those prior-year transactions had been included in reports to the Treasury covering FY 2005 activity.

Adjustments and Corrections. PricewaterhouseCoopers found that the Core Financial module does not allow the OCFO to identify, differentiate, and track non-routine and corrected transactions from original transactions or prior-year transactions (e.g., prior-period adjustments). During FY 2005, NASA made adjustments in its current-year financial data to correct errors from the FY 2003 data conversion. It is important for the auditors, as well as the OCFO, to quantify the dollar impact of prior-period adjustments because the financial statements should only represent current-year activity. At the present time, this cannot be done in the Core Financial module.

Prior to the preparation of the FY 2005 year-end financial statements, thousands of adjustments were recorded outside the Core Financial module to address data conversion errors. The manner in which the Agency corrects those errors loses the audit trail. Specifically, to record the adjustments within the Core Financial module, users deleted the incorrect transaction completely and entered the correct transaction in its place. The needed solution is reversing the incorrect entry and entering the correction (which would leave an audit trail).

- **Specifically, address each of the following areas identified in previous audits: . . .including inconsistent procedures among NASA Centers;**

E&Y's internal controls testing at NASA Centers during FY 2005 determined that the Centers have various work-around procedures, which are outside of normal, established accounting procedures. For example, one Center had its own tracking system to ensure compliance with the *Prompt Payment Act,* while another Center used the Core Financial module for that purpose.

To improve its financial practices, NASA created standardized Financial Management Requirements (FMRs), which are designed to enable consistent financial policies, processes, and data management among NASA Headquarters and its Centers. NASA has released 13 FMRs since September 2004. NASA released eight FMRs at the end of FY 2004 and five during FY 2005. These FMRs include policies and procedures applicable to such critical financial management processes as budget execution, accounting, external reporting, internal management controls, and periodic monitoring of controls and activities. We have not assessed whether the FMRs comply with accounting principles and practices.

The OCFO's Quality Assurance office completed quality assistance visits to NASA Centers and at Headquarters in September 2005. The visits focused on determining the adequacy of compliance at Centers and affected Headquarters organizations, to include compliance with NASA's FMRs. The visits were also an opportunity for the Quality Assurance office to assist with any questions or concerns in identifying and improving financial management practices and internal controls and to assess the current financial management control structure. We are awaiting the results of these visits. All indications from discussions with the personnel who made the visits is that, if they had to provide a red, yellow, or green rating, most Centers would receive a yellow rating. My office has not assessed the quality assurance process, but we note that the office is understaffed and has been required to fulfill multiple obligations beyond quality assurance.

- **Specifically, address each of the following areas identified in previous audits: . . .discrepancies in Fund Balance with Treasury;**

NASA still has unresolved discrepancies with its FBWT. As of September 30, 2005, NASA's FBWT account was $59 million higher than Treasury's balance. This figure is a net number. The absolute value of the difference is $1.13 billion when you add together the differences, at the Center level, of "Application of Funds." E&Y is currently reviewing the reconciliation and the underlying information. E&Y's audit of NASA's FY 2004 financial statements also found differences between the two fund balances.

The FY 2003 audit report from PricewaterhouseCoopers found that NASA posted year-end adjustments of approximately $1.743 billion to decrease the Core Financial module's balance to that of the Treasury's balance. Those year-end adjustments to the FBWT account were not recorded in the Core Financial module.

On March 24, 2005, we issued a memorandum to the Chief Financial Officer addressing NASA's corrections of approximately $1.598 billion of the net $1.743 billion discrepancy in the FY 2003 FBWT. Our work on the FBWT through March 2005 led us to conclude that the remaining amount of net adjustments to be corrected was $144 million. It should be noted that while the net amount was $144 million, the absolute value of those adjustments (when increases and decreases to the FBWT account are added together) was $7.018 billion. Table 2, which we included in the memorandum to the Chief Financial Officer, shows the absolute and net values of the adjustments, the amounts of OCFO corrections, and the amounts we verified.

Table 2. FY 2003 FBWT Account Adjustments and Corrections
(as of March 11, 2005)

	Adjustments		Corrections	
Area	Absolute Value	Net Value	Made by OCFO	Verified by OIG
Document Conversion	$1,107,764,967	$1,107,764,967	$1,106,184,777	$1,100,898,909
Canceled Appropriations	490,427,221	490,427,221	490,427,221	490,427,221
Trust Fund Transfer	1,001,441	1,001,441	1,001,441	1,001,441
Other Reconciling Items	7,018,223,532	144,088,468	unknown	0
Total	**$8,617,417,161**	**$1,743,282,097**	**$1,597,613,439**	**$1,592,327,571**

On May 31, 2005, the OCFO issued comprehensive, Agency-wide FBWT reconciliation procedures to each Center to ensure that monthly reviews and correction of data would be consistent across all Centers. We believe those procedures will ensure consistency and also readily identify differences to be resolved. The OCFO's Quality Assurance office has been conducting on-site quality assistance reviews of Center compliance with the new procedures. We anticipate reviewing those results when they are finalized.

As of September 30, 2005, the OCFO reported that the remaining FY 2003 adjustments requiring correction totaled a net of $23 million, meaning NASA's FBWT account was still $23 million higher than what Treasury reported. While this is significant progress from March 2005, when we reported a net of $144 million adjustments remaining in the "Other Reconciling Items" category, we have not yet had an opportunity to validate the corrections made. Preliminary documentation provided by the OCFO does not provide sufficient competent evidence. For example, the $144 million we reported comprised three journal vouchers posted outside of the Core Financial module at the end of FY 2003. Our initial review of OCFO's analysis to support the $23 million does not show that those vouchers have been corrected in the system.

- **Specifically, address each of the following areas identified in previous audits: . . .controls over Property, Plant, and Equipment and Materials;**

For the last three years, internal controls over PP&E has been identified as a material weakness. PP&E totals approximately $34.6 billion and comprises more than 75 percent of NASA's assets. The reported weaknesses were due primarily to a lack of PP&E capitalization policy and NASA's reliance on contractors to value property they hold.

NASA had hoped that the implementation of the Integrated Asset Management (IAM) module would serve as a cornerstone to the resolution of NASA property problems. However, in June 2005, NASA postponed the implementation of the IAM module pending architectural review.

Lack of PP&E Capitalization Policy. Over the past two fiscal years (FYs 2003 and 2004), auditors have recommended that NASA implement a formal capitalization policy for property. The Agency has implemented a number of initiatives to deal with issues concerning PP&E, but it has not articulated what the elements of a properly working property management and accounting system would involve. The internal control report from the FY 2004 audit articulates what NASA needs to do:

> NASA's approach to recognizing and accounting for fixed assets is heavily dependent on activities at its contractors, and subsequent reviews to determine amounts that should be capitalized. Currently, NASA expenses all costs and then performs a review of the transactions to determine which costs should be capitalized. The subsequent review and dependence on contractor reporting increases the risk that costs will not be properly capitalized. Until NASA successfully implements a single integrated system for reporting property, and develops a methodology to identify costs that need to be capitalized as the transaction is processed, the Agency will continue to experience difficulties in recording these transactions.

This is the heart of the findings of material weaknesses in accounting for PP&E identified in the past several financial statement audits. Fundamentally, NASA has not yet addressed the problem. For example, NASA has not established a system that relies on the Agency's personnel, not contractors, to establish what costs are capitalized and expensed as the dollars on a particular contract are spent.

As part of NASA's ongoing efforts to address the capitalization issue, the OCFO put out a white paper in September 2005 with an analysis of theme assets and a proposed capitalization policy for theme assets. While dialogues continue between my office and the OCFO regarding the analysis and proposed policy, theme asset capitalization is just one component of the overall property capitalization problem reported over the years. Therefore, NASA's focus on implementing capitalization policy for theme assets by itself does not adequately address the PP&E weakness articulated in the FY 2004 report.

Lack of NASA Validation of Contractor-Held PP&E. In both the FY 2004 and the FY 2003 financial statement audits, NASA validation of information provided by contractors concerning contractor-held PP&E was cited as a weakness. At the time of those audits, NASA contractors periodically reported PP&E values to NASA manually on a spreadsheet called NASA Form 1018, a process that the IPAs stated was prone to error. At a minimum, they recommended that NASA ensure that all of its contractors have formal policies and procedures in place to detect and correct

errors in PP&E values the contractors report to NASA. During E&Y's FY 2004 audit, it found a $300 million computational error in the NASA Form 1018s. The error, which was discovered by neither the contractors nor NASA's validation process, highlights the control weaknesses in this area.

To address the problem, NASA automated its contractor PP&E reporting process in FY 2005 by implementing CHATS. While replacing the manual process with an automated one is a step in the right direction, data is still entered manually because CHATS does not interface with the contractors' systems. Therefore, we do not believe that CHATS decreases the risk of errors. Further, PP&E data can be entered by a single contractor representative, and there appears to be no evidence of supervisory review of the PP&E reporting process at the contractors.

NASA's approach to the PP&E validation process was to decentralize it by shifting validation responsibilities to the NASA Centers. NASA stated that decentralizing the validation responsibilities allows NASA Headquarters to focus more effectively on conducting oversight of the process. NASA now holds regularly scheduled teleconferences with property accountants at various NASA Centers and contractors to discuss the status of the corrective actions taken to resolve previously reported deficiencies. The periodic teleconferences will help NASA resolve some of the problems. However, decentralizing the PP&E validation process requires effective oversight by NASA Headquarters and a strong internal control environment at the Centers. As NASA's control weakness in this area is persistent, it is imperative that NASA Headquarters develop a strategic plan for how effective oversight will be accomplished. We also note that there are two reporting systems for contractor-held assets that are not being reconciled (CHATS and NASA Form 533s, used by contractors to report project costs as costs are being incurred).

Also, in FY 2004, NASA developed procedures to address the contractor-held PP&E deficiency, including risk assessment of various contractors to be used by the Defense Contract Audit Agency (DCAA) in reviewing contractor-held property for its FY 2005 audit. NASA is relying on the results of DCAA's work to provide a review of contractors' corrective action plans for previously reported deficiencies. E&Y is in the process of reviewing that work.

- **Specifically, address each of the following areas identified in previous audits: . . .controls over estimating NASA's environmental liability.**

NASA's environmental liabilities totaled $986 million in FY 2004. E&Y identified NASA's ability to generate an auditable estimate of its unfunded environmental liabilities as a weakness during E&Y's FY 2004 audit of those liabilities and related financial statement disclosures. The reportable condition occurred because of four problem areas in NASA's estimation process: roles and responsibilities; training; documentation; and quality assurance procedures.

Roles and Responsibilities. During the FY 2004 audit, E&Y noted that roles and responsibilities for the estimation of unfunded environmental liabilities were not sufficiently defined to ensure appropriate integration and input into the estimation process. Specifically, NASA's accounting function deferred to the Environmental Management Division for preparing estimates. As a result, environmental professionals were interpreting accounting requirements. During E&Y's testing of FY 2005 internal controls over the environmental estimation process, the auditors noted that OCFO representatives were present at Centers during some portions of the environmental liability estimation process, but that their role was limited to that of audit liaison. The OCFO still has not taken on the role as the principal accounting decision-maker in the environmental liability estimation process.

Training. In FY 2004, E&Y reported that NASA personnel and its contractors had not received sufficient training in the process for estimating environmental liabilities. Although NASA released a handbook on environmental cost restoration in June 2004 to provide guidance to the NASA Centers, the handbook is not detailed enough to produce auditable estimates. In June 2005, NASA's Environmental Management Division conducted estimation training and invited OCFO participation, but OCFO employees did not attend. While that training is a step in the right direction, joint training needs to be held that addresses detailed estimation processes and requirements to produce auditable estimates. E&Y noted that the training left Center estimators with many unanswered questions regarding the estimation process.

Documentation. E&Y reported during FY 2004 that NASA did not have adequate, auditable documentation to support its FY 2004 environmental liability estimates. NASA developed a corrective action plan for the environmental liability estimation weakness, but did not submit it to E&Y until late in FY 2005. E&Y testing for the FY 2005 audit indicates that the OCFO is still not able to provide sufficient docu-

mentation. In addition, E&Y noted that the Environmental Management Division was not in agreement with some of E&Y's findings, which could further delay implementation of corrective actions. Until such actions are taken, NASA will not be in a position to provide documentation that will stand audit scrutiny.

Quality Assurance Procedures. E&Y reported in FY 2004 that NASA did not conduct formal, independent quality reviews of the Centers' environmental liability estimates before including the estimates in NASA financial statements. In FY 2005, NASA created an advocate role at each of the Centers to review estimates before including them in the financial statements. Although NASA is not conducting formal, independent quality reviews, E&Y stated that the creation of an advocate role is a positive step forward; however, that advocate role must be staffed appropriately, and procedures and requirements for the review, including formal documentation, must be implemented.

- **What financial management challenges remain?**

There are three basic requirements for sound financial management: (1) financial statement amounts are obtained from the financial management system and adjustments outside of the system are generally limited, (2) financial statement amounts agree with the general ledger trial balance, and (3) detailed transactions are maintained in subsidiary ledgers that agree with the amounts reported on the financial statements. NASA's financial management system, specifically the Core Financial module, does not meet those requirements. The outlook for future financial statement audits is highly dependent on whether an IPA can rely on NASA's system of internal controls, NASA's ability to generate complete and accurate financial statements from its Core Financial module, and NASA's ability to provide a clear and accurate audit trail. In addition, establishing reliable internal controls will be a particular challenge with respect to NASA-owned, contractor-held assets, a significant Balance Sheet item. Data integrity is an issue for both challenges.

- **What are the underlying causes of these challenges?**

E&Y found that NASA's financial records continued to be plagued with data integrity issues, which adversely affected NASA's ability to prepare accurate financial statements for FY 2005. NASA made adjustments to the interim financial statements outside of the system to arrive at the amounts reported externally on the financial statements either because of continuing data integrity issues related to NASA's conversion in FY 2003 from 10 separate systems to a new single system or because current-year transactions were not properly processed.

The following are some examples of problems that have been identified during the FY 2005 audit:

- SAP[5] functionality creates inappropriate transaction postings in some account balances. For example, during the third quarter of FY 2005, NASA reported that accounts payable balances existed that were considered invalid because they related to canceled appropriations.
- SAP could not distinguish between current-year transactions and corrections to prior-year transactions posted in the current year.
- During reporting for the third quarter of FY 2005, amounts reported for financial statement line items had to be manually adjusted to arrive at the amounts NASA reported to the Office of Management and Budget. For example, "unexpended appropriations" was decreased by $1.157 billion; "cumulative result of operation" was increased by $626 million; and "appropriations received" was decreased by $296 million. NASA indicated that the adjustments were due to corrections posted in the current year in an effort to resolve data integrity issues from prior years.
- The SAP configuration for NASA's Core Financial module does not capture all relevant information for financial reporting. For example, the OCFO stated that information relating to recovery of prior-year obligations (upward and downward obligation adjustments) is not routinely isolated in SAP-produced reports.

These financial management system deficiencies will result in E&Y's inability to determine whether NASA's financial statements are fairly stated in all material aspects.

[5] The IEMP software, procured from Systems, Applications, and Programs (SAP) Public Sector and Education, Inc., is referred to as SAP.

- **How will the new requirements levied in Office of Management Budget Circular A–123, "Management's Responsibility for Internal Control" present new challenges to NASA's financial management efforts?**

Given that NASA has three multi-year repeat weaknesses in internal controls, it will have difficulty in meeting documentation requirements under the revised OMB Circular A–123, *Management's Responsibility for Internal Control,* dated December 21, 2004. We noted three new, specific requirements in the OMB Circular: (1) documenting the Agency's understanding of its internal controls over financial reporting; (2) documenting the assessment process of internal controls, which align with management's assertions for each account or group of accounts over financial reporting; and (3) documenting the tests of operating effectiveness of controls whose design is deemed effective or moderately effective. These new requirements must be met starting in FY 2006.

The key message underlying the three requirements is documentation. Competent and sufficient documentation supporting NASA's financial statements is required but continues to be a challenge for NASA, judging by the delay E&Y experienced in obtaining updates from NASA on E&Y's previous year's "cycle memorandums." Cycle memorandums document the auditor's understanding of the key processes surrounding financial transactions. It provides the policies regulating the process, the procedures followed in the process, and the types of internal control procedures present and in operation throughout the Agency. In order for NASA to meet the OMB Circular's FY 2006 requirements, NASA must meet the challenge of documenting its own understanding of controls over financial reporting.

- **What progress has NASA made in implementing an integrated financial management system?**

NASA continues to make progress in implementing IEMP. The Agency has completed implementation of several modules in addition to the Core Financial module:

- Resume Management, a resume-based hiring system (March 2002);
- ERASMUS, a Web-based project portfolio management system (October 2002);
- Position Description Management, the automated preparation and classification of NASA position descriptions (October 2002);
- Travel Manager, a Web-based travel authorization and voucher system (May 2003);[6]
- E-Payroll, the migration of NASA's payroll and personnel system to the Department of Interior (August 2004);
- Recruitment One-Stop Phase II, the transmission of NASA's vacancy announcements to the Office of Personnel Management (October 2005); and
- Agency Labor Distribution System, a standardized, single NASA system for calculating and allocating labor costs (October 2005).

Most recently, on October 18, 2005, NASA implemented Phase I of Project Management Information Improvement (PMI^2). PMI^2 is a data management process—the result of a study to develop an approach and strategy to expand the functionality of NASA's Core Financial module. The purpose of PMI^2 is to improve project information management by aligning both technical and financial work breakdown structures, allowing a single data management structure. Such an alignment is needed for managers to exercise sound financial management of their programs and projects. My office is in the process of reviewing the implementation of PMI^2 Phase I. During our review, we found that NASA had not adequately communicated the changes that would result from PMI^2 Phase I and the benefits resulting from those changes. In addition, the PMI^2 Project Office had not provided Headquarters and the Centers with clear and definitive implementation steps and milestones to be met. In a September 2005 memorandum, we made several recommendations to the OCFO to correct these problems. In response to our memorandum, the NASA Administrator sent an "all hands" e-mail stressing the importance of PMI^2 and providing additional information on communications and training events. While this has been a high-risk implementation, we believe that it has been successful thus far.

However, NASA has experienced some difficulty in implementing systems that are critical for budget development, financial reporting, and full-cost management. Specifically, the Budget Formulation module was canceled in November 2004 because

[6] In March 2007, NASA plans to replace Travel Manager with E-Travel, which is part of the President's E-Gov initiatives and is the General Services Administration's vendor for travel.

the NASA OCFO determined that the module no longer met the Agency's budget requirements. We noted in our March 2004 audit report on the Budget Formulation module[7] that its development did not include the input of critical users, the module experienced significant processing performance problems, and the module initially did not include five key system requirements.[8] In addition, implementation of the IAM module, which was to be used to account for the Agency's contractor-held assets and its PP&E, was postponed pending architectural review. Currently, NASA must account for its contractor-held assets using alternative methods outside of the IEMP. The last three financial statement audits have reported material weaknesses in internal controls over contractor-held property.

One of NASA's most significant planned developments is the SAP Version Update (SVU). During FY 2005, NASA was informed by SAP's manufacturer that it would no longer be supporting SAP version 4.6c, implemented by NASA in FY 2003, and that NASA would have to upgrade its financial management system. NASA initiated its SVU project in September 2005 to manage the implementation of the upgrade. The implementation will occur as part of the Competency Center Release Management process next October for an FY 2007 startup.

According to the IEMP Program Office, the SVU should deliver enhanced functionality to the existing Core Financial module, including:

- improved data integrity based on SAP Funds Management redesign,
- improved processes for reducing errors and mispostings,
- additional automation of adjustment accounting entries,
- improvements to the budget distribution process,
- analysis and potential redesign of lower level funds control and funds distribution,
- addressing program/project management needs by modifying business processes and systems architecture to unbundle management reporting from general ledger accounting through analytical staff and data warehouse configuration, and
- streamlined year-end processing starting with FY 2007 year-end processing.

Collectively, these improvements, if realized through the SVU, should contribute to improving NASA's financial tracking and reporting. To ensure that the SVU project is successful, an effective project governance structure and process must be established that will integrate and prioritize the diverse requirements that will be levied on the project through the active participation and commitment of key stakeholders. We have initiated a review to determine whether NASA has established an effective project governance structure and process to manage the SVU.

In June 2005, the NASA Administrator directed the re-baselining of IEMP, which included renaming the program (from IFMP), reworking schedules, and revising the funding source. The most dramatic impact on IEMP as a result of the re-baselining was the change in funding source from multiple Headquarters and Center general and administrative overhead accounts to a single program line item, effective for FY 2006. That change resulted in the IEMP Program Office developing new business processes for budget execution. The use of one funding source should ultimately result in a more accurate accounting of the full cost of IEMP because it consolidates all costs, regardless of which Center incurred them, into one budget line item. The FY 2006 budget for IEMP showed that the total estimated program cost for development and implementation of all IEMP modules was about $746 million for FY 2000 through FY 2010. However, that did not include the costs for Center implementation or annual system maintenance. We were told that the FY 2007 budget request consolidates all known IEMP costs, including Center implementation costs, into one program line item.

- **How have the problems with the financial management system affected the Agency's ability to effectively manage its programs?**

Until NASA has a fully operational and integrated financial management system, it will not be able to address its longstanding financial management practice and business process issues. IEMP in its current state will not routinely provide pro-

[7] "Integrated Financial Management Program Budget Formulation Module (BFM)" (IG–04–017, March 30, 2004).

[8] The requirements were (1) data integrity business checks that would ensure that budget planners do not assign the wrong appropriation to a project, (2) full system traceability (audit trail), (3) restricted access to embargoed budget data, (4) acceptable system response time, and (5) an online quick reference tool. Those five key system requirements were critical to Center program and project staff in developing their bottom-up budget data.

gram managers and other key stakeholders and decision-makers—including the Congress—with the financial-related information needed to estimate costs, measure program performance, and ensure accountability. For example, the Core Financial module does not appropriately capture PP&E or transaction-level information in its general ledger, which is needed to provide independent control over these assets. As a result, program managers and cost estimators continue to use systems outside of IEMP and other labor-intensive means to capture the data they need to manage their programs.

The Government Accountability Office previously reported that the Core Financial module does not comply with the objectives of the Statement of Federal Financial Accounting Standards (SFFAS) No. 4, *Managerial Cost Accounting Concepts and Standards for the Federal Government.* SFFAS No. 4 is aimed at achieving three general objectives: (1) providing program managers with relevant and reliable information relating costs to program outputs, (2) providing relevant and reliable cost information to assist the Congress and executives in making decisions about allocating federal resources and evaluating program performance, and (3) ensuring consistency between costs reported in general purpose financial reports and costs reported to program managers. Because this information is not available through the Core Financial module, program managers will continue to rely on hard-copy reports, electronic spreadsheets, or other means to monitor contractor performance. Consequently, NASA risks operating with two sets of books-one that is used to report information in the Agency's general-purpose financial reports and another that is used by program managers to run NASA's projects and programs.

Finally, until the Core Financial module is operating properly, the Agency will experience internal control deficiencies in its financial accounting procedures that will increase the likelihood of errors and irregularities. During its FY 2005 testing, E&Y auditors found that duties were not adequately segregated for some Core Financial module users. For example, some users were given one role to create or maintain purchase orders and another role to enter vendor invoices. The effect of allowing a user those dual roles could be that a single person could authorize both the purchase and the payment for that purchase.

- **What does NASA need to do to address its remaining financial management deficiencies, including staffing, budget, etc.?**

At the beginning of FY 2005, the OCFO was authorized to maintain a level of 121 staff members. NASA reduced this to 103 positions by March 31, 2005. In June 2005, the Administrator authorized additional resources to the OCFO to ensure that NASA is adequately staffed to improve financial management and reporting capabilities. The total OCFO ceiling of authorized positions at the end of FY 2005 was 132. In October 2005, NASA completed an Institutional Requirements Review of the Headquarters workforce requested by the Administrator to assess consistency of Headquarters staffing with the Agency's revised strategic direction. The review recommended setting the OCFO ceiling at 103. NASA has a reclama process that will allow each area to request a ceiling adjustment, and the Chief Financial Officer has stated that the reduction levied on the OCFO will severely affect its ability to meet the Administrator's goal to improve financial management.

- **What areas of NASA's current corrective action plan need increased attention?**

In order for NASA to address its financial management problems, it will need to articulate a strategy that addresses both the problem—the financial management system and the resulting internal control weaknesses causing the recording and reporting of inaccurate and incomplete data to the financial statements—and the actions required to resolve those problems, including the personnel and other resources needed to fix the problems. Once the corrective action plans have been developed, approved, and implemented, our IPAs will need to test those plans to ensure Agency compliance.

In FY 2003, NASA management prepared a NASA Financial Management Improvement Plan. I reported last year[9] that the plan appeared to be designed to improve the organization of the OCFO and to improve financial policies and procedures. One purpose of that plan was to provide a detailed framework for correcting the deficiencies identified during the financial statement audits in order to achieve an audit opinion. Since then, that plan has gone through several draft iterations and is now referred to as the Financial Leadership Plan (FLP). The draft FLP establishes goals, priorities, and supporting initiatives for improving overall financial

[9] Statement before the House Government Reform Subcommittee on Government Efficiency and Financial Management, "NASA Financial Management," May 19, 2004.

management within the Agency. According to OCFO personnel, the FLP will be used to isolate and monitor progress on specific areas targeted for improvement in financial management and includes specific strategic initiatives. NASA has already started to integrate some of those initiatives with other related activities, including NASA's IEMP project milestones. However, my office reported in November 2004, in March 2005, and in April 2005, that the plan does not appear to:

- articulate a strategy that discusses the scope of each problem, the actions required to resolve the problem, and the personnel and other resources that will be required;
- ensure that the strategy defines specific roles and responsibilities of other Agency organizations, including Center finance offices, for carrying out corrective actions, and that the Center plans for improving financial management support the strategy;
- compare the personnel and resources required to execute the strategy against existing resources to determine what actions can realistically be accomplished and when;
- establish relative priorities, based on available resources, that focus first on actions to ensure that the Agency can correctly process current-year transactions; or
- contain realistic milestones and completion dates. If a date cannot be determined, then the plan should indicate that the date is to be determined (TBD) later.

Our continuing efforts to obtain comprehensive corrective action plans to address the internal control deficiencies identified during NASA's financial statement audits have largely been unsuccessful. NASA senior management continues to provide only high-level, broadly worded proposed initiatives that lack sufficient detail and strategies to address the outstanding deficiencies. My office, along with the OCFO, is engaged in a conversation with the Administrator in identifying the best path forward.

BIOGRAPHY FOR ROBERT W. COBB

Following nomination by President George W. Bush and confirmation by the United States Senate, Robert W. Cobb took office as NASA's Inspector General on April 22, 2002. As Inspector General, Mr. Cobb is a member of the President's Council on Integrity and Efficiency. He also served as an "observer" to the *Columbia* Accident Investigation Board, which examined the February 1, 2003, loss of the Space Shuttle *Columbia* and its crew.

Mr. Cobb was previously Associate Counsel to the President. In this role, he handled the administration of the White House ethics program under the supervision of the Counsel to the President and was responsible for administration of the conflict of interest and financial disclosure clearance processes for candidates for nomination to Senate-confirmed positions.

Prior to joining the Office of the Counsel to the President in January 2001, Mr. Cobb worked for almost nine years at the United States Office of Government Ethics. Prior to Government service, he worked for five years as an associate attorney at Ober, Kaler, Grimes & Shriver. Mr. Cobb is a 1986 graduate, cum laude, from George Washington University's National Law Center, and a 1982 graduate, cum laude, from Vanderbilt University.

Chairman CALVERT. Thank you.

Mr. Kutz, the Managing Director for Forensic Audits and Special Investigations of the General Accounting Office, sir, you are recognized for five minutes.

STATEMENT OF MR. GREGORY D. KUTZ, MANAGING DIRECTOR, FORENSIC AUDITS AND SPECIAL INVESTIGATIONS, GAO, ACCOMPANIED BY MR. ALLEN LI, DIRECTOR, ACQUISITION AND SOURCING MANAGEMENT, GAO

Mr. KUTZ. Chairman Calvert, Chairman Platts, and Members of both Subcommittees, thank you for the opportunity to discuss NASA's financial management.

For decades, NASA has demonstrated amazing technical and scientific accomplishments that have enhanced the quality of life on

Earth and increased our understanding of the universe. At the same time, NASA has struggled in the area of financial management, with significant challenges in accounting and record keeping.

My testimony has two parts: first, NASA's financial management challenges; and second, the key elements necessary for successful business transformation.

First, NASA's financial management challenges impact its ability not only to prepare financial statements, but more importantly to effectively manage its contractors and major programs.

The causes of the financial management challenges include human capital, processes, and systems. GAO and IG reports have highlighted problems overseeing contractors and controlling program costs, producing credible cost estimates, and reporting reliable costs for the Space Station and related Shuttle support. These problems are not new with NASA's contract management being on GAO's high-risk list since our first report in 1990.

Financial management is key to this ongoing high-risk area. Why? Because NASA remains unable to provide timely, reliable financial and performance information for program managers and cost estimators to effectively do their jobs. Further, the lack of reliable information for NASA's massive contracting operation has not provided the transparency necessary for effective Congressional oversight.

With respect to external reporting, the recent IG financial audits clearly show the ongoing challenges. Although an important milestone, a clean opinion on annual financial statements is not the ultimate goal. Instead, the goal is world-class mission support for NASA's large, complex programs and high-quality financial and performance information for the Congress.

Let me move on to my second point: the key elements necessary for successful business transformation. Notice that I say "business" and not "financial" transformation. The reason is that financial management challenges must be addressed as part of a comprehensive, integrated, NASA-wide business process reform. Clearly, strong leadership from the Chief Financial Officer is important. However, there is a significant cultural resistance to change across NASA.

Moving from an environment of stove-piped operations to a more integrated, transparent environment with accountability for results is a substantial challenge. Thus, sustained and visible support from the Administrator and other senior management is a key element to success.

Another key to successful implementation of NASA's system that is intended to address both the program management and external reporting needs, we agree with NASA's goal for the new system. However, in 2003, we issued a series of reports expressing our concerns that the new system, as implemented, would not meet NASA's stated goals. Our report released today shows some progress. However, overall progress to date has been slow.

Another key to success is consistent Congressional oversight. I commend both Subcommittees for having today's hearing, and I encourage you to continue your oversight. The challenges we are discussing today require well-managed, long-term effort by NASA.

In conclusion, as NASA embarks on a new vision for space exploration, successful transformation of its business operations is critical. Over the next several decades, the Congress will likely be entrusting NASA with hundreds of billions of dollars of taxpayer money. In light of this enormous investment, the status quo is not acceptable.

We look forward to continuing to work with NASA, the IG, and both Subcommittees to see that NASA successfully addresses its human capital, process, and system challenges.

Mr. Chairman, this ends my statement. With me is Allen Li, who is our Program Director for our NASA work. We both look forward to your questions.

[The prepared statement of Mr. Kutz follows:]

PREPARED STATEMENT OF GREGORY D. KUTZ, MANAGING DIRECTOR, FORENSIC AUDITS AND SPECIAL INVESTIGATIONS, AND ALLEN LI, DIRECTOR ACQUISITION AND SOURCING MANAGEMENT

Long-standing Financial Management Challenges Threaten NASA's Ability to Manage Its Programs

What GAO Found

NASA's new core financial management system has not addressed many of the Agency's most significant management challenges—including improving contract management, producing credible cost estimates, and producing auditable financial statements. Because NASA did not use disciplined acquisition and implementation practices, the new system lacks basic functionality—such as the ability to (1) produce transaction-level support for key account balances, (2) properly identify adjustments or correcting entries, and (3) correctly and consistently post transactions to the right accounts. In addition, NASA did not use the implementation of its new system as an opportunity to transform its operations and instead, automated many of its existing, ineffective processes. Compounding its existing problems, NASA also failed to recognize the importance and need for highly skilled, well-trained financial personnel.

Most federal agencies have been able to obtain unqualified audit opinions, while NASA's financial statements remain unauditable. However, the problems experienced by NASA in its effort to reform its financial management organization and implement a modern, integrated financial management system are not uncommon among federal agencies. In fact, many federal financial system modernization efforts have exceeded budgeted cost and scheduled delivery dates without providing the anticipated system functionality.

GAO's related report, released today, details NASA's progress toward implementing prior recommendations related to its financial management system. Overall progress has been slow, but in some areas NASA is beginning to take steps toward improvements.

NASA's Progress in Implementing GAO's Recommendations

Recommendations related to:	Closed	Partially implemented	Open
System component interoperability and enterprise architecture	1	6	23
Process reengineering and requirements definition, management, and testing	1	3	1
External financial reporting	0	0	4
Program life-cycle cost estimates and funding reserves	1	4	1
Total	**3**	**13**	**29**

Source: GAO.

To its credit, NASA has recognized the need to enhance the capabilities and improve the functioning of its core financial management system. Strong executive leadership will be critical for ensuring that NASA's financial management organization delivers the kind of analysis and forward-looking information it needs to effectively manage its many complex programs. Such leadership must be combined with effective organizational alignment, strategic human capital management, and end-to-end business process reform.

Mr. Chairmen and Members of the Subcommittees:

Thank you for the opportunity to discuss the financial management challenges facing the National Aeronautics and Space Administration (NASA). Since its inception in 1958, NASA has undertaken numerous programs—involving Earth and space science, aerospace technology, human space flight, and biological and physical research—that have resulted in significant scientific and technological advances and enhanced the quality of life on Earth. In recent years, NASA has experienced a number of setbacks with its programs and operations, including massive cost overruns associated with the International Space Station and, with the *Columbia* tragedy, the need for the Agency to develop return-to-flight strategies and mitigate the impact of the loss of the Shuttle on the construction of the space station. On January 14, 2004, President Bush outlined a bold new vision for U.S. space exploration that will set a new course for NASA. However, a key to the successful execution of this new vision is NASA's ability to address a number of long-standing financial management challenges that threaten NASA's ability to manage its programs, oversee its contractors, and effectively allocate its budget across its numerous projects and programs.

For years, NASA has cited deficiencies within its financial management systems as a primary reason for not having the data required to oversee its contractors, accurately account for the full cost of its operations, and efficiently produce accurate and reliable information needed for both management decision-making and external reporting purposes. In fact, since 1990 we have identified NASA's contract management as an area of high risk, in part because the Agency lacked effective systems and processes for overseeing contract spending and performance. In April 2000, NASA began its third attempt at modernizing its financial management processes and systems. The first two efforts were eventually abandoned after a total of 12 years and a reported $180 million investment. NASA expects this current effort, known as the Integrated Enterprise Management Program (IEMP),[1] to produce an integrated, agency-wide financial management system through the acquisition and incremental implementation of commercial software packages and related hardware and software components. However, in April and November 2003—three years into NASA's IEMP implementation effort and with significant investment already made in the program—we issued a series of four reports[2] that detailed weaknesses in NASA's acquisition and implementation strategy for IEMP. As part of the four reports we issued, we made 45 recommendations aimed at improving NASA's overall management and implementation of IEMP. Our related report,[3] released today, details our assessment of NASA's progress toward implementing each of our 45 recommendations.

Our testimony today will focus on the results of our recent work related to NASA's financial management challenges and the Agency's efforts to implement our recommendations related to IEMP. Specifically, I will discuss (1) NASA's key financial management challenges, (2) how NASA's financial management challenges compare with other federal agencies, (3) our assessment of NASA's progress toward implementing our recommendations aimed at improving IEMP, and (4) the steps NASA must take to reform its financial management organization.

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[1] The effort was formerly known as the Integrated Financial Management Program (IFMP). According to NASA, IFMP was renamed to reflect the addition of program management and labor distribution.

[2] GAO, *Business Modernization: Improvements Needed in Management of NASA's Integrated Financial Management Program,* GAO–03–507 (Washington, D.C.: Apr. 30, 2003); *Business Modernization: NASA's Integrated Financial Management Program Does Not Fully Address Agency's External Reporting Issues,* GAO–04–151 (Washington, D.C.: Nov. 21, 2003); *Information Technology: Architecture Needed to Guide NASA's Financial Management Modernization,* GAO–04–43 (Washington, D.C.: Nov. 21, 2003); and *Business Modernization: Disciplined Processes Needed to Better Manage NASA's Integrated Financial Management Program,* GAO–04–118 (Washington, D.C.: Nov. 21, 2003).

[3] GAO, *Business Modernization: Some Progress Made toward Implementing GAO Recommendations Related to NASA's Integrated Financial Management Program (IFMP),* GAO–05–799R (Washington, D.C.: Sept. 9, 2005).

We have performed work and issued several reports in response to legislative mandates and at the request of the House Science Committee. We also reviewed the reports of NASA's Office of Inspector General and the independent public accounting (IPA) firms that audited NASA's financial statements for fiscal year 2004 and for several previous years. However, we did not review the IPA's underlying audit work. We performed all work in accordance with U.S. generally accepted government auditing standards. Our statement today is drawn from the findings and conclusions in reports issued by GAO, NASA's Office of Inspector General, and the IPAs.

In summary, NASA currently lacks the systems, processes, and human capital needed to produce credible cost estimates, oversee its contractors and their financial and program performance, control program costs, and produce timely, reliable financial information and auditable annual financial statements. Although NASA has acknowledged the need for improved financial management systems, processes, and human capital and has begun to take steps toward achieving that goal, progress has been slow. Because NASA did not adopt disciplined acquisition and implementation practices when implementing its financial management system, IEMP, it has been forced to take actions that should have been accomplished prior to implementation—causing the Agency to unnecessarily invest time and resources to rework already deployed system components in order to produce a system that meets user requirements. Further, NASA did not use IEMP as an opportunity to transform the way it does business and instead, automated many of its existing ineffective business processes. As a result, NASA has yet to address its most significant program management and external financial reporting issues—including improving contract management, producing credible cost estimates, and properly accounting for nearly $38 billion of reported property, plant, and equipment (PP&E) and material.

NASA has fundamental problems with its financial management operations that not only affect its ability to externally report reliable information, but more importantly, hamper its ability to effectively manage and oversee its major programs, such as the space station and Shuttle program. Since 1990, we have identified NASA's contract management as a high-risk area. This assessment has been based in part on our repeated finding that NASA does not have good cost-estimating processes or the financial information needed to develop good cost estimates for its programs, making it difficult for NASA to oversee its contracts and control costs. NASA's difficulties are rooted in an agency culture that has not viewed financial management as an integral part of the Agency's program management decision process. Although NASA has acknowledged the need for improved financial management information and has begun to take steps toward achieving that goal, NASA currently lacks the systems, processes, and human capital needed to produce credible cost estimates, oversee its contractors and its financial and program performance, control program costs, and produce auditable financial statements.

NASA Lacks the Systems, Processes, and Human Capital Needed to Effectively Manage Its Programs

As currently designed, NASA's financial management system has not addressed many of the Agency's most significant program management challenges—including improving contract management and producing credible cost estimates. Because program managers and cost estimators were not involved in the initial design and implementation of the core financial module, the system was not designed to meet their needs and thus, does not contain the cost data needed to manage NASA's most complex projects and programs. This, combined with NASA's failure to reengineer its contractor cost-reporting processes and a lack of trained financial management personnel, has undermined NASA's recent efforts to improve its cost-estimating and contract monitoring capabilities.

As we have reported numerous times, NASA consistently develops unrealistic cost and schedule estimates, which at least in part, contributes to the cost growth and schedule increases in many of its programs. To adequately oversee NASA's largest and most complex programs and projects and mitigate potential cost growth and schedule increases, managers need well-defined processes for estimating the cost of programs and monitoring progress against those estimates. A well-recognized technique used to monitor progress on contracts, and a long-time NASA program management requirement, is earned value management (EVM).[4] EVM goes beyond the two-dimensional approach of comparing budgeted costs to actuals. Instead, it attempts to compare the value of work accomplished during a given period with the work scheduled for that period. Recognizing the need to establish a disciplined cost-

[4] NASA requires EVM reporting and analysis for research and development contracts with a total anticipated final value of $70 million or more, and for production contracts with a total anticipated final value of $300 million or more.

estimating process that incorporates the concepts of EVM, NASA developed a cost-estimating handbook in 2002—the first such guidance provided to its cost-estimating community and program and project managers. However, as we reported in April 2003, the information requirements of program managers and cost estimators, which were outlined in the cost-estimating handbook, were not considered when NASA designed and implemented the core financial module—the backbone of IEMP.

When NASA deployed the core financial module in 2003, NASA's cost-estimating guidance was inconsistently applied across programs. However, NASA has recently begun to take steps to institutionalize the use of more disciplined cost-estimating and contract-management processes.

For this initiative to be successful, as we have previously recommended, NASA will also need to re-engineer its business processes—including its contractor cost-reporting requirements—and configure its financial system to accommodate the information required by program managers and cost estimators. However, NASA has yet to fully address weaknesses in its (1) contractor cost-reporting requirements and (2) financial and technical work-breakdown structure.

- Weaknesses in NASA contractor cost-reporting requirements affect NASA's ability to manage its programs and monitor contractor performance. NASA obtains contractor cost data from two primary sources—monthly contractor financial management reports (i.e., NASA Form 533), and monthly contractor cost performance reports. Both reports contain budget and actual cost data, but only contractor cost-performance reports contain the data needed to perform EVM analysis. However, NASA did not evaluate the adequacy of its existing contractor cost-reporting vehicles to determine whether the reports met the information needs of program managers and cost estimators. Instead, NASA chose to use NASA Form 533 data to populate the core financial module without considering the merits of the data contained in the contractor cost-performance reports. Consequently, the cost data maintained in the core financial module are not adequate for monitoring contractor performance for NASA's largest, most complex contracts—those requiring EVM reporting and analysis. As discussed in our related report, through an initiative known as Project Management Information Improvement (PMI^2), NASA plans to enhance the core financial module to provide better project management information for decision-making purposes. As part of this initiative, NASA plans to evaluate its contractor cost-reporting policies and processes.
- The core financial module as currently implemented does not capture cost information at the same level of detail that it is received from NASA's contractors. Instead of implementing a financial-coding structure that met the information needs of program managers, NASA embedded the same financial-coding structure that it used in its legacy reporting systems in the core financial module. As a result, the availability of detailed cost data depends on the adequacy of NASA's legacy-coding structure. Therefore, in some cases, contractor-provided cost data must be aggregated to a higher, less detailed level before they are posted against the legacy financial-coding structure. To its credit, as part of PMI^2, NASA is in the process of addressing this issue. However, NASA is still several years away from reaping the benefit of these planned improvements.

In addition to ineffective business processes that result in inadequate management information, we reported in May 2004 that NASA's use of disciplined cost-estimating practices and EVM analysis was undermined by a lack or trained staff and ineffective use and placement of cost analysts across the Agency. According to NASA officials, at the time, resource constraints have prevented the Agency from staffing many project offices with appropriate personnel to fulfill all project functions. In response to recommendations we made in our May 2004 report, NASA has begun to take action to improve the efficiency and effectiveness of its cost-estimating and EVM analysis staffs. Specifically, NASA has included requirements in its March 2005 update to NASA's Program and Project Management Processes and Requirements document that should facilitate efficient and effective use of cost-estimating EVM analysis staff. Further, according to NASA, it plans to provide both awareness briefings and in-depth training to project management and cost-estimating and analysis personnel to ensure understanding and knowledge of NASA's cost-estimating and program management policies and procedures. However, because these initiatives have only recently begun, we cannot determine to what degree these efforts will enable NASA to provide credible cost estimates.

As discussed in our related report, released today, NASA has recognized the need to enhance the capabilities of the core financial module in order to better serve its program management and cost-estimating communities. As NASA proceeds with its

planned improvements, it will be critical that the Agency address weaknesses in its financial management systems, processes, and human capital in a comprehensive manner. Anything short of this will continue to put NASA's programs at risk of cost and schedule overruns.

Ineffective Systems and Processes and Inadequately Trained Financial Management Personnel Hamper External Financial-Reporting Efforts

NASA's core financial module—the backbone of IEMP—does not currently address many of the Agency's most challenging external reporting issues—including problems related to budgetary accounting and property accounting. NASA's independent financial statement auditors disclaimed an opinion on NASA's fiscal year 2003 and 2004 financial statements. The disclaimer resulted from NASA's inability to provide the auditors with sufficient evidence to support the financial statements throughout the fiscal year and at year end. Further, material weaknesses were found in NASA's controls for: (1) financial systems, analysis, and oversight used to prepare the financial statements; (2) reconciling differences in Fund Balance with Treasury; (3) assuring that PP&E and materials are presented fairly; and (4) securing the computing environment that supports IEMP. Although many of these material weaknesses and NASA's difficulty in producing auditable financial statements can be linked to IEMP, weaknesses in NASA's business processes and human capital management are also factors. Based on our review of NASA's fiscal year 2005 interim financial statements, problems associated with NASA's financial management persisted during fiscal year 2005.

Although NASA has been working to stabilize the core financial module since it was deployed in June 2003, NASA has yet to produce auditable interim or annual financial statements. In fact, as part of its report disclaiming an opinion on NASA's fiscal year 2004 financial statements, NASA's independent auditor reported that the core financial module was unable to (1) produce transaction-level detail in support of financial statement account balances, (2) identify adjustments or correcting entries, and (3) correctly and consistently post transactions to the right accounts. These are basic system requirements that are integral to the effective functioning of a financial management system. For this and other reasons, for fiscal year 2004, NASA's auditor found that NASA's financial system did not comply substantially with the requirements of the *Federal Financial Management Improvement Act of 1996 (FFMIA)*.[5] FFMIA stresses the need for agencies to have systems that can generate timely, accurate, and useful financial information with which to make informed decisions, manage daily operations, and ensure accountability on an ongoing basis. NASA's ongoing inability to meet the basic requirements of FFMIA is central to our reporting of NASA's contract management as an area of high risk.

Because NASA's core financial module does not meet basic federal financial management system requirements, NASA was unable to provide support for certain fiscal year 2004 financial statement balances including accounts payable and undelivered orders. Additionally, NASA was unable to provide the auditors with subsidiary listings of cash receipts and cash disbursements to support its budgetary outlays during the fiscal year. Finally, according to the auditor's report, NASA management continues to identify certain transactions that are being posted incorrectly due to improper configuration of the core financial module. Based on our review of NASA's fiscal 2005 quarterly financial statement notes, many of these same problems remain. For example, due to functionality and configuration issues, the system continues to create inappropriate transactional postings which result in abnormal balances and misstatements in unobligated balances and other budgetary accounts. In addition, due to data integrity issues from fiscal years 2003 and 2004, the opening balances for many budgetary and proprietary accounts in fiscal year 2005 are misstated.

Similarly, as part of our recent work assessing NASA's controls over travel and the use of its passenger aircraft,[6] NASA was unable to provide us with timely, reliable data and support for amounts spent on travel for fiscal year 2004. After four months of trying to extract travel data from the IEMP system, NASA officials provided us with what they said was a complete population of travel-related disburse-

[5] Pub. L. No. 104–208, div. A., § 101(f), title VIII, 110 Stat. 3009, 3009–389 (Sept. 30, 1996). FFMIA requires CFO Act agencies to implement and maintain financial management systems that comply substantially with federal financial management system requirements, applicable federal accounting standards, and the U.S. Government Standard General Ledger at the transaction level. FFMIA also requires the auditors of agencies' financial statements to report on such compliance.

[6] GAO, *NASA Travel: Passenger Aircraft Services Annually Cost Taxpayers Millions More Than Commercial Airlines,* GAO–05–818 (Washington, D.C.: Aug. 26, 2005).

ment transactions. However, the data provided were missing significant travel expense categories. For example, NASA had several contracts with major hotel chains to provide rooms at discount rates; however, NASA did not include the charges related to rooms purchased under these contracts as travel-related expenses. Further, although Agency personnel regularly used NASA-owned passenger aircraft and other charter aircraft in support of official business travel, the cost associated with the use of these aircraft was not considered a travel expense and, therefore, the millions of dollars associated with this travel were not included in the data provided. In addition to missing data, the travel data NASA provided contained duplicate transactions and other data anomalies that made it appear as if NASA were paying the same bill multiple times, which, for those transactions we tested, was not the case.

NASA's failure to provide reliable data related to its travel disbursements is significant for three reasons. First, it illustrates the shortcomings of NASA's financial management system and NASA's ongoing struggle to provide transaction-level support for key account balances. Second, it indicates that the budget amounts NASA reports for travel each year to the Congress are significantly understated. As part of its budget submission, NASA is required to report estimated and actual obligations in terms of object classification. Object classes describe the nature of the service or article for which the obligations are first incurred. One such object class is object class 21, travel and transportation of persons. However, because NASA does not properly classify certain travel expense categories as object class 21—including business travel on noncommercial aircraft and travel services procured using a contract—the Agency travel budget is significantly understated. Finally, the problems we found with NASA's travel data point to weaknesses in NASA's full-cost accounting initiative. According to NASA, on October 1, 2003, NASA implemented its full-cost initiative and is currently operating in a total full-cost environment, which includes managing programs and projects in terms of their total costs; accounting for all costs as either direct or as general and administrative; and budgeting for a program or project's full costs. However, if NASA has failed to capture and properly link travel-related costs to the appropriate object classification, it raises serious questions about the Agency's ability to properly classify other less straightforward cost categories.

As discussed previously, NASA did not use IEMP as an opportunity to transform the way it does business and instead, NASA automated many of its existing, ineffective business processes—including its process for recording PP&E and material in its general ledger. As we reported in November 2003, NASA does not appropriately capture and record PP&E and material in the core financial module general ledger at the transactions level. Instead, NASA first expenses its property acquisitions and then updates the core financial module's general ledger using periodic summary-level manual entries—for both NASA-held and contractor-held property.

Recording PP&E and material in the general ledger at the transaction level or item level at the time NASA makes disbursement for it would provide independent control over these assets. However, just as it did with its legacy systems, NASA continues to (1) record the cost of PP&E and materials as expenses when initially incurred, (2) periodically determine which of those costs should have been capitalized, and (3) manually adjust these records at a summary level. Because NASA does not maintain transaction-level detail, the Agency is not able to link the money it spends on the purchase or construction of its property to discrete property items, which is needed to provide independent control over these assets. Although NASA manually records property at the summary level for both NASA-held and contractor-held property, NASA's most significant challenge with respect to property accounting stems from property located at contractor facilities—which accounts for $8.5 billion or about one-fourth of NASA's reported $34.6 billion of PP&E and materials—because NASA must rely solely on its contractors to periodically report summary-level information on these assets to NASA. Until NASA successfully implements a single integrated system for reporting property, and develops a methodology to identify and record capital costs as they occur, the Agency will continue to experience difficulties maintaining effective control over PP&E and ensuring that it is not vulnerable to fraud, waste, and abuse.

In fiscal years 2003 and 2004, NASA's auditor reported that continued weaknesses in NASA's financial statement preparation processes resulted in major delays and errors in preparing fiscal year-end financial statements. According to the auditor's report, NASA personnel were not consistently utilizing uniform accounting processes that record, classify, and summarize information for the preparation of financial statements. Further, because significant weaknesses exist in the core financial module, NASA management must compensate for the weaknesses by implementing and strengthening additional controls that will ensure that errors and

irregularities are detected in a timely manner. However, according to the auditor's report, many of these control procedures were not adequately performed. As such, the auditor recommended that NASA provide additional training for financial personnel to ensure that they understand their role in processing transactions, performing account analysis and reconciliations, and maintaining supporting documentation.

While Most Agencies Receive Unqualified Opinions on Their Financial Statements, Systems Modernization Continues to be a Challenge

The problems experienced by NASA in its effort to reform its financial management organization and implement a modern, integrated financial management system are not uncommon. While the majority of CFO Act agencies have obtained clean or unqualified audit opinions on their financial statements, the underlying Agency financial systems remain a serious problem. Agencies still generally lack the capacity to create the full range of information needed to effectively manage day-to-day operations. As shown in Table 1, for fiscal year 2004, auditors reported that financial management systems of only seven of the 23 CFO Act agencies[7] complied substantially with the requirements of FFMIA.

Table 1: Auditors' Determination of Financial Statement Opinion, Internal Controls, and FFMIA Compliance for Fiscal Year 2004

Agencies	Unqualified opinion	FFMIA compliance	No material weaknesses
Department of Agriculture	X		
Department of Commerce	X	X	
Department of Defense			
Department of Education	X		
Department of Energy	X	X	X
Department of Health and Human Services	X		
Department of Housing and Urban Development			
Department of the Interior	X		
Department of Justice			
Department of Labor	X	X	X
Department of State	X		
Department of Transportation	X		

[7] There were initially 24 CFO Act agencies. See Pub. L. No. 101–576, §205, 104 Stat. 2838, 2842–2843 (1990). The Federal Emergency Management Agency (FEMA), one of the 24 CFO Act agencies, was subsequently transferred to the Department of Homeland Security (DHS) effective March 1, 2003. With this transfer, FEMA is no longer required to prepare and have audited financial statements under the CFO Act, leaving 23 CFO Act agencies for fiscal year 2004. For fiscal years 2003 and 2004, DHS was required to prepare audited financial statements under the *Accountability of Tax Dollars Act of 2002* (Pub. L. No. 107–289, 116 Stat. 2049 (Nov. 7, 2002)). Because DHS was not a CFO Act agency, it was not subject to FFMIA for fiscal year 2004. The *DHS Financial Accountability Act,* Pub. L. No. 108–330, 118 Stat. 1275 (Oct. 16, 2004), added DHS to the list of CFO Act agencies and deleted FEMA, increasing the number of CFO Act agencies again to 24 for fiscal year 2005.

Agencies	Unqualified opinion	FFMIA compliance	No material weaknesses
Department of the Treasury	X		
Department of Veterans Affairs	X		
Agency for International Development	X		
Environmental Protection Agency	X	X	
General Services Administration	X	X	
National Aeronautics and Space Administration			
National Science Foundation	X	X	X
Nuclear Regulatory Commission	X		
Office of Personnel Management	X		
Small Business Administration			
Social Security Administration	X	X	X
Total	**18**	**7**	**4**

Source: GAO analysis.

Similarly, as shown in Table 1, auditors reported that only four agencies had no material internal control weaknesses. A material weakness is a condition that precludes the entity's internal control from providing reasonable assurance that misstatements, losses, or noncompliance material in relation to the financial statements or to stewardship information would be prevented or detected on a timely basis.

NASA's problems implementing IEMP are similar to those of other agencies we have audited. Modernizing financial management systems is critical to instituting strong financial management so that the systematic measurement of performance, the development of cost information, and the integration of program, budget, and financial information for management reporting can be achieved. The federal government has spent billions of dollars developing and implementing financial management systems throughout federal agencies. However, many of these efforts have exceeded budgeted cost and scheduled delivery dates without providing the anticipated system functionality.

Although the implementation of any major system is not risk free, organizations that follow and effectively implement disciplined processes, along with effective human capital and IT management practices, can reduce these risks to acceptable levels. We have issued numerous reports highlighting the problems associated with the inability to effectively implement disciplined processes in the areas of requirements management, testing, data conversion and system interfaces, risk management, and project management. For example, ill-defined or incomplete requirements have been identified by many experts as a root cause of system failure. As a case in point, we recently reported[8] that the Army has encountered problems implementing a new system intended to improve depot operations. One reason that users had not been provided with the intended systems capabilities was because of the breakdown in the requirements management process. As a consequence, the Army implemented error-prone, time-consuming manual work-arounds to minimize disruption to critical operations, and the financial management operations continued to be affected by systems problems.

Similarly, many of NASA's financial management problems outlined in our testimony are the result of an undisciplined, ineffective requirements management process—including the failure of NASA's financial management system to (1) post transactions to the right accounts, (2) properly identify adjustment or correcting entries, and (3) provide the information program managers and cost estimators need to monitor contractor performance and produce credible cost estimates. To its credit, as discussed in our related report released today, NASA officials acknowledged that the requirements management and testing methodology and tools used to implement

[8] GAO, *Army Depot Maintenance: Ineffective Oversight of Depot Maintenance Operations and System Implementation Efforts,* GAO–05–441 (Washington, D.C.: June 30, 2005).

the core financial module did not result in requirements that were consistent, verifiable, and traceable, or that contained the necessary specificity to minimize the requirement-related defects. NASA has recently implemented a new requirements management and testing methodology. However, NASA does not plan to use its improved requirements management process to properly define and document system requirements for already deployed IEMP modules until October 2006—when NASA plans to redefine the core financial module requirements as part of the core financial module system upgrade.

NASA Has Begun Taking Steps to Implement Some of Our Recommendations for IEMP, but Progress Is Slow

Our related report, released today, details our assessment of NASA's progress toward implementing our prior recommendations related to IEMP. Overall, progress has been slow, particularly with respect to developing a well-defined enterprise architecture, which is critical for guiding and constraining NASA's investment in IEMP. However, in some other areas—such as NASA's initiative to enhance the core financial module to provide better project management information—NASA is beginning to make progress. Of the 45 recommendations we made, NASA has closed three and partially implemented 13; however, 29 recommendations remain open.

In 2003, we issued four reports outlining the considerable challenges NASA faces in meeting its IEMP commitments and providing NASA with the necessary tools to oversee its contracts and manage its programs. For example, in April 2003, we reported that NASA had deferred addressing the needs of key system stakeholders, including program managers and cost estimators, and was not following key best practices for acquiring and implementing the system. Then, in November 2003, we reported that NASA (1) acquired and deployed system components of IEMP without an enterprise architecture, or agency-wide modernization blueprint, to guide and constrain program investment decisions; (2) did not use disciplined cost-estimating processes or recognized best practices in preparing its life-cycle cost estimates; and (3) had delayed implementation of many key external reporting capabilities.

As part of the four reports we issued on IEMP, we made 45 recommendations in the following areas: commercial system component integration; enterprise architecture development and use; risk mitigation; system requirements definition, management, and testing; external financial reporting; and program cost and schedule control. Since that time, NASA's effort has been focused primarily on trying to stabilize the core financial module, the backbone of IEMP. However, in our report being released today, we recognize that NASA has begun taking steps to implement a number of our recommendations. Table 2 summarizes our assessment of the extent to which NASA has implemented our recommendations.

Table 2: NASA's Progress Toward Implementing GAO's Recommendations

Recommendations	Closed	Partially implemented	Open	Comments
Recommendations to improve NASA's acquisition management practices. GAO-03-507	0	2	0	Key elements of dependency analysis methodology still lacking. Suitability of already acquired components not evaluated before acquiring additional components.
Recommendations regarding development and use of enterprise architecture. GAO-04-43	1	4	17	Architecture still missing important content and key architecture management processes not yet established. Already implemented system components not mapped to architecture.
Recommendations to mitigate risk associated with relying on already deployed components. GAO-03-507	0	0	6	NASA did not develop a formal corrective action plan to mitigate risks.
Recommendations regarding defining program management needs and reengineering business processes. GAO-03-507	1	0	1	Stakeholders engaged to define program management needs. Plans to reengineer contractor cost-reporting processes still several years away.
Recommendations to improve NASA's requirements management and testing processes. GAO-03-507	0	3	0	New requirements management methodology and tools acquired for future modules but core financial module requirements not yet fully defined.
Recommendations to improve external financial reporting. GAO-04-151	0	0	4	Little progress made in developing a detailed plan for delivering a financial system that substantially complies with federal standards.
Recommendations regarding IEMP program life-cycle cost estimates and funding reserves. GAO-04-118	1	4	1	Significant progress made in preparing life-cycle cost estimates but consistency and support for estimates still lacking.
Total	**3**	**13**	**29**	

Source: GAO analysis.

In its written comments on our draft report, NASA raised concerns that our characterization of certain recommendations as "open" did not appropriately recognize the full extent of the Agency's effort and suggested that we use instead "partially implemented" or, whenever appropriate, "closed." We disagree with NASA's assessment.

We considered a recommendation closed when NASA provided us with documentation that demonstrated it had fully addressed the concerns we raised in our prior reports. Recognizing that many of our recommendations may take considerable time and effort to fully implement, we considered the recommendation to be partially implemented if the documentation provided indicated that NASA had made significant progress addressing our concerns. For recommendations we consider open, NASA's documentation indicated that the Agency was either in the very early planning stages or had not yet begun to implement the recommendation.

NASA Faces Significant Challenges in Reforming Its Financial Management Operations

Successfully stabilizing and enhancing NASA's financial management system are essential to enabling the Agency to provide its managers with the kind of timely, relevant, and reliable information that they need to manage cost, measure performance, and make program-funding decisions. However, NASA cannot rely on technology alone to solve its financial management problems. Rather, NASA must transform its financial management organization into a customer-focused partner in program results, but its ability to do this hinges on the sustained leadership of NASA's top executives.

Clear, strong executive leadership will be critical for ensuring that NASA's financial management organization delivers the kind of analysis and forward-looking information that the Agency needs to effectively manage its many complex programs. To be effective, such leadership must also combine with effective organizational alignment, strategic human capital management, and end-to-end business process improvement. This goes far beyond merely obtaining an unqualified audit opinion and requires that agency financial managers focus on their overall operations in a strategic way and not be content with an automated system that helps the Agency get a "clean" audit opinion once a year without providing additional value to the program managers and cost estimators who use its financial data.

The challenges that NASA faces in reforming its financial management operations are daunting, but not insurmountable. However, our experience has shown that improvements in several key elements are needed for NASA to effectively address the

underlying causes of its financial management challenges. These elements, which will be key to any successful approach to financial management reform, include:

- addressing NASA's financial management challenges as part of a comprehensive, integrated, NASA-wide business process reform;
- providing for sustained leadership by the Administrator to implement needed financial management reforms;
- establishing clear lines of responsibility, authority, and accountability for such reform tied to the Administrator;
- incorporating results-oriented performance measures and monitoring tied to financial management reforms;
- providing appropriate incentives or consequences for action or inaction;
- developing and using an enterprise-wide system architecture to guide and direct financial management modernization investments; and
- ensuring effective oversight and monitoring.

Conclusion

As NASA embarks upon the new course set by the President in 2004, a key to successfully implementing the vision of expanded U.S. space exploration is NASA's ability to address a number of long-standing financial management challenges. The lack of reliable, day-to-day information continues to threaten NASA's ability to manage its programs, oversee its contractors, and effectively allocate its budget across its numerous projects and programs. Although NASA has acknowledged the need for improved financial management systems, business processes, and human capital management and has begun to take steps toward achieving those goals, progress has been slow. By expeditiously implementing each of the recommendations contained in our related report, NASA has the opportunity to minimize the impact of past mistakes and begin to reap the benefits of operating with an integrated financial management system. Further, clear, strong executive leadership will be critical for ensuring that NASA's financial management organization delivers the kind of analysis and forward-looking information needed to effectively manage its many complex programs.

In closing, we commend the Subcommittees for holding this hearing as a catalyst for improving NASA's financial management and business processes. Continued oversight will be critical to ensuring that NASA achieves its goals for improved financial management and reformed business processes. Mr. Chairmen, this concludes our prepared statement. We would be pleased to respond to any questions that you or other Members of the Subcommittees may have.

DISCUSSION

Chairman CALVERT. Thank you. And thank you for your testimony.

SARBANES-OXLEY COMPARISONS

As you all were giving your testimony, I was thinking—I have been listening to complaints from friends of mine in the business sectors about Sarbanes-Oxley and the difficulties that they have in meeting the requirements of Sarbanes-Oxley, and especially small corporations that are burdened with tremendous accounting difficulties and the rest. So I was thinking, before I get into my list of questions, if NASA was subject to Sarbanes-Oxley, and Ms. Sykes, you are the Chief Financial Officer, would you sign that financial statement?

Ms. SYKES. At this point, no, sir.

Chairman CALVERT. You know, we, in government, pass laws, and we submit businesses and corporations to difficult processes and with penalties involved if they don't meet them, but I think it is important that we, in government, attempt to do as we ask others to do.

FINANCIAL MANAGEMENT IMPROVEMENT PLAN AND THE CORRECTIVE ACTION PLAN

And so with that, Ms. Sykes, Mr. Cobb outlined in his testimony the ingredients necessary for a successful plan to correct NASA's financial problems. He says you have been working on such a plan since 2003. And indeed, you promised to deliver to this committee a plan for some time. Yet, so far, Mr. Cobb says, the plans you provided, based on his testimony, have been high-level, broadly-worded proposals that lack sufficient detail and strategies to address the outstanding deficiencies. Do you—one, do you agree with the Inspector General's assessment? If so, when do you propose to provide an adequate plan?

Ms. SYKES. Thank you, Chairman Calvert.

NASA does have a financial management improvement plan. We have been working on that plan for the last two years. It has been solidified, and we have been working towards the elements within that plan. That plan has been shared with our IG as well as with your staff.

The plan that the IG is talking about are—has been developing or we have been having discussions about, is the corrective action plan. And let me kind of give the Committee a little bit of a detail.

The plan that we have at NASA is very comprehensive. It includes recommendations that we received from GAO, the IG, the independent auditor, as well as those things that have also been identified by Mr. Kutz here today that says you have to look at the culture, the process, and the systems associated with that. So I have a very overarching, detailed financial management plan that we have been working towards and making progress on in the last two years.

What I believe, and this is an ongoing discussion, what the IG is looking for is a corrective action plan which focuses on those items that have been identified in our audit reports or our—on our financial management statements, which have the four material weaknesses that have been identified. We have had ongoing discussions regarding that, and we are looking towards being able to provide one after we get our November 15 audit statement. And what it will actually entail is basically taking information out of our current financial management plan and consolidating it into a different format.

We will be working with the IG to see if we can accommodate his wishes in that area and also provide that to the Committee, which will provide additional oversight.

But I would like to also characterize, as Greg Kutz says, the overall goal is not to get a clean opinion, which I think a corrective action plan would be its overarching goal, but mostly trying to get to a place within NASA where we are able to provide timely, accurate, and reliable data for our program and project managers. And that is the plan that we are implementing, and that is the plan that we have been working on.

Chairman CALVERT. Well, obviously, as we move forward on—and as you know, the new Administrator has a very aggressive plan to move ahead with the CEV, wants to get it operating as quickly as possible after the retirement of the Shuttle in 2010. We

have a definitive schedule that has been laid out by this Administration. And so I guess the American public, and I think—are probably looking at—that we can't seem to get our act together financially over a long period of time relative to what—if I was still in business, you know, if it took me a number of years to get this resolved, I probably, you know, wouldn't be around. So I—you know, I guess it is—we are turning up the heat a little bit today to say that we need to get this resolved.

And that—Mr. Cobb, listening to Ms. Sykes, your office has reviewed NASA's previous draft corrective plans. Can you explain your opinion of those drafts? And what would you like to see in a corrective action plan?

Mr. COBB. As my testimony reflects, what we would like to see is, in effect, how the plan can, if implemented, get you to the results that you are looking for. In other words, what is the vision for where you want to be, and then what are the principles that will guide your implementation strategies, and what are the steps that you need to take to get to that end goal? And in many respects, what we have found lacking—and many times there are very detailed suggestions, but what we find lacking is how are you going to get from point A to point B?

Chairman CALVERT. And how long is that going to take to get the—if we can't get the plan together—if it has taken us two years to get the plan together, you know, some people may ask how are we going to fix the problem in general?

Mr. COBB. Well, I would agree with the idea that there is not going to be a quick fix, that once you have your plan in place that makes sense, that it may still take years to execute the plan. But where you don't, in my view, have a plan that gets you to—even lays out how you are going to get to the end result, then you have got no chance of ever getting there.

CORRECTIVE ACTION PLAN TIMETABLE

Chairman CALVERT. I guess the question is when are we going to get the—when are we going to have a definitive plan that this committee and the public can look at?

Ms. SYKES. Currently, NASA does have a plan. The one that the—"Moose" is relating to, we have. We actually had a review that was done since Administrator Griffin came on board, and we had Linda Combs and Ted McPherson and other government representatives come in and review our plan, review our strategy, review what was in the plan, mapping that to the people, the personnel, the time, the requirements that were necessary. After we had that review, the IG was also a part of that discussion, it was an all-day session, with Linda Combs in attendance, and they provided us guidance and information as far as what things we needed to tweak. That has been the plan that NASA has been operating under for the last two years. It is not that we need to develop a plan; it is the fact that we need to execute.

As you know, and I have shared with the Committees before, and since Administrator Griffin has come in, I have had significant challenge trying to get staff to—in order to meet these financial management challenges. Since Administrator Griffin came on

board, I have been able to fill key elements or key leadership positions within my organization. That is a very significant start.

So now we have the leadership by which to execute the body of work that we already knew that we had to do over two years ago and that we have actually planned and developed. And with that, he has also given us the additional resources.

So what needs to happen at this point in time is basically coming to the table, between myself and Mr. Cobb and your committee, and sharing with you guys the detailed plan that we have and the body of work that we plan on doing in order to provide sound financial management.

Chairman CALVERT. We look forward to that.

Ms. SYKES. Thank you.

Chairman CALVERT. Mr. Platts, you are recognized.

Mr. PLATTS. Thank you.

Thank you, Mr. Chairman. Again, my appreciation for all of your efforts, and as I said, we are, hopefully, all on the same team in what we are ultimately after.

PERSONNEL

I want to pick up, Ms. Sykes, with—kind of where you left off on staff. And a number of statements of yours and Mr. Ciganer's referencing the importance of staff and leadership and training. You can have great systems, but having staff there. And I am, on one hand, encouraged by some of the staffing changes, and you, as Chief Financial Officer for the Agency, working with your Center CFOs and the more direct interaction that is now in place. I think that is a very positive step. But one of the issues, and you referenced getting critical positions. And looking at the Inspector General's statement he provided, it talks about your office, in particular, and the variation that we started 2005 with an authorized level of 121. That was then reduced to 103 in March. And then at the end of the fiscal year, in September, it was back to 132, but now, in this month, it has been proposed that the ceiling be 103. I mean, that is all within one year. And so what is the explanation of that, just from a staffing standpoint, if we are demanding a lot from you? Your immediate office, the Center CFOs and staff is critical, and it seems like we can't even quite get an understanding of what your staffing needs are in your own office.

Ms. SYKES. We have identified for the Agency what the staffing needs are in order to overcome the financial management challenges here at NASA. That has been presented upon Mr. Griffin coming into NASA. I was one of the first two individuals that he met with. In that meeting, I provided him with the plan and an articulation of the staffing requirements, the contractual requirements, everything that we needed to do in order to be aggressive in meeting our goals and improving financial management here at NASA.

As you know, and as Congressman Calvert has already stated, we have some other emerging challenges throughout the Agency of trying to fund our new vision and exploration missions. So as an agency, we have been doing internal reviews, and of course, NASA has to play—NASA CFO Office plays a role in that. But I will—I am here today to confirm to the Committee that my staffing level

will remain at 132 and that the Administrator fully supports and backs that. And there has been no deviation from that. There have been, you know, memos and things as far as the review was concerned, but as far as the—Administrator Griffin is concerned, he knows that this a very important area, he knows that he is in full support of this, and he is recognizing that these resources are needed.

Mr. PLATTS. The—and so that commitment from the Administrator is since that review proposing 103 that you are going to have—there are——

Ms. SYKES. 132, correct, sir.

INTERNAL CONTROLS

Mr. PLATTS. Okay. Following up on the Chairman's statements regarding Sarbanes-Oxley, because I think it is a very important point of what we expect from the private sector internally, and you gave a frank answer that no, you would not want to sign your financials as they stand today and where you are. Let me focus on a specific aspect of getting to those good financials is internal controls. This Administration, I think, has taken, you know, great leadership in the A–123 Circular revision and really focused more on that—what I call the kind of bedrock of good financial management, which is solid internal controls. And you know, that deadline is approaching in mid-2006, and to get to that deadline, you should be pretty far along. Would you be willing to sign today on the line saying you are ready to be in full compliance with A–123 Circular regarding your internal control review process and validation of that process?

Ms. SYKES. Actually, I would. Part of the—one of the things that myself and Mr. Ciganer recognized when we actually implemented our new system was that the level of internal controls, not only within the Office of the CFO and my ten CFO Centers, but also that we needed to enhance or enforce internal controls as it related to other financial managers, i.e., the program and project managers. Today, we, at NASA, have already established our Office of Quality Assurance. We have policies already in place for internal controls in order to implement. We provided our high-level review plan to OMB, as we were required to in September. But however, when we talked with some of the contractors that are actually coming in to assist many of our agencies in implementing the internal controls for A–123, we found that we were actually further along than some of our counterparts, because we have actually already done our risk assessments, we are already starting to validate our policies and our processes and our procedures associated with our financial operations, and we have also went out and done an assessment at all ten Centers to find out where we are, strengths and weaknesses, with regards to our internal controls. And these are key elements that are going to be helpful in moving us forward in financial management and ensuring that the data that we record is timely, accurate, and reliable.

Mr. PLATTS. Mr. Chairman, if I could, just a follow-up before yielding, to Mr. Cobb.

The process that the CFO just talked about, I think, is a solid one and an important one. It seems like your concern is that,

again, getting to kind of the baseline that the documentation, the accuracy of the documentation that we would put into that analysis may still be problematic to having good internal controls. Do you want to expand on that or respond?

Mr. COBB. Sure, if you can't verify, that is a significant internal control failure, and so, you know, in terms of our ability, we haven't verified—have not been able to verify many of the steps that the CFO's Office has taken, such that they have established a quality assurance. The effectiveness of the Quality Assurance Office we have not been able to verify yet in terms of its application. So I really——

Mr. PLATTS. And that is just because of where you are in this stage? I mean, that is pretty early on, I guess?

Mr. COBB. It is really where both of us are.

Mr. PLATTS. Right.

Mr. COBB. So we—but I don't have a sense. I mean, really what our testimony about—is about and what the auditors have found are breakdowns in the internal control structures, and those are manifest and really are the primary reason that the financial statements can't get a positive opinion.

Mr. PLATTS. Thank you, Mr. Chairman.

Chairman CALVERT. I thank the gentleman.

Mr. Udall.

Mr. UDALL. Thank you, Mr. Chairman.

Thanks to the panel for your insightful comments.

If I could, I want to direct a question to Mr. Cobb and Mr. Kutz.

IMPACT OF FINANCIAL MANAGEMENT ON PROJECT MANAGEMENT

In your written testimony, Mr. Cobb, you state that NASA's financial management system, in its current state, will not routinely provide programs managers and other key stakeholders and decision-makers, including the Congress, with the financial related information needed to estimate costs, measure program performance, and ensure accountability.

Mr. Kutz, your testimony appears to agree with the IG. You have entitled it long-standing financial management challenges threaten NASA's ability to manage its programs. And then you go on to say NASA's new Core Financial Management system has not addressed many of the Agency's most significant management challenges, including improving contract management, producing credible cost estimates, and producing auditable financial statements. I think that obviously concerns all of us.

Would you both elaborate on the specific ways that the problems with NASA's financial management system are affecting NASA's ability to manage its projects?

Mr. Kutz, maybe we could start with you and then go to Mr. Cobb.

Mr. KUTZ. Yeah, overall, if you look at the—our testimony, we talk about preparation of financial statements, accountability for property, plan, and equipment, budgetary reporting, program management, cost estimating, and all of those types of factors, and we have had NASA on a high-risk list for contract management since 1990, so this goes back since our first high-risk report then, which

means that the problem probably pre-dates 1990. And the fundamental issue that is central to really today's hearing is the timely, reliable information going to program managers and cost estimators, who, as of the time we had done our studies of NASA's new IEMP, were not using the information from IEMP. They were using their own cuff information and their own separate records to actually manage their programs. Now I know that Mr. Ciganer spoke in his opening statement that they are attempting to address that issue, and that really is the fundamental thing.

We don't want to see this system become simply an accounting system. We would like to see it be a management system that does more than just prepare financial statements once a year for auditors. And so that is the fundamental issue here, and the most important element of success for IEMP will be if it will help program managers and cost estimators do their jobs effectively.

Mr. UDALL. Hence your comment that this is about a business transformation not just a financial transformation.

Mr. KUTZ. Absolutely. Yes.

Mr. UDALL. Mr. Cobb.

Mr. COBB. I agree entirely with Mr. Kutz and his testimony.

You know, fundamentally, we, as overseers, you, as overseers, the program managers want to be able to tell what happens to the dollar of taxpayers' money that they spent, and the system fundamentally doesn't tell them what happened to that. So from a program management standpoint, how much you have spent, how much you owe vendors, if you ask for "I would like a list of all of the accounts, vendor accounts where I have accounts payable," my understanding is that the system cannot generate that information easily for you.

The—and I must say in connection with my overall duties as Inspector General to root out fraud, waste, and abuse, when your internal control frameworks don't work, it provides an environment where the fraudsters might be able to take advantage of the system.

Mr. LI. Mr. Udall, I would like to address this, if I could.

I have had the honor and privilege of doing work for the Subcommittee, former Chairman Rohrabacher, and over the years, we have reported about many, many challenges, many programs. And many of—the common thread amongst them was that program managers did not have a good handle not only on what state the program was in, but be able to compare how much value of the work that we have expended versus what we had planned. And that is the—that resulted in such situations as a surprise a few years ago when the Space Station incurred a $4.5 billion possibility of a cost increase, cost growth.

And what the IG is saying is absolutely correct, and Mr. Kutz, also. You have to have that information, have that early warning system to prevent those situations from happening. You can't wait to have that happen and then to have to react. You need to know before that happens.

Mr. CIGANER. In—Mr. Udall, if I could——

Mr. UDALL. Sure.

Mr. CIGANER.—just comment on——

Mr. UDALL. Please.

Mr. CIGANER.—NASA's approach, there is—there are two components to solving this issue, and as I stated in my written statement, the goal of this effort is to improve the way the Agency manages. But we are in full agreement with both the GAO and the IG on that.

Unfortunately, this is a long-term effort. Our plan for IEMP is eight years. We are now starting year five of that eight-year period. And we have to basically stay the course and understand that, you know, the fundamental IT premise of garbage-in, garbage-out is still very prevalent in the sense that unless the fundamental integrity of the data is solved, the information that then gets provided to decision-makers outside of the financial community might be flawed. So we have been concentrating over the past three years in really cleaning up our historical records along with implementing those just fundamental budget execution processes that allows the integrity of that data.

As I stated, we are now in the process of rolling out module Project Management Improvement initiative. I think that the title of that module answers part of the question. That is specifically aimed at helping a crosswalk or a correlation between what exists in our books and what project and program managers need to make decisions. Unfortunately, contractually, in some cases, the way information is presented to us from a billing standpoint when we receive a bill from a contractor might not be exactly what project and program managers need for cost estimation. The information might not be broken down the way it would be useful to do so. And what PMII is attempting to do is crosswalk and correlate that information.

Chairman CALVERT. Mr. Rohrabacher.

Mr. ROHRABACHER. Thank you very much, Mr. Chairman.

WASTE FRAUD AND ABUSE

First of all, let me express that I have faith in the Chairman of this Subcommittee, Mr. Calvert, who I think has the business background to fully comprehend the depth of the challenge that we are facing in bringing this situation. Mr. Calvert managed his own businesses, and I know that he wouldn't have managed them long because his businesses would have been out of business had the same financial systems been in place in his operation, so I am looking forward to working with you, Chairman Calvert, as well as the other Members of this committee and Subcommittee to try to make a dent in the problem. And I think if—that should be our number one goal in this subcommittee with your leadership.

The—let me just say that the testimony we have heard has been depressing, totally depressing. I mean, we—NASA has an image of overcoming the challenges that are preventing humankind from going into space, and it seems that NASA has been unable to overcome the challenges of good financial record keeping. That is depressing. In an age of computers and technology, I was expecting to hear about—more about accountability and success of accountability in an age of computers than we had 10 or 20 years ago.

Mr. Li has been a tremendous source of guidance and enlightenment over the years, and I appreciate his contributions to this testimony today.

Poor financial management is what we are talking about, not just recent financial management, but over a long period of time. This can't help but lead to waste, at the very least. Has it also led to fraud? Whoever wants to answer that.

Ms. SYKES. I will start, sir.

With the implementation of the new financial system, that is one of the new architectures that we have been working towards, we have noticed that, within our system, that we have been able to process and be able to track transactions throughout. Having ten desperate systems would probably leave yourself much wider, much open to the possibility of fraud. Recognizing now that we have it in one central consolidated area helps us to be able to be accountable, as you mentioned, sir, and also being able to track and making sure that we are keeping up with those. And also, as we have moved through, I have noticed—I read the—our friend, the IG's, quarterly reports that now that we have a centralized system and a process by which we are reconciling, we are finding that if there were some opportunities for fraud, waste, and abuse, those are actually coming to the forefront. Actually, within his last quarterly statement, there have been two that he has identified that have been actually reviewed, the data was provided, and there was some type of——

Mr. ROHRABACHER. Action taken.

Ms. SYKES.—action taken. So that is a definite enhancement, and that is something that comforts me and makes me be able to sleep at night.

Mr. ROHRABACHER. Well, have we found that this has led to fraud, Mr. Cobb? Is that——

Mr. COBB. It is difficult to draw a direct link between the systemic weaknesses and internal control problems and the frauds. But let me give you a couple of instances. One, we had a case that was prosecuted this semi-annual period where an employee at Goddard, in effect, stole $194,000 of taxpayers' funds. And unfortunately, the fraud was not identified by any NASA employee. It was brought to our attention by another law enforcement organization that was investigating a separate crime. And when they were executing, along with our staff, the warrants in connection with that, they found the evidence of this fraud.

Mr. ROHRABACHER. But would that—under the changes that we have just heard about, would that have been taken care of? Would that have been exposed, or would this—is it still—are we still vulnerable to that type of fraud?

Mr. COBB. Well, I think, if you—in terms of, for example, the testimony of GAO in terms of the high-risk list for contract management, that those vulnerabilities still exist. And I don't believe that we are anywhere near creating an internal control framework that addresses that problem. And it—and I must say that in our Office of Investigations, we are having, unfortunately, a great deal of success in terms of finding frauds of employees, for one, but more often of contractors in connection with kick-backs, setting up fraudulent companies and diverting taxpayer funds to them, misscharging, stealing grant funds, theft of government property, and all of these things are coming up. And it is—again, it is very difficult to draw the direct link between those frauds and the inter-

nal control weaknesses, but I presume that where you have an environment where internal control weaknesses are poor, inevitably, you are going to have fraud.

Mr. ROHRABACHER. It encourages people, or at least it gives people—it puts a—let us put it this way. What you are describing is putting a temptation in front of people to make more money than they are supposed to make and, thus, they have gamed the system.

IMPLEMENTATION OF GAO RECOMMENDATIONS

The GAO issued a report two years ago asking for—well, they made 45 recommendations as to how to fix NASA's financial management system. This was two years ago. And it is like, of those 45 recommendations that were suggested two years ago, how many of those recommendations has NASA implemented so far?

Ms. SYKES. Sir, those recommendations were related to our systems, and our——

Mr. ROHRABACHER. Yes.

Ms. SYKES.—financial management, or what we call our Integrated Enterprise Management Program to date, I am going to defer to Mr. Ciganer, who is our program Executive Officer for IEMP.

Mr. CIGANER. Sir, out of the 45 recommendations, GAO ascertains that three have been closed, 13 have been partially addressed——

Mr. ROHRABACHER. Say this again now.

Mr. CIGANER. Three have been closed, 13 have been partially addressed, and 29 are still open. NASA——

Mr. ROHRABACHER. Three have been closed?

Mr. CIGANER. Yes.

Mr. ROHRABACHER. So you accomplished three of the recommendations?

Mr. CIGANER. NASA respectfully disagreed with GAO and surmises that 35 have been closed in our response. Now there is definitely room for differences here. A lot of those recommendations address system issues, which, in many cases, are not going to be fully addressed until the entire range of our implementation has been completed. That is in fiscal year 2008. We have been very up front early on with the fact that this is a progressive series of steps that are being taken. Some of GAO's recommendations—by the way, we endorsed and fully addressed each one of those recommendations. It is taking time. Some of those recommendations are long-term and will hopefully get us off the high-risk list for contract management, but until the forthcoming applications that we are currently developing are implemented, they will stay open.

Mr. ROHRABACHER. Would——

Chairman CALVERT. The gentleman's time——

Mr. ROHRABACHER. Would the Chairman indulge me one more follow-up question on this answer?

Chairman CALVERT. Very quickly.

Mr. ROHRABACHER. Just—Mr. Kutz, is the GAO satisfied that NASA is moving forward with trying to implement these recommendations that were made two years ago?

Mr. KUTZ. As we said in our written statement, there has been some progress, particularly in the area of requirements manage-

ment and life cycle cost development. In the other areas, we haven't seen as much progress, for example, in the area of external financial reporting. And I would say, with respect to the 29 recommendations that we say are open, that does not mean necessarily that they have done nothing. It means in some cases that they are in the early formulative stages of putting a plan together, and so I would clarify that to some extent. But we do have, probably, a disagreement as to how far they—how much progress they have actually made. We would say progress has been slow, although moving forward in some areas.

Mr. ROHRABACHER. Thank you very much, Mr. Chairman.

Chairman CALVERT. I thank the gentleman.

Mr. Green, you are recognized.

Mr. GREEN. I thank you, Mr. Chairman, and I thank the Ranking Member as well. Thank you for your dedication to NASA, as evidenced by our visit with you this weekend, Mr. Chairman.

Thank you again.

TIMETABLE FOR IMPLEMENTING GAO RECOMMENDATIONS

Friends, I think that the Member before me has borrowed my question, but I will restate it. Sometimes it is not where you are that is of paramount importance. Sometimes it is the direction that you are moving in.

And I would query with Mr. Li first. Are we moving in the right direction, sir?

Mr. LI. Yes, we are. As we have said in our statement, I think this is an issue that is long-standing. NASA has had these problems for many, many years. The quantitative comparison of how many recommendations were closed and what is partially open and what has been—still remains to be done is one in which Mr. Kutz has provided the right perspective. It is an issue that how far and what does the Agency have to show to you before you can be certain that they are in the right direction. As Mr. Kutz said, some of those recommendations that we have provided, NASA has only started the initial planning stages, and we were not willing to give them a characterization of partially implemented.

Mr. GREEN. Mr. Kutz, sir, at the present rate of success, do you have a prognostication as to how long it will take us to reach, say, 90 percent of our goal?

Mr. KUTZ. I would say that we haven't seen enough, and I would concur with Mr. Cobb's earlier statements on the plans. Some of the plans do not have enough detail for us to see that they understand the problem in some cases and have plans in place to address the issues. So I think that until we see more firm plans that recognize fully the depth of the issues and the magnitude of the problems, there is no way to predict if they will be a success or when they will be a success. I think that there will be marginal success, and there has been marginal improvement at this point. But what we are all hoping for is that this will in fact transform NASA, and that is a very significant challenge. And many, many government agencies have attempted to do this and fallen far short, and what happens—and what we don't want to happen here is a billion-dollar system that does marginal accounting and doesn't transform

NASA's business operations, and that is a risk you face with this system.

Mr. GREEN. And my final question will be to Ms. Sykes.

Ms. Sykes, what is your prediction in terms of our success with reference to a timeline?

Ms. SYKES. I look at success in increments. Last year, when I came before a different subcommittee before Congress, the issue at that point in time was you just implemented a new financial management system. Will you be able to continue to operate on that new system or should you pull the plug? Two years later, I have been able to finalize and prepare financial statements. That is a significant progress since that time frame in 2003. We are operating. We are paying our vendors. We are paying our contractors. We are providing information to our program and project managers. It is an incremental step, incremental progress that we are making. We have a plan. We have been executing that plan, and we have been discussing with all of the folks here at the table, GAO, IG, as well as my counterparts in the other CFO agencies as to what is the best way not only to make transformation in financial management, but also the overall business portfolio management that we will need in order to do our new vision on exploration.

So we are making progress.

What is my prognosis? Where I am today will not be where I will be tomorrow. And I could assure you that at any point in time, we are making sure, here at NASA, that we are accountable and credible for the resources that we have that you are entrusting to us.

Mr. GREEN. Thank you, Mr. Chairman.

I yield back.

Chairman CALVERT. Thank you, Mr. Green.

And I am going to recognize Ms. Jackson Lee. And I apologize to both of you. I wasn't able to bring any luck to your Astros.

So with that, I recognize Ms. Jackson Lee.

Ms. JACKSON LEE. Mr. Chairman, we will take any apologies and any excuse that we can possibly secure this morning, even the Inspector General's review, but I think the Congressman and myself, we still believe.

Let me thank both of the Chairmen and Ranking Members of the Government Reform and the Space Subcommittee for this very vital hearing.

Let me ask, Chairmen and Ranking Members, I would like for unanimous consent to submit my statement into the record.

Chairman CALVERT. Without objection.

Ms. JACKSON LEE. Needless to say that those of us who come from areas where there are various centers, like the Johnson Space Center, are strong advocates for both the mission and the message and the purpose of NASA. But also, in the backdrop of the horrific incidents of Hurricane Katrina and the President oversight now given to FEMA in assessing how taxpayers' dollars are being utilized, NASA cannot expect not to come under the same kind of finite and definitive scrutiny. But at the same time, I think it is important to make note of the structure that was not of NASA's making, policy decisions that, frankly, I have vigorously, in many instances, disagreed with, and that is the over-percentaging, if you

will, of contracting out NASA's work. That means that added to their general operations is the idea of keeping up with a myriad of overlapping, complex streams of contracts. Of course, the industry has been a very viable partner with NASA. And as was indicated by my colleague, we were able to see, along with Mr. Calvert, this weekend some very viable and productive coalitions, collaborations, and partnerships. But let us make it very clear, NASA is an agency unlike the Department of Justice, unlike Health and Human Services, unlike, if you will, maybe the Department of Energy in that the larger percentage of its employees are contract employees, the large percentage of its work is contractual work.

So I am not sure where we are going with that, but I would commend to my members that I don't know if you are ever going to get your hands around this. I hope we can. But I hope before we throw the baby out with the bath water, we will take some of the blame, because we have mandated to NASA to cut its employment base. That is an easy way to account. You give someone a salary, they have pension benefits, they have Social Security take-outs, and they work. But it is very difficult when you have these massive contracts.

Now let me ask both Ms. Sykes and Mr. Ciganer, if I can, and let me thank you all for your service. And let me also suggest that our questions are not personal, but we are here to try to fix the problem.

The first question that I ask, and let me just share these thoughts with you.

The first question I want to know is how—I heard you yield to him, but I want to know what is the interrelatedness of your work together? And to the interrelatedness of your work together, how do you collaborate and cooperate and know the streams of revenue and oversight?

Mr. Li, are we in the middle of proposals to be received for the CEV? Are you dealing with that issue on the outsourcing? Are you dealing with that on the outsourcing area? Is that your area? If that is your area, I would appreciate you telling me what present outsourcing issues that you are dealing with with respect to NASA at this point. I am going to a series of questions.

And then to the Inspector General.

What is the time frame that you would expect to begin to see some of the responses and the corrections that you, at least, have indicated to come from NASA? What kind of time frame are you looking—having looked at what you have just addressed to us, as I have been listening? What kind of time frame should we be expecting, as Members of Congress? How complex is it so that we can be realistic in the steps that we would probably be putting in place?

RELATIONSHIP BETWEEN CFO AND THE IEMP EXECUTIVE

Ms. Sykes and Mr. Ciganer, if you can tell me what your collaborative work is. How do you all work together?

Ms. SYKES. Mr. Ciganer and I are pretty much joined at the hip, as you can see. Outside of our offices possibly being on separate floors, we work and collaborate continually. Both our staffs work in continual operations as we move forward.

One of the key elements that we have found in working in partnership together and moving forward is Mr. Ciganer is in charge—is the Program Executive Officer for the Integrated Enterprise Management Program. That is the overarching of which Core Financial is one of the keys, but one of the modules that we are implementing as we move forward. There are other modules, like travel management, contract management, human resources. Those are other systemic or system type modules that we are implementing. So as he implements and moves forward in those and any financial data that is required, we partner, we team, we ensure that we are moving in mock step. That is why we have a plan, and that is what we have been operating towards.

Patrick?

Mr. CIGANER. Yes. To further define the working relationship, I am part of the Office of the Administrator, and I report directly to that office. The logic behind that is to make sure that our task, the task of my program as tool builders, goes beyond just financial processes transformation——

Ms. JACKSON LEE. But does it make your job tougher the way that the—NASA is constructed that you are doing—most of your work is done through contracts? Yes or no?

Mr. CIGANER. It is more complex.

Ms. JACKSON LEE. Okay. So it makes the work between the two of you more complex?

Mr. CIGANER. Between the two of us, it doesn't. It is the work itself, tracking contractor-held property, tracking very large and complex contracts using off-the-shelf software environments that were not initially designed for that has made it difficult. Now the reason NASA decided to put my program as part of the leadership is to give us the horsepower to get not only the financial community but the programmatic community to understand this is not only an OCFO issue, it is an agency-wide business transformation effort.

Ms. JACKSON LEE. Mr. Cobb, can you quickly——

Mr. COBB. You asked about timeline and when you would expect us to be able to see the——

Ms. JACKSON LEE. And also whether their structure makes it difficult.

Mr. COBB. I think—in terms of their structure, I think that——

Ms. JACKSON LEE. The contractual structure.

Mr. COBB. On the contracts issue, I—my only point would be I think that the Administrator has articulated that there is a lot of activities that previously have been contracted out that should be conducted by NASA employees, particularly as it regards to systems engineering activities and that that is something—that is a capability that is important for succession planning and for carrying out the President's space exploration vision. So that is my view on that.

With respect to timeline, again, I go back to what Mr. Kutz said and what we have said in our testimony. Until we see a plan that we think will work, it—we can't give you a timeline. And I must say that, you know, this is not just a Chief Financial Officer's problem. This is a NASA problem. You have got—whether you are talking about financial management or procurement, you have got in-

stitutional functions within the Agency that are on one side. And then over on the other side, you have got program management. And until the program management is completely locked into and integrated with the institutional management of the Agency, this problem is not going to be solved, so it goes well beyond the Chief Financial Officer.

Chairman CALVERT. The gentlelady's time has expired.

Thank you.

NASA'S PROBLEMS IN CONTRAST TO OTHER AGENCIES

I am going to recognize myself for a question.

I would disagree with the gentlelady in that I think every—NASA is different, but I would say that every government organization, every vision, every part of government has to be responsible to the taxpayer, and we need to know where our money is being spent, whether it is directly on contract employees or in any place.

And so I would ask Mr. Kutz and Mr. Li just to give us kind of a relative feel for this. How severe are NASA's problems, if you compare it to other agencies?

Mr. KUTZ. With respect to systems, I believe there is—seven out of 23 federal agencies have compliant systems, so NASA would be one of the ones that does not have compliant systems. With respect to internal control issues, there are only four agencies in the Federal Government that have no material weaknesses. Some have as many as double digits. NASA has three to five, I believe.

And with respect to implementing systems, such as the SAP software package, we have looked at that at other agencies, particularly at the Department of Defense, and they have faced many of the same challenges that NASA has in implementing systems. So I think that some of the struggles that NASA has had are not uncommon in federal agencies.

Mr. LI. I agree with Mr. Kutz.

I—and the other perspective, Mr. Chairman, that I would like to provide is that up until now, NASA has been building spacecraft probably on a onesie and twosie basis. In the next few years, we will building in the constellation system, building the CEVs in greater numbers and the lunar modules in greater numbers. And from that perspective, we are probably moving more towards a production environment rather than the types of uniqueness that we had in the past.

Chairman CALVERT. I guess I—a more definitive answer. I—you are saying that there are a number of agencies that are in the same situation as NASA?

Mr. KUTZ. Yes, and again——

Chairman CALVERT. How many would that be?

Mr. KUTZ. In exactly the same position as NASA?

Chairman CALVERT. Approximately. Just approximately.

Mr. KUTZ. A handful, I would say. Five to ten, possibly, in the same type of a situation.

Chairman CALVERT. And how many agencies—for instance, that you supervise and you take a look at in your responsibility, how many agencies of government do you take a look at?

Mr. KUTZ. Over time, I have looked at all of them from a financial perspective.

Chairman CALVERT. And how many, approximately, is that?

Mr. KUTZ. That would be 23 now, with FEMA being part of DHS. So I have looked at them all. The one that I think is most common with NASA, that I have seen from an accounting standpoint with some of the challenges, is, in fact, the Department of Defense, particularly if you look at areas like property, plan, and equipment. They have the very same contractors. They have property in possession of contractors. They have many of the same types of contracts written. So I would say the Department of Defense has a lot of common characteristics, the difference being the Defense Department is enormous compared to NASA, and so the challenges at DoD, I don't see any solutions to those in the short-term.

This problem with NASA is much more fixable. And if you look at the idea that they are trying to accomplish here with the integrated financial systems and business process reengineering, NASA is of such a size and scope that it should be something that could be accomplished within a five-plus year period.

Chairman CALVERT. Well, do you think the lessons learned going through this process could be transferred to the Department of Defense?

Mr. KUTZ. Yeah——

Chairman CALVERT. I am also on that Committee, so I—both of us.

Mr. KUTZ. Yes, I do think that. And I think, again, that some of the same root cause problems are there and some of the same challenges. It is just that the Department of Defense is such a large organization with moving parts across the world, mobilized soldiers for the global war on terrorism, that even there you have payroll problems. And I have testified on those issues multiple times, that they have trouble even paying mobilized Army National Guard and Reserve soldiers. So those problems—and Chairman Platts has had hearings along those lines. So I think that their problems are broader and more challenging.

Chairman CALVERT. Mr. Honda.

Mr. HONDA. Thank you, Mr. Chairman.

FULL COST ACCOUNTING TO MISSION-ORIENTED ACCOUNTING

This has been an interesting conversation, and I am sorry I came a little late, but my sense is that, from what I heard, that some of these problems have come to our attention because of the change in Administrators. Is that a true statement? Yes or no? Mr. Cobb? No?

Mr. COBB. Well, I think, before the Government Reform Committee, we had—Subcommittee, we had the hearing on May 19, 2004, and I can tell you, for the last 3½ years that I have been in my position, this has been an issue at the forefront, primarily because when I walked in the door as Inspector General, NASA was facing a disclaimer that had been issued by its prior independent auditor.

Mr. HONDA. So——

Mr. LI. Mr. Honda, we have identified contract management as a high-risk item since 1990.

Mr. HONDA. Okay.

Mr. LI. That is how far it goes back.

Mr. HONDA. Okay. So from what I understand that has been happening in NASA in terms of the administration of it, is that we went towards full-cost accounting and trying to run NASA as if it were a regular business, if you will, where, you know, you talk about FTEs outside of the issue of the mission of NASA. Now the Administrator has indicated that he is looking at realigning the finances of NASA based upon its mission and try to keep it as close to that as possible. Has that caused more of a problem in terms of managing—or well, the financial management of it because we are moving towards a mission-oriented financing?

Mr. CIGANER. If I can answer, first of all, in full-cost accounting, our basic premise at NASA is you cannot manage what you don't know. Accounting only for contracts and external procurement and basically looking at all internal resources that are essentially free is, right now, in exact opposite of what we are trying to do, which is be more sophisticated in the trade-offs. in moving forward, there are major——

Mr. HONDA. Okay.

Mr. CIGANER.—and problematic issues.

DIFFERENCE BETWEEN FINANCIAL AND PROGRAM MANAGEMENT

Mr. HONDA. Okay. So what I hear is that contracting now makes it more difficult to manage, and what I heard a comment also was that the Administrator indicated that bringing more of these work into NASA to be done by NASA, in terms of their mission, makes more sense for the Administrator, and it would simplify financial management, it seems by the comments. What—is that a true statement? Mr. Cobb, would you mind answering that question?

Mr. COBB. I would say that the Administrator's view on how to run the Agency from a mission standpoint and what employees he needs to execute the mission is unrelated to the financial management issues. It really has to do with mission management and how to best carry out the program from that standpoint.

Mr. HONDA. It has to do with mission management?

Mr. COBB. Yes, managing to the mission of the Agency in terms of executing the programs. He thinks that for certain types of items that developing a robust systems engineering capability within the Agency is critical for the Agency to carry out the mission over a long period of time.

Mr. HONDA. Does that mean that he wants to see more stuff done in-house?

Mr. COBB. Wants, basically, thinks like the architecture and making sure that the contractors are carrying out their roles is performed by government employees rather than contractors.

Mr. HONDA. And does that make financial management easier?

Mr. COBB. I think it is unrelated to financial management and really doesn't make it any easier or tougher, in my view, but that is a——

Mr. HONDA. The issue of contracting, then, if it is within the mission and it is in line with the mission and the expenditures are in line with the mission, in spite of whether it is in-house or con-

tracting, then it is irrelevant in terms of what we are talking about then?

Mr. CIGANER. If I may add, I am in full agreement with the IG.

Basically, what we are trying to accomplish is maintain a set of core competencies in-house. This will allow the Agency to have much better control over overall engineering and system development——

Mr. HONDA. Which is in line with the Administrator's idea.

Mr. CIGANER. Exactly, but he does know, from a financial management system, tracking, monitoring standpoint, it has very little bearing. As a matter of fact, those are independent issues, like Mr. Cobb mentioned.

Mr. HONDA. Okay.

To the Chair, if I may, the last question.

My understanding, as far as the mission of NASA, from this Administrator—from the previous, that the previous only looked at the financial issue in how to reduce costs, not independent of the mission for NASA, and the current Administrator has a complete, 180-degree approach—different approach to the running of NASA and its management, so I am not quite sure why those two techniques or styles—why they are not relevant to the problems that you are having, but I guess I need to understand how you see the problem in a—more intimately.

Ms. SYKES. We would be happy to get with you, Chairman, and actually have a conversation and delve into those two issues, because they are separate and distinct.

Mr. HONDA. I would appreciate that.

Ms. SYKES. But we would get on your staff and get with your staff and have that conversation with you at that point in time.

Mr. HONDA. But I can sit here with some confidence that the mission of NASA is intact and it is in line with—and they are having the kind of support they need financially to move forward on their mission?

Ms. SYKES. Correct, and be in a position to provide them with the information that they need to manage as they move forward. And again, we have been following our current Administrator as far as what he is trying to do in mission management with our financial system, but those decisions, as we move forward, are implemented within our financial system. But we need to have a separate conversation as to——

Mr. HONDA. Okay. And we will have that.

Ms. SYKES.—what he is trying to do and how we could——

Mr. HONDA. And Mr. Chairman, I lied about the last question.

Let me ask one more last question.

Chairman CALVERT. Shame on you.

Mr. HONDA. These are the current deficiencies of the financial management system we have currently, then, and it is unclear how NASA can credibly, you know, make that kind of a statement that, you know, they can continue.

Mr. Cobb, in your opinion, can NASA credibly do full-cost accounting, given the shortfalls of its current financial management system?

Mr. COBB. I think it is inevitable that getting the full benefit of full-cost accounting is a challenge for the Agency.

Mr. HONDA. Okay. It is a doable challenge?

Mr. COBB. It is a worthy challenge.

Mr. KUTZ. If I could add, too, it isn't necessarily a software challenge; it is more of a process challenge.

Mr. HONDA. Okay.

Mr. KUTZ. And we have looked at the area of travel, for example, and found that the information NASA reports up on travel is incomplete and inaccurate, and it isn't because the software doesn't work. It is because of what is being entered into the system and what buckets it is being put into.

Mr. HONDA. Is it timely?

Mr. KUTZ. It is timely, but it is wrong, and so——

Mr. HONDA. Okay.

Mr. KUTZ.—you know, it is inaccurate, but it isn't because of the software that was implemented. It is because of the processes and what—how the transactions are being coded in the first place.

Mr. HONDA. Okay. I think I am getting it. Thank you.

I look forward to our meeting.

Chairman CALVERT. I thank the gentleman.

Mr. Platts.

Mr. PLATTS. Thank you, Mr. Chairman.

CORE FINANCIAL MODULE

Maybe a follow-up there on the processes and what is entered goes to where I left off on internal controls and specifically some questions specifically on the Core Financial module. And in Mr. Cobb's written testimony in talking about internal controls, there is an example of the new Core Financial module allowing unauthorized procedures or actions by some parties, and for example, the example cited is that a single person could both authorize purchases as well as make the payment for those purposes, so you have a breakdown in the internal controls within this new system.

First, is—I guess, Mr. Ciganer, is that a proper assessment? And if so, what is your response to how you are making sure that this new system isn't moving forward, you know, that is not guarding against that kind of opportunity for error, both intentional, meaning fraudulent, or just unintentional?

Mr. CIGANER. At the time, the observation from the IG was correct. That observation was made when we had just rolled out the new system. And as a consequence, the people that were in charge of helping the testing of a lot of the functionality had multiple levels of insight into the system. What we are talking about here is segregation of duties where the internal control means certain people are allowed to do only certain things through the system, and there is a chain with an audit trail in which everybody's input is recorded.

At the time where this observation was made, we absolutely had folks that were part of the implementation team. They were not permanent people that would operate the system for a long time. They were a part of the set-up team, and yes, they had multiple duties, and they had multiple access, which could have potentially resulted in some issues from an internal control standpoint.

This is something that we are addressing. We have tightened the segregation of duties. As a matter of fact, we have now streamlined

some of the processes and taken people out of the loop, which means that although the number of transactions—there is a chart in your package, I believe, that shows the number of transactions and the number of users, and you will notice that for 2005, there is a slight decrease in the number of users although the number of steps and transactions were the same. That is because we have streamlined, actually, some of those activities.

So yes, it was an issue, but I believe that we have addressed it.

Mr. PLATTS. Mr. Cobb, have you done any follow-up on that assessment that it is an issue that was acknowledged and has been adequately addressed?

Mr. COBB. Yes, and I would say that this is an area of good news for the Agency where it developed a clear and a step-by-step corrective action plan that executed the plan. And many of the deficiencies that led to this being material weakness in the 2004 financial statement audit have been remedied so that it is very likely that when Ernest and Young issues its audit report that this will be removed as a material weakness.

Mr. PLATTS. Thank you.

Follow-up on the Core Financial module. There seems to be a disagreement on the ability of the CFM to generate financial statements without an extensive manual effort, you know, a heroic effort, you know, on top of the program. I think Mr. Cobb's opinion is that it still can't do that, and Ms. Sykes, in your statement earlier, your statement was to finalize and prepare financial statements that—today, versus a year ago, you now have that capability. So do you believe that you are at a point where you can do that in an automated way without that heroic effort?

Ms. SYKES. Yes. In 2003, when we did our conversion, we still had to actually push the financial transactional data out of the Core Finance system into what we would call an access or a repository and actually develop financial statements. And through—from that point in time, we have been consistently and methodically working through the process, working with Patrick Ciganer and his team, and we have developed a process by which we are able to develop financial statements directly out of the SAP Core Finance system. We do not push the data anywhere else. We actually use the data transactions within the system in order to prepare the financial statements. And when we delivered this past Friday our financial statements, we did not make any outside or topside adjustments. All of the transactions related to the financial statements for the audit trail are within the system, and those are what we used to produce our financial statements for this year-end.

Mr. PLATTS. Mr. Cobb, what is your assessment of that is it—is more the accuracy of what has been generated as opposed to the ability to generate?

Mr. COBB. Let me answer it this way. Under the system, as described by Ms. Sykes, before, wrong numbers would be generated, and numbers that NASA knew were wrong, and they had to make adjustments outside the system to make the numbers right, as best they could. And that is what the system was before. And it was that way, my understanding is, up through the third quarter of fiscal year 2005. But what I understand—and I am not altogether clear on this, but what I understand is that now they have basi-

cally constructed a system so that those adjustments that they previously made outside the system, they are now making those adjustments inside the system so that they get wrong numbers in the system, then they adjust them inside the system so that when they press a button, they get the numbers that they wanted, and so that—in effect, there isn't, in my view, necessarily a big difference.

Mr. PLATTS. Ms. Sykes, you obviously have a different——

Ms. SYKES. I obviously disagree.

Mr. PLATTS.—thought.

Ms. SYKES. The statements that we produced for this fiscal year, for this ending fiscal year, were produced in the system—out—in our system via the transactional data, and I am not sure that we want to actually make a comment until we actually receive from their—his independent auditors as far as their ability to go into the system to actually review the system and actually look at how we produced those financial statements. We are not making any adjustments within the system, only to correct transactions at the transactional level. Recognize this is SAP software. It is transactionally based. I have no ability to maneuver, finagle, or do anything else. If the transaction is incorrect, I have to fix the transaction in and of itself, and I have to have supporting documentation and detailed information in which to do that. And that is what our ten Center CFOs have done in preparing for this year's financial statements.

Mr. PLATTS. Okay. Mr. Cobb, just to follow-up there——

Mr. COBB. Yes. And I feel that Gwen's comment there is perfectly fair, and really appropriate, and I was speculating in terms of what was happening, and I do not have the factual basis completely in hand, and we will conduct verification activities and try to figure out exactly how they get from point A to point B.

Mr. PLATTS. And once we get that—the audit, that will also give us additional information?

Mr. COBB. I am hoping it will get to that exact point.

Mr. PLATTS. Okay. Thank you, Mr. Chairman.

Chairman CALVERT. I thank the gentleman.

Mr. Udall.

Mr. UDALL. Thank you, Mr. Chairman.

THE EFFECT OF NASA'S FINANCIAL MANAGEMENT SYSTEM ON CEV MANAGEMENT

If I might, I would like to direct questions to Mr. Cobb, Mr. Kutz. And then Ms. Sykes, if you want to add your two bits, please free to do so.

We all know we have this major exploration initiative underway. Estimates that—are that it will cost $100 billion between now and 2018. How confident are you that NASA will be able to effectively manage all of these projects, given the state of its financial management system? And will Congress be able to get the information it needs to meet these—our oversight responsibilities? And then if you have some lack of confidence, what would it—would have to happen for you to be confident?

Mr. COBB. Having just made an error maybe in terms of speculation, it is probably safer to say that, from my standpoint, we are going to be auditing these activities and—from the Office of Inspec-

tor General in terms of the expenditure of the taxpayers' dollars on the President's vision.

If history is any help, as a history major in college, I would say one might conclude that—might have a lack of confidence in the ability of NASA to deliver with—on the dime.

Mr. KUTZ. I would say that——

Mr. UDALL. Mr. Kutz?

Mr. KUTZ.—I am certainly hopeful but not confident at this point. And again, back to a prior comment I have made, I have been asked at numerous hearings across all agencies to make predictions about success, and I have learned that that is not a good thing, because a hearing five years down the road might—you might say, "Well, you said that five years ago. Things might get better."

But again, I think back to—there are certain areas where I think that they need to have more complete plans, and one area, for example, is property accounting. And I think just a fundamental point on that is that to get property accounting right, you have to record it correctly at the point of the transaction. When you purchase something or you make a payment to a contractor, if you don't record it properly then, you are in a catch-up exercise. And that is where they are today. And so there is a lot of work that will go into fixing something like that, such as readjusting the way contracts are written, the kind of information contractors report to NASA, the way that the system is configured to accept that information to roll that up. So until we see a concrete plan, for example, in that area, it is hard to predict that it will ever get fixed.

And again, some of the initiatives Mr. Ciganer and I have talked about, we see promise in those, and we really would like to see them carried forward.

IMPLEMENTING A NEW FINANCIAL MANAGEMENT SYSTEM

Mr. UDALL. Mr. Calvert and I are discussing the fact that there is something wrong with you two gentlemen, because everybody else in this town speculates, and the fact that you are unwilling to do so is actually a credit, and we do appreciate the work, in general, that IGs do and the GAO to do—to work diligently to try and bring us the factual information and lay it out for us and then let the facts speak for themselves. So thank you for the work you do that—in that regard.

Ms. Sykes, do you want to take your cut at my question?

Ms. SYKES. Well, I believe NASA excels at challenges, and that is something that we do best. And I recognize here, as your CFO, and as well as my ten Center CFOs that are here supporting me today, that we do have a challenge in financial management, but it is our intention, not only as a core group, but overall as an agency, to make sure that we are providing you with credible, timely, and accurate information. And that is—has been our goal since the inception. That has been our goal since we have implemented the new Core Finance system, implemented full cost, and as we move forward in the Enterprise Management Program, implementing the Contract Management module to get back to this—what Mr. Kutz is talking about, being able to receive information from our contractors to be able to blend and meld that with our transactional data-

base information that we have on our current financial management, and moving forward.

I am definitely hopeful. I am not going to speculate, but I will say I am definitely hopeful, because again, what kept me up at night in 2003, trying to prepare financial statements. What keeps me up at night in 2005? Being able to see this come to fruition and being able to be a real, true business enterprise, moving forward, and supporting the space exploration vision.

Mr. UDALL. Well, it is clear that you bring a professional background and a deep commitment to this effort. I want to thank you for what you are doing, and I know that the next time that you have—appear before us, you will be able to answer in the affirmative when Mr. Calvert asks you about Sarbanes-Oxley. That would be the goal, I believe.

Ms. SYKES. I am only thankful I am a federal CFO and not a private CFO, but I believe myself and my agency CFOs, we have already started that practice and process of signing accountability statements. That was not something that this agency did when we—when I first came on board. So now, when I turn over my financial statements and produce my performance and accountability report, not only do I sign and the Administrator signs, but also the ten individuals behind me. And probably future, and maybe if the Committee would like to help, we could get the mission directors to also sign up, because that is part of what Sarbanes-Oxley is all about: making sure that everybody in the organization who has a financial impact or financial process within their purview has to sign up for the internal controls to make sure that they are managing our funds properly.

Mr. UDALL. And anybody who pays a little bit of attention understands that government accounting is different from the for-profit world, although there are many overlaps, and I think it is incumbent on us to do everything we can to equal what the private sector does. What is good for the goose is good for the gander.

So thank you, again, panel——

Mr. LI. Mr. Udall, I am not going to speculate, but you asked a question with regards to what can be done, and I would like to kind of answer that question, if I could.

I think that one of the issues that we have been talking to here, both in our report and some of the issues, is that the level of specificity of the data being provided by the contractors is not sufficient for NASA to do the sort of program management and careful monitoring of the contracts. What I would suggest, respectfully suggest, is that perhaps contracts, like the CEV, that are coming up could be pilots in which, while the system is not totally implemented, that could be the pilot by which we would cause whoever the winner of the—of that contract is coming on board, to provide the sort of data that we would need.

That is what I suggest.

Chairman CALVERT. That would be good. We don't want to have to go through what we went through, I hate to say, on the F&A–22 where we keep picking up that price on the—on a—we don't want that to happen to the CEV. We just don't have the money to do that.

Mr. Rohrabacher.

CONTRACTOR OVERSIGHT

Mr. ROHRABACHER. Yes. Thank you very much.

And let me note that I just had a meeting, and—that I will return to in the outer office there, with Commander Eileen Collins, who was our great astronaut and Commander of the Shuttle, of course, that we are so proud of. And that—being proud of the people who are doing the job at NASA, whether it is on the ground or whether they are the ones who are actually flying the missions, this is not in question today. We are proud of these people, and we are grateful for the good job that those people do. The question is what is the most efficient way of doing the job and once NASA is doing that part of the job, how to effectively account for the money so that—and the spending of that money so that the mission is accomplished and our people are able to come home safely when it is a manned mission.

Let me just note, I reject the idea that there has been too much outsourcing. As far as I am concerned, there hasn't been enough outsourcing. When given a choice as to who to hire to complete the job on some of these engineering projects, I do not believe that it is better to hire our—or it is better to let Sergeant Bilco do the job rather than hiring Mr. Goodwrench. I mean, that is what it comes down to.

Public employees have limitations; private sector people have limitations. And there are strengths and weaknesses both in having a government employee do the job, and there is a weakness, as well, in having government employees do the jobs, because there are a certain lack of incentives at that level. In short, Burt Rutan, I would certainly—if I—we are going to set out a mission, we can let Burt Rutan do the mission and offer a price to do that and get the private sector involved. That is a lot better—to me, it seems a lot more effective use of government money, limited government money, than to simply have the NASA bureaucracy do the job, because it seems to me that we have a history that indicates that bureaucracy does not necessarily accomplish the missions in a most cost-effective way.

Now in terms of financial accounting, it may make things a little bit more difficult, however, in an age of computerization, I don't believe that that type of complication is an excuse for not having proper accounting. I mean, maybe in the past where you really didn't have this instantaneous communication, but today, that doesn't make sense. It is not an excuse, and we can oversee contractors in the same way that we oversee government employees. That is possible. That is, at least, my perspective.

And I want to throw that out to the GAO people or anyone else who would like to comment on that. Is it not possible for us to oversee contractors in an efficient way?

Mr. KUTZ. I will go first and let Mr. Li comment.

But yeah, I think that the—it is not a reason or an excuse that we can't be successful in implementing an integrated financial management and business system or transforming the way that business is done. So from that perspective, there is the technology. And certainly this SAP software package that they are using here

should be capable of addressing whether they are in a contract-out environment or a government employee environment.

Mr. ROHRABACHER. Okay. Well, I would hope so.

And let me note——

Mr. CIGANER. If I may, I——

Mr. ROHRABACHER. Sure.

Mr. CIGANER.—am in full agreement with Mr. Kutz.

Mr. ROHRABACHER. Okay.

Mr. CIGANER. Our objective since day one, since the implementation of our plan, has been to take into account those complex contracts, and there has been no effort to simplify processes. I mean, we are basically delivering, you are right, tools that are meeting those requirements. We are not going to make the requirements fit the tools. We are building what needs to be built.

RESTRUCTURING NASA FOR THE BENEFIT OF FINANCIAL ACCOUNTABILITY

Mr. ROHRABACHER. Okay. One of the things that I am—well, first of all, let me state this for the record. The reason why we want to have a good financial accounting system is so we will not have to make emergency appropriations. Emergency appropriations because something is now cost $4 billion more than we thought it would is not the way to have a well-run program and the most cost-effective way to have a space program, because you are bound to, in emergency appropriations, not do the most effective thing if you have long-run planning. So this financial examination today is aimed at trying to do a long—utilize the taxpayers' money so that Commander Collins and others will come home safely and accomplish their mission.

But one last thought, and Mr. Chairman, I think that—and I would like a comment from the panel, and that is this isn't just about the way the money is handled and the financial system that we have of accounting for the money. This problem may be to the point that we have set up a structure in NASA with the various Centers that are somewhat independent that make that job—that—rather than outsourcing, it may be the structure of NASA itself that makes this financial accounting much more difficult. And maybe we should try to—I know it is hard to think about revolutionary change in structure of an organization like NASA, but perhaps that is what will be required to have the level of accounting that we need to feel comfortable with with all of these billions of dollars being spent.

And I would ask anyone in the panel to comment on that, if they would like.

Mr. COBB. I would like to comment on why we need to know what we have spent is important in terms of not only the appropriations process, but it is also, you know, critical so that you know what you have spent, as you have spent it, so that as you face budget issues, for example, you can set your priorities and make intelligent decisions as you are going along.

On the point about the Centers, there is no question that whether you are talking about financial management, you are talking about information technology, if you are talking about procurement. These institutional functions are made much more com-

plicated when you have a management structure that is decentralized.

Mr. KUTZ. I would comment, also, on your first point with respect to the transparency of information that you get in overseeing NASA's programs. I mean, one of the goals here is, in fact, so that it won't necessarily—having the information won't necessarily prevent cost overruns and things like that, but hopefully you will know sooner that there is an issue so it can be dealt with rather than getting a $4 or $5 billion surprise. So I think that is one of the goals here.

On the structure, I would agree with Mr. Cobb that that has been historically a challenge to break down the cultural barriers of the different Centers, very similar to DHS and the Department of Defense with the different pieces that they have got trying to operate at one platform with consistent policies and procedures. And again, what Ms. Sykes said earlier, I think they are trying to head in the right direction in that area.

Chairman CALVERT. I thank the gentleman.

Mr. ROHRABACHER. How about Ms. Sykes?

Chairman CALVERT. Ms. Sykes, go ahead.

Ms. SYKES. Oh, not a problem.

Yeah, and we are addressing that, sir, in our area, as you—as I noted in my opening testimony and in my testimony. When I first came to NASA, all ten Center CFOs reported directly to the Center directors, not to the Agency CFO. Now, today, they all report directly to me. And that is just one of the areas. But as Mr. Cobb and Mr. Li have pointed out, we still have CIO functions, we have procurement functions, but they don't necessarily report to the Agency head at this point in time. I am the only proponent right now that has that structure.

Chairman CALVERT. Thank you.

Ms. Sheila Jackson Lee.

Ms. JACKSON LEE. Thank you very much, Mr. Chairman.

I would not want to suggest in the Committee that has worked in such a bipartisan way that our philosophical differences does not ultimately result in us finding some solutions.

DEVELOPING A CORRECTIVE ACTION PLAN

Ms. Sykes, you have made some excellent points, and I am delighted that your CFO officers from the different Centers are here. I think you have made an important step in the central reporting process. And frankly, I am going to recommend that the CIO in the procurement process be handled accordingly.

I would appreciate it if you would provide for me, and you can do that in coordination with your procurement, the list of independent, outside contracts that you are presently monitoring, that are presently under your financial umbrella. In addition, include the breakdown between large and minority and small business so that either that multiplies your responsibility or it does not. You can, you know, provide that accordingly. *[See Appendix 2: Additional Material for the Record.]*

The other question, and let me ask my questions, and I think that works very well, and make sure that individuals are allowed to answer them, I still believe that the complexity of the process

of NASA with large and small and medium-sized contracts in a large number, does provide a different process and complexity. Would you, if I missed it, give me the sense of when you believe the plan that is being asked for by the Inspector General where you are at a comfort level, a new plan can either be activated and what stage it is at? You may have answered that, but I want to do that.

And let me do this so that I can likewise get the questions in that I ask.

Mr. Li, you did not answer the question, because my time had run out. So I want you to again—I want to raise the question about outsourcing procurement and what you sense is the structure at NASA and how it can be improved.

Mr. Kutz, if you can again go back to your commentary about, well, it is no big deal. NASA is along with the others who are not complying and don't—and have complex situations. You need to go back to that and give me the list of entities, agencies that have that. Maybe you want to use the DoD as the largest offender, but then what is the solution? Is the solution just to accept that or not?

Ms. Sykes, would you go forward with the plans and the time frame that you think that we can see a plan?

Ms. SYKES. Sure. Thank you, ma'am.

Just to make sure that we comply with your additional request on information regarding contractors, we will be getting with you and your staff to ensure that we give you a complete listing and——

Ms. JACKSON LEE. Thank you.

Ms. SYKES.—make sure that we have that information.

As far as the plan, one of the benefits of my job is I get to meet with my Inspector General on a daily—on a weekly basis. As a matter of fact, we meet every Monday. So that was one of the key topics regarding the plan. Again, we, at NASA, have developed several different plans. Myself and Patrick work continually as we keep revising and implementing as we move forward, due to changes, due to architectural changes.

What we are going to look for right now, and hopefully in order to solve both the Committee's requests and also your requests and the IG and GAO's requests, is we are going to take a more traditional approach and develop what we call a corrective action plan. And we will be working with the IG to architect what are the components of that traditional approach. And we have both agreed, on this past Monday, that we would provide that within 90 days after our November 15 audit report.

Ms. JACKSON LEE. All right. So 90 days. Very good.

OUTSOURCING

I would like to recommend that we look at the question of the CIO and the procurement reporting to central headquarters. I think that provides a consistency, and it also provides the corrective oversight that I think needs to occur here in the United States Congress. So I would just recommend that.

I will let you comment, but let me go ahead to over here to Mr. Kutz and Mr. Li on this procurement issue and outsourcing as it relates to NASA.

Mr. LI. I—on the issue of—the questions you had with regards to the CEV, I don't have an active engagement right now. NASA is in the midst of its solicitation for that particular vehicle.

Let me note that the CEV is no more of an outsourcing issue any more than the Space Station or the Shuttle. They are both——

Ms. JACKSON LEE. What would you see the outsourcing and procurement problems at NASA?

Mr. LI. And I am glad you asked that question, because this is something that has concerned me throughout the government, and it is the issue of when we do have contractors that the contract monitor, on the part of the government, is losing technical expertise, because they don't have enough hands-on on how to do things. And as a result, if they are evaluating the work of the contractors, it is getting harder and harder for them to get the job done. And I have heard that throughout all agencies.

Ms. JACKSON LEE. So in doing so, then they are not sure if they are getting their money's worth, because they don't have the expertise to see what is being submitted by the contractor?

Mr. LI. That is the trend that I am worried about.

Ms. JACKSON LEE. And that is an element of improvement that we need to assess, as Members of Congress, and possibly legislatively.

Mr. Kutz, if I am pronouncing your name——

Mr. KUTZ. Kutz, yeah.

Ms. JACKSON LEE. Kutz. Thank you very much.

NASA COMPARED TO OTHER AGENCIES

Mr. KUTZ. With respect to who you can compare NASA to in the government, the most similar entities, from a contracting-out and a capital-intensive nature, would be the Department of Defense and Department of Energy. And those two are at kind of opposite ends of the spectrum. The Department of Energy is one of the agencies, I believe, that has compliant systems and has fewer no material weaknesses and controls and I believe is one of the ones on the better side of the equation.

The one—the Department of Defense is the one whose problem may not be solvable any time ever, possibly. And so NASA would possibly be in the middle. But comparing NASA to, like, the Social Security Administration, is probably not fair. The operations are very different. Social Security is a disbursement organization. NASA has a lot more complexity, and the degree of difficulty is much harder.

Ms. JACKSON LEE. Are you saying the Department of Defense does not have a reputable compliance system in place?

Mr. KUTZ. No, they don't.

Ms. JACKSON LEE. But, Ms. Sykes, you believe that NASA has the capability of such a system to be put in place?

Ms. SYKES. Correct. And my Program Executive Officer will, hopefully, echo that.

Ms. JACKSON LEE. Yes?

Mr. CIGANER. Yes, I——

Ms. JACKSON LEE. Is it in place now, or you are looking to put such in place?

Mr. CIGANER. It is not in place yet. We have several components. This is—a lot of individual elements, as I mentioned earlier, were about halfway there. Our aim is by 2008 to have it in place.

Ms. JACKSON LEE. 2008?

Mr. CIGANER. Yes.

Ms. JACKSON LEE. All right. But you are working on a compliant—is it halfway working?

Mr. CIGANER. Several components are already—it is not half working or not. Several of the elements have been deployed and are operating, but the overall requirements have not been satisfied yet.

Ms. JACKSON LEE. Mr. Chairman, as you indulge, I just want to finish with Mr. Cobb, and I will finish.

Mr. Cobb, if you have been listening today to the testimony, compliance systems, a plan in place, we hear some difficulties with outsourcing. Do you see this as a fixable challenge?

Mr. COBB. Absolutely. It—you know, it—but from my standpoint, it has got—has to be implemented from a top-down standpoint. You have to have an architecture. You have to have strategies. You have got to know where you want to go, and then design steps that will get you there.

Chairman CALVERT. I thank the gentlelady.

Ms. JACKSON LEE. Thank you.

Chairman CALVERT. Mr. Platts.

IMPROPER PAYMENTS

Mr. PLATTS. Thank you, Mr. Chairman.

I want to turn to the issue of improper payments.

My predecessor in the Subcommittee as Chair, Steve Horne, had been a great leader in this issue and spots of the legislation of 2002. In the 2004, there was some concern about compliance with the *Improper Payments Act of 2002* by NASA and the failure to estimate improper payments, and in some of my interactions with the Agency, that concern is, I guess, heightened that we are not really being serious about this.

So can you give us an update about where you believe you are in full compliance, you know, in trying to comply with the Improper Payments Act?

Ms. SYKES. Correct. *Improper Payments Act* is something that we take quite serious here at NASA. We have actually had the ability, particularly with Administrator Griffin coming on board, in order to put a contract in place in order to go out and do the assessments, in order to make sure that we have the proper review, because beforehand we had been relying mostly and specifically on Defense Contract Audit Agency, and, recognizing that they are pretty much stretched, also, we needed to bring in some additional horsepower, and that is what we did at NASA in order to make sure that we have true coverage. Because as what has been presented here by the Committee, we are approximately 80 percent contracted out. That is one of the areas that I have to keep diligent vigilance on in order to ensure there is no fraud, waste, and abuse in that area.

Mr. PLATTS. Is your reason for not having done an estimate in the 2004 financials—that is one of the issues that, you know, in compliance is what is your estimate and not only what is your esti-

mate, then, you know, what are you—steps are you taking to be proactive to guard against these types of improper payments, because it—the audit agency is kind of after the fact, and you go out and find them. But what we are really trying to do is prevent them.

Ms. SYKES. Prevent them in the beginning. I would like to come back to the record on that in order to be able to tell you what we did in 2004, what we have done for the estimates, and how we have moved forward and provide that for the record.

Mr. PLATTS. Okay.

INFORMATION FOR THE RECORD

Subsequent to receipt of its FY 2004 audit report, NASA improved its Improper Payments Information Act (IPIA) procedures by entering into a multi-year contract with a recovery audit firm. The scope of work for the contract includes conducting audit recovery procedures on all contract and vendor payments; recovering payments that were made improperly; and providing reports that will help NASA improve internal controls regarding the payment process. The contract stipulates that the firm will be paid based on a percentage of improper payments that they identify and recover. In 2006, NASA will continue to strengthen its procedures for monitoring improper payments.

Mr. PLATTS. Mr. Cobb and Mr. Kutz, your view on compliance with the *Improper Payments Act,* as we stand today?

Mr. COBB. My understanding is that where NASA had a noncompliance was that, in connection with implementing the act, that they considered the fixed price contracts, but that they failed to include the cost-type contracts in the assessment and that that is the root of the problem

Mr. PLATTS. In the 2004 audit?

Mr. COBB. Yes.

Mr. PLATTS. And it is your belief that actions have been taken in the 2005 year to try to address that?

Mr. COBB. I have got nothing that verifies that those actions have been taken?

Mr. PLATTS. Mr. Kutz.

Mr. KUTZ. No comment on that.

Mr. PLATTS. Okay.

CONTRACT MANAGEMENT MODULE

Separate issue. Contract Management module, a key when we talk about, you know, getting on top of this issue of contract management, the concern has been raised with me that it really is going to be more about writing contracts and providing the forms and things but not truly oversight of the contracts and truly managing them, as opposed to just having a uniformity on how they are presented. And I would be interested in your opinion, Mr. Ciganer or Ms. Sykes.

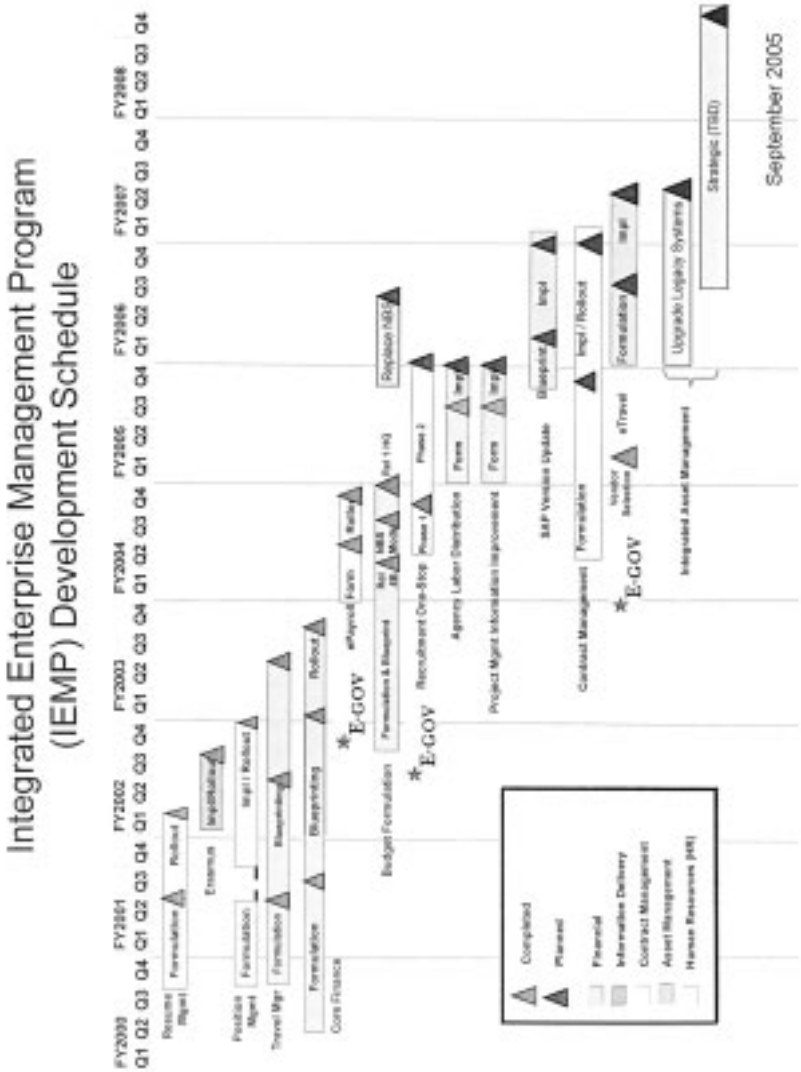
Mr. CIGANER. The Contract Management module, as a module in itself, is, above all, you are correct, focused on generating contracts that are both traceable and clearly structured so all of the oversight and reporting related to those contracts can be facilitated. What is really an additional component of managing contracts more efficiently, what the GAO is focused on, is actually the modules that are related to enhance project management. For example, earned value management is applicable in quite a few of our activi-

ties. That will sit on top of the Contract Management module. It is not part of that specific effort, but it is an activity that is scheduled to also be rolled out in the next three years.

Mr. PLATTS. What is the time frame for that to be——

Mr. CIGANER. We——

Ms. SYKES. Actually, if we could cue the charts, I know we have charts there, and go to the last chart, because I—keep going. Next chart. Next chart. Next chart. Right there.



Just to give an idea, every time we keep talking about the system, and we keep trying to tell you that we are almost there or

part way there, if—Patrick, do you want to walk through your—this is our famous planning chart.

Mr. CIGANER. To really look at the monitor in detail, but I can tell you that the earned value management functionality is scheduled to be deployed by 2008, along with some of the project management improvement activities, which have started now in the Contract Management module. So again, this is a series of steps. So we would like to be able to present to GAO the tools that are needed to hopefully get us off the high-risk by the end of that period.

By the way, we have developed a plan with GAO on what are the steps needed to get the Agency off the high-risk list. And the plan is not only systems, but it is also changing the way some of our processes are taking place and also changing, and that is the discussion, the way the Agency manages its major programs, which is get the cost trade-off element embedded into the programmatic community as opposed to being something that maybe the financial community is responsible.

Mr. PLATTS. If I am reading the chart right on the Contract Management, it talks about roll-out now and implementation, you know, over this year, basically. But the actual follow-through to actually make that information more meaningful, from an oversight, will be another two years later. Is that——

Mr. CIGANER. That is correct, because the other thing is the Contract Management tool is obviously going to be used for new contracts. The goal is to eventually get the majority of our existing contract rolled out into that information environment. That, in addition to the tool being able to process them, is going to take some additional time.

Mr. PLATTS. Mr. Kutz, did you have a comment on where we are and how——

Mr. KUTZ. I would. I think——

Mr. PLATTS.—effective it is going to be?

Mr. KUTZ. Absolutely. I think Mr. Li made a great point earlier in talking about some of the new programs. I mean, that is the time to really start changing the way contracts are written and what information is required from contractors so—and that is something that you, from an oversight perspective, can try to make sure happens with NASA. I don't know how you will do that exactly, but that is something that if they don't do that, 2008 will come, and we might implement new software but not change our processes and contracts, and we will have the same data quicker, but it will not be the kind of data we need.

So there is a lot of work to actually do with respect to reengineering the contracting and the processes and the configuration of the data coming. And that is not easy, because if you think about a lot of NASA's contracts, they are very long-term in nature, so the question is what do you do with the other contracts that are already in place that are going to run past 2008? And so there are a lot of issues to deal with there.

Mr. PLATTS. But your assessment is that there is a detailed effort underway to get us to that 2008 goal, you know, at least for the new contracts and then oversight of where we stand today? We are moving——

Mr. KUTZ. I wouldn't go as far as saying we see 2008—something happening. We have seen promising steps that recognize the depth of the problem and the things that need to be done, and I wouldn't go any further than that. And so those—I haven't seen them formulated into a real action plan, as Mr. Cobb was talking about, as to how you get from knowing where you are trying to go to having the steps to get you there.

Mr. PLATTS. Okay. I have one or two others, but my time is up, and I don't know if we will have another round.

Chairman CALVERT. Well, I, unfortunately—unless you want to go—continue to Chair the meeting, I have an appointment I have to get to, so if you want to go ahead and continue the——

Ms. JACKSON LEE. Mr. Chairman——

Mr. PLATTS. I don't mind if I——

Chairman CALVERT. I will do my last real quick statement, and then you can continue the hearing, if you——

Ms. JACKSON LEE. Mr. Chairman——

Chairman CALVERT.—would like.

Ms. JACKSON LEE. If—when you do your statement, I just want to yield to you for an inquiry, and then I am going to let him continue on, but——

Chairman CALVERT. Just basically, to Mr. Cobb and Mr. Kutz, I would just like you to, in writing to the Committee, please lay out the top three or four issues that NASA needs to address, and what progress they need to make in the next 12 months where we can continue our oversight role. If you could get that and submit that for the record.

And Ms. Sykes, based upon your testimony, I understand approximately February 15 we can expect that you will have the corrective action plan to submit to the Committee?

Ms. SYKES. Correct.

Chairman CALVERT. Okay. For the record, I just wanted to make sure that that is the date, February 15.

Again, I want to thank this committee for coming out today, and this is a difficult problem. We are not going to back away from it. We will continue to pursue this. We want to get this thing straightened out as we move forward on our new architecture in outer space. We want to make sure that we have sufficient financial records to make sure we do things properly.

And with that——

Ms. JACKSON LEE. Mr. Chairman, would you——

Chairman CALVERT.—your inquiry.

Ms. JACKSON LEE. Yes, I would.

And I thank you very much. I echo your comments, Mr. Chairman, and look forward to the written material and look forward to the written material I have asked Ms. Sykes for.

I would just simply say that I think out of the testimony today, Mr. Chairman, I hope, though we don't want to legislate every aspect of the management of NASA, that we will recognize they are unique. 80 percent of them are—80 percent contracted. That is not bad, but they are unique. And I would hope that there may be some legislative efforts that we can generate that would be helpful to their systems and to their process and that we can get NASA

back on its mission, or maybe focusing on its mission, because of course, its financial systems will be in order.

And I thank the witnesses, and particularly Ms. Sykes, for the strides that you have made with your CFOs. We appreciate it greatly.

I yield back.

Chairman CALVERT. I thank the gentlelady.

And I turn it over to Mr. Platts.

Mr. PLATTS. [Presiding] Just a couple other follow-up before we wrap up, and I, again, appreciate the Chairman allowing me to continue here for a few minutes.

RECONCILIATING FUND BALANCE WITH TREASURY

One of the issues we have had a lot of discussions on is the Fund Balance issue with Treasury, and I thought it would be helpful to maybe just have a quick assessment of, you know, where we believe we are from both the CFO's Office as well as IG and GAO. And I think this brings to light one of the things that is a challenge. Mr. Ciganer earlier talked about historical data, corrections or recapturing a lot of this information. And if I remember the information share correctly, that in one of the—that instead of having—writing off or writing up some accounts receivable from the 1960s was something that you were dealing with, that——

Mr. CIGANER. That is correct.

Mr. PLATTS.—I think, does kind of go to the challenge before us as we are trying to get all of our information, not just new information going forward, but what we already have, accurately reported and able to be relied on in going forward.

But Ms. Sykes, if you want to give where we are a year ago, we had, roughly, a $2 billion imbalance. And my understanding is we are down into the tens of millions from that $2 billion figure.

Ms. SYKES. Sure. Also, if I could have them cue up the slides again. It will be the first slide. Right there, sir. Thank you.

As you will notice, in 2003, when I closed our books, we had a $1.743 billion difference in our books, those that were recorded in our Core Finance versus what was at Treasury. Since that time frame, when I closed the books this year, September 2005, we have a $46.5 million difference. That difference is made up of approximately $36 million in intergovernmental transfers, which every agency is dealing with and having to deal with, and then the rest, approximately $10 million, is associated with timing differences and reconciliation issues that we are still working with at the Center level.

But we have a reconciliation process that we have put in place and that we are operating under by which all ten Center CFOs are required to reconcile their individual accounts at the Center level with the Fund Balance with Treasury, and they are to certify to that each month. So therefore, we are keeping our hands and eyes and hearts on the Fund Balance with Treasury as we move forward. So this includes both historical and current, that $46.5 million.

Mr. PLATTS. Mr. Cobb and Mr. Kutz, your assessment of where we are in—or not just the improvement from where we looked at a year ago, but the processes that are in place to sustain the good

news, I think that, we have addressed a lot of that unbalancing going forward and the ability to continue to be accurate in that fund balance discrepancies.

Mr. COBB. On the good news side, the Office of Chief Financial Officer has instituted some controls at the Center level and some policies pursuant to which the Centers are to reconcile Fund Balance with Treasury, and that is a positive step. We haven't verified the content of those, but inherently, that is something that had to be done and has been done.

In terms of the articulation and the information that was on the chart, it is very difficult to rely on the numbers to tell the story. And the reason is that behind each of those numbers that are represented, there might be a number of transactions that balance off each other. So instead of, in effect, one checkbook where you have a net amount that is, in effect, the amount that you are out of balance with the bank, there might be a whole bunch of different checkbooks. And one checkbook might be out of balance one way, and the other checkbook might be out of balance another way, and then when you add it all up, in effect, what you have got is a small number. And that really doesn't give you the full story.

So my understanding is that the Fund Balance with Treasury issue is going to remain a material weakness in the 2005 audit. You know, until the auditors, until my office can get an understanding of what those numbers represent when they are represented to us, in terms of what are the problems that underlie them, and that they can see an audit trail that explain how those reconciliations are made, then I won't be able to come before you and say that, you know, "Gee, this problem has been fixed."

Mr. PLATTS. Mr. Kutz.

Mr. KUTZ. I would defer to Mr. Cobb on the details, but this is obviously a very important issue, a fundamental issue, primarily a human capital issue, and one that I agree with Mr. Cobb that the gross is just as important as the net, in many respects, because we have looked at this, and your predecessor, Mr. Horne, had a hearing years ago where another agency was doing something like that, and again, I have no idea that this is the same case, but they were hitting canceled appropriations with current expenditures. And so there are risks and things that can happen, so it is very important that this is fully reconciled and addressed.

Mr. PLATTS. Ms. Sykes, your response to the specific concerns that is—you know, the net versus gross issue and that we really have that documentation of what the offsets are or the discrepancies are, not just the total end number.

Ms. SYKES. Correct. We have been actually focusing on that, and my Office of Safety and Quality Assurance has also gone out and not only reviewed the compliance to our internal controls that we have established for the reconciliation for the Fund Balance with Treasury, but they have actually went out and actually reviewed the policy, making sure that the Center CFOs are in compliance with that.

I do share with Mr. Kutz and Mr. Cobb, I was getting ready to call him "Moose" there—I agree with Mr. Cobb with regards to gross versus net. I mean, we have been looking at that. If you like, we can kind of show you an instance as to how we view gross

versus net, but again, it is—we have to track each and every transaction within our system. We just can't go in and change one transaction. We have to put something in and push something out. So in doing so, you are going to have multiple transactions, which will get you to a very big gross number. But again, we have to account for and track those transactions.

Mr. PLATTS. If—the way I understood Mr. Cobb's comment, though, it wasn't as much that that is not accurate, the gross versus the net, and I would appreciate it being walked through that in how these numbers differ in our previous conversation, but it seems like what he is really going after is what is generating those differences, those—the—what is requiring those additions or subtractions is what we really need to, you know, focus on to ultimately eliminate, you know, the problem at the beginning.

Ms. SYKES. Correct. And that is something that I also mentioned in my opening statement with regards to being able to capture those transactions. Prior to them actually going into our system, we recognize that we had some difficulties after 2003 with our configuration. We have implemented what we call compensating controls, because of the configuration awaiting the new upgrade that we were—are expecting in fiscal year 2006. So how can we capture, track, and monitor those transactions that we know because of transfiguration issues are going to go in, not necessarily erroneously, but differently than what we would expect to be able to see if we are providing a correct audit procedure? So we track that, and we reconcile that. And then of course, as our users have actually increased in their knowledge in the use of the new software, we are finding that we are finding a little bit of a decrease in erroneous transactions also going into our system, because people are becoming more familiar with our system.

Mr. PLATTS. Sure. Thank you.

And Mr. Wu, did you have any questions?

Mr. WU. Thank you, Mr. Chairman.

FISCAL CONSTRAINTS

I had not intended to express any thoughts in this particular hearing. I—the topic of this hearing, following audit trails and working with discrepancies is certainly very, very important. We are not dealing with trivial numbers when there is a $1.7 billion discrepancy in fiscal year 2003. My recollection was that the last Administrator, one of the things that was supposed to be accomplished was a much tighter set of fiscal control mechanisms.

But I—Mr. Chairman, I cannot resist this opportunity to touch on an area of policy concern that I have, and I will readily admit that this is not generally within the purview of the witnesses currently here.

I have had a couple of conversations with both NASA people and the contractors in recent times, and going back in the history of NASA, there are at least some who feel that in a race to the Moon in the 1960s that we made some decisions that perhaps, if we were in less of a hurry, we might have made those decisions differently. And it is terrific that we won the race to the Moon. And that was a very, very important thing to do. But then we had a complete technologic shift to the Space Shuttle. The Space Shuttle had some

fiscal constraints to it that may have caused some subsequent issues with that program. And now we see a proposal for a new generation of human exploration of space.

It is my impression, and I intend to follow-up on this with discussions with both people in NASA and with the contracting community, is my impression that the proposals I have seen for this next generation of space vehicles, every bit as much as the 1960s generation was somewhat time-constrained and, perhaps, rushed, we are fiscally constrained in what to do about this next generation of vehicles and that because of these severe fiscal constraints, we may not be taking the kinds of steps toward future generations of exploration that would more logically follow or more wisely follow, in a policy sense, just because they are trying to accomplish certain things within tight budgets. And some people have denied that this is the case, and other folks have just stepped up to the plate and said, "Oh, yeah. This is completely driven by the funds available." And I intend, in coming weeks, months, and years, to further explore this topic to see whether we are taking, in a policy sense, wise steps for a long-term vision of human space exploration or whether we are embarking, once again, as we have in some decades in the past, down some courses which we will regret in a decade or two, because it was inappropriately time constrained or fiscally constrained.

I know that you all are here talking about a very different set of fiscal controls. I respect that very much, but I wanted to more clearly get my concerns in the public record and what I will be doing in coming months and years.

And with that, Mr. Chairman, I yield back the balance of my time.

Mr. PLATTS. Thank you, gentleman.

A quick wrap-up, and I apologize. I have got to go to a markup, as well, in another committee.

CULTURAL CHANGE

But two quick issues. One, Ms. Sykes, you talked in your written statement and part of your testimony here today about the cultural change reflected by your presence of your Center CFOs here today with you and the partnership with them and them answering to you, the fact that Mr. Ciganer answers to the Administrator, and you know, the emphasis on this mission, from a financial—or business transformation. But you referenced the CIOs and procurement aren't yet following that approach. And to the best of your knowledge, is there an effort looking at using the model with CFOs in the CIO community and NASA and procurement as well to get a more, you know, kind of control at the top to have uniformity and make sure that they are all on the same page?

Ms. SYKES. Yes, that is one of the areas that the—we have been discussing internally quite often, and I know the IG has made reference to that on occasion, also, to our Administration. So that is something that they are deliberating at this point in time. Yes.

Mr. PLATTS. It is not something directly under my subcommittee, but it does relate to our Subcommittee's area of jurisdiction because of the impact it has on finance when we are talking about procurement maybe—especially or over CIO and the investment of

important funds. And hopefully the example being followed with CFOs will be followed with CIO and procurement.

So—Mr. Cobb.

Mr. COBB. Congressman Platts, I just would like to mention that in connection with the new Administrator's vision for how institutional management gets done in the Agency, there has been a change in the sense that he now expects the Center directors to have responsibility for the institutional management at the particular Centers but not programmatic responsibility, other than providing the support for the programs in the form of, for example, engineering and that those Center directors now report directly to the Administrator. So there is a little bit of a change in terms of the dynamic and structure of the top-level organization that could come to bear in terms of how this question is ultimately answered.

COMPARISONS WITH PAST EFFORTS

Mr. PLATTS. Final question, actually, Mr. Cobb and Mr. Kutz, and Mr. Li, with your history here as well, earlier I asked to give a prognosis. You were hesitant to do so, and I don't blame you, but not so much on this specific program and success coming, but in—being familiar with the previous two efforts by NASA to try to do this, how do we shake out in comparison? My hope is, and belief is, that we are a lot further along on the right track than they were when they, you know, kind of scuttled the last two efforts. But I would be interested, in comparison to two previous attempts, and Mr. Cobb, I guess you would have more limited knowledge because of the timing when you came into your position, but any, you know, familiarity you have gained since you have been there, and Mr. Kutz, Mr. Li, your assessment of where we are in this effort and huge commitment of manpower, dollars, you name it, compared to those previous two.

Mr. LI. I—let me start, because I have given it some thought in terms of—and we have reported on this issue before.

But the reasons why the two previous efforts failed, it was an unclear linkage in terms of the financial management system to the mission itself. I think that that was unclear. They were trying to fix an accounting system, and now—hopefully, now they have recognized the fact that it is the basis from which they can do business. It was what I considered to be sporadic top management support. It came at times in which when the contract had problems, the Administrator would get involved, and things would get better. Then when he disengaged, things got worse again.

And finally, I thought that there was no commitment to that transformation that I have mentioned earlier. That transformation itself was not viewed as something that was important to do as far as the business change.

What I see in terms of what they are doing, I think that they are going to need—to me, the common word that comes through is persistence. They are going to need to be persistent in being able to provide visible management support. And I am not just talking about funding support. I am talking about the difficulty it is that they have right now in terms of change management. That is something that is very, very difficult to do. They need to keep the pipeline open to receive critical skills. They are facing a lot of difficulty

in terms of being able to attract and compete with other people, their business and expertise area that is very difficult to receive. And finally, again, keep moving on transformation. I think that is something they have to do.

Mr. KUTZ. I mean, I think it is a very important crossroads here, because they have this—they are doing the right thing, and they have the right goals, and the issue is is this going to be a system that costs a lot that provides marginal improvement, or is this going to be something that transforms NASA's business operations. And you know, history would show that the latter is much, much harder than the former. And I do think you are going to get some marginal improvements, but the jury is out as to whether this will truly be a transformational event at NASA, and that is why we are all sitting here. That is why you are having this hearing, because we all want it to be that transformational event.

Mr. PLATTS. Mr. Cobb.

MEASURING PROGRESS

Mr. COBB. I would just like to add that we have talked a little bit about measuring progress, and it has been very difficult to do in the absence of a corrective action plan that I view would get them to the goals that all of us would like to see them get to.

Mr. PLATTS. And Ms. Sykes, Mr. Ciganer, I will give you the final word. Anything you would like to add that we haven't touched on?

Ms. SYKES. No, sir, and I appreciate your having the opportunity of having us here today, and just to reiterate that I have committed to the Committee that we will have a corrective action plan in partnership that we will deliver that he is agreed to and that I have agreed to.

Mr. PLATTS. Well, we, again, appreciate all of your efforts day-in and day-out on these very important issues as well as your time and preparation and participation here today.

As I said earlier, we are all on the same team, after the same ultimate goals for NASA and its mission, and hopefully, working together, we will achieve that goal in the months and years to come.

We will keep the record open for one week for any of that follow-up information that is going to be provided, and again, just thanks for your participation.

This hearing stands adjourned.

[Whereupon, at 12:40 p.m., the Subcommittee was adjourned.]

Appendix 1:

Answers to Post-Hearing Questions

ANSWERS TO POST-HEARING QUESTIONS

Responses by Gwendolyn Sykes, Chief Financial Officer, NASA, and Mr. Patrick Ciganer, Executive Officer, Integrated Financial Management Program, NASA

Questions submitted by Chairman Ken Calvert

Q1. In a recent briefing to the committee, as well as at the hearing, the Office of the Chief Financial Officer (OCFO) provided an example of the type of transaction that might make up a significant part of the previously unreconciled balance in NASA's Fund Balance with Treasury (FBWT) account. This explanation illustrated how one transaction can result in four times the amount of the transaction being recorded in NASA's records. How much of the $7 billion "gross" or absolute unreconciled difference for FBWT, as identified by the Office of Inspector General in March, was due to this type of transaction? Is there documentation to support this amount? How much of the $7 billion has documented explanations of any type?

A1. In order to balance its FY 2003 Financial Statements after the conversion of the 10 NASA Centers to a new Core Financial System, NASA discovered that there was a $1.74 billion difference between the amounts recorded by the U.S. Treasury Department as NASA's Fund Balance with Treasury (FBWT) and the amount reflected in its system. In FY 2003 NASA used an external database to produce its financial statements. Journal entries in the amount of $1.74 billion were recorded in the external database. As a result of these journal entries, the FBWT amount reported on NASA's Financial Statements agreed with the amount reported by U.S. Treasury.

The $7 billion in question is a by-product of the journal entries that netted to the $1.74 billion. The $7 billion is the result of adding debits and credits together from the journal entries that comprised the $1.74 billion adjustment. As an illustration, when a firm transfers $1 million between two bank accounts, the absolute value of those debit and credit transactions totals $4 million; however, the net cash balance of the firm remains unchanged.

Over the past two years, NASA has focused on identifying the detailed transactions which make up the $1.74 billion difference. NASA has determined that these transactions have now been substantially recorded in the core financial system.

Finally, with respect to current processing, NASA has put internal controls in place to ensure current and future activity is recorded and reconciled on a timely basis. The September 2005 FBWT difference of $46.5 million, or ½ of one percent, is reconcilable by NASA Centers. Of the $46.5 million FBWT difference, $35.8 million is due to September's increase in the Intergovernmental Suspense Account used for the Agency Interagency Payment and Collection System (IPACS).

Q2. During fiscal year 2005, NASA indicated that it was continuing to work on resolving the remaining unreconciled FBWT transactions from fiscal year 2003. At the hearing, NASA's Chief Financial Officer indicated that the FBWT account was almost reconciled except for $36 million in intragovernmental transfers and $10 million in other differences. For the FBWT transactions from fiscal year 2003, please provide a list of the amounts that each NASA Center reconciled and the amounts that each Center wrote off (or "wrote up") during fiscal year 2005. Please note that we would like these amounts for each Center rather than the net amounts for the Agency as a whole.

A2. Write off transactions were processed Agency-wide as follows:

Center	Total Amount of Write Offs (in millions)
GSFC	$(3,531,803.82) – Write Off
MSFC	$(12,653.28) – Write Off
Corporate	$14,467,542.91 – Write Up

In total, NASA's cash balance was less than Treasury's, which resulted in an overall write up.

Q3. NASA is planning a major software upgrade for the Core Financial module this year. What specific problems with the current version of Core Financial do you expect to remedy with the upgrade?

A3. The SAP Version Update (SVU) project will address several issues and requirements for improvement identified by NASA and the Government Accountability Office (GAO), as identified in their report GAO–04–151 *(BUSINESS MODERNIZATION: NASA's Integrated Financial Management Program Does Not Fully Address Agency's External Reporting Issues).* The update will contribute to improvements in NASA's financial tracking and reporting, support the goal of achieving financial management integrity, and expand core financial functionality to provide better project management information. The update will improve NASA's compliance with Federal Financial Management System Requirements (FFMSR), Federal Accounting Standards (FAS), and the Federal Financial Management Improvement Act (FFMIA).

Specifically, the SVU will provide enhanced capabilities and better integration with the new Budgetary Ledger. This will provide greater integrity in NASA's Statement of Budgetary Resources, Standard General Ledger account relationships, and Statement of Transactions report to Treasury.

Improved support for the Budget Distribution process will be achieved from process re-engineering activities and additional software capabilities from the new Budget Control System. The Internal Operating Plan can be recorded in SAP providing increased budget planning capability for the year of execution and the potential elimination of duplicate data entry and reconciliation activities. Additional software capabilities include less reliance on user selections during postings resulting in greater data integrity; improved support and flexibility in execution against the new budget structures; and automated routing and approval of budgetary documents.

The updated version provides additional automation of existing business processes resulting in reductions in current manual processes, reconciliations, and workload. Specific areas where problems are addressed, or existing 'gaps' in the current version are filled, include:

- The ability to control the timing of the commitment and obligation posting through work flow configuration options—eliminates current manual control and reconciliation processes. This fully resolves one of the GAO's issues related to FFMIA compliance.
- Additional automation of adjustment accounting entries—reduces manual processes and reconciliations. This addresses one of the GAO's concerns related to FFMIA compliance.
- The ability to track returned invoices—eliminates the manual tracking process in the current version.
- The streamlined year-end closing process provides greater automation, less manual effort and resource requirements and shortens the cycle time to complete closing.

Additionally, NASA has taken steps to address the issues related to cost in excess of obligations and downward adjustments, another issue identified by the GAO related to non-compliance with Federal Accounting Standards. Process improvements in this area will be implemented as part of the SAP Version Update.

Q4. How will the migration of certain functions to NASA's Shared Services Center affect the operations of the Core Financial module? In light of the new integrated financial system, why is a Shared Services Center necessary? What benefits does NASA expect to gain from this Center?

A4. The decision to implement a shared services model for a broad spectrum of administrative functions was made several years ago. Finance is one component of the NASA Shared Services Center (NSSC). Other components include Human Capital, Procurement, and Information Technology areas. The NSSC does not currently affect the Integrated Enterprise Management Program (IEMP) Core Financial module operations. Representatives from the NSSC and IEMP are working closely to identify any configuration changes required to the Core Financial module. The more challenging and complex transition will be of accounts payable and accounts receivable processing which is scheduled for FY 2008.

As NASA improves its financial systems and strengthens its internal financial operations, we will monitor the transfer of financial operations to the shared services center to optimally balance the benefits and the associated risks.

IEMP provided a platform for transactional activities in financial management to be performed using a consolidated shared service delivery model. NASA hopes to benefit from a shared services center that supports a more judicious distribution of discretionary funding to mission core competencies.

Q5. In their report on internal control for fiscal year 2004, NASA's external auditors indicated that NASA had not fully complied with the Improper Payments Information Act. *What steps has NASA taken to improve its estimates of improper payments in accordance with this Act?*

A5. Subsequent to receipt of its FY 2004 audit report, NASA improved its Improper Payments Information Act (IPIA) procedures by entering into a multi-year contract with a recovery audit firm. The scope of work for the contract includes conducting audit recovery procedures on all contract and vendor payments; recovering payments that were made improperly; and providing reports that will help NASA improve internal controls regarding the payment process. The contract stipulates that the firm will be paid based on a percentage of improper payments that they identify and recover. In 2006, NASA will continue to strengthen its procedures for monitoring improper payments.

Q6. Ms. Sykes' testimony indicated that NASA has a new capitalization policy for its assets, and is developing procedures to implement that policy. Please provide a copy of that policy and a brief description of how the policy will be implemented.

A6. Prior to full implementation of NASA's revised capitalization policy for its assets, OCFO management plans to meet with OMB, GAO, FASAB, and OIG to discuss NASA's revised capitalization policy and to explain the effect of the changes on the assets currently being reported. The revised capitalization policy will be finalized following these discussions. The policy can be provided upon finalization.

Q7. The NASA Financial Audit Committee established under the previous NASA Advisory Council met several times during the past year, spending much of that time learning about NASA's financial and accounting operations. That committee was recently decommissioned. Under the new NASA Advisory Council, a new Audit and Finance Committee has been designated with all new members. How will this new committee leverage the knowledge developed by the previous committee so that it can build upon that knowledge rather than beginning the learning process all over again? For example has the new committee been provided minutes of the previous committee's meetings? Are there any plans for the new committee to meet with the Chairman or other members of the prior committee?

A7. The new Audit & Finance Committee is populated with members possessing tremendous expertise in both public and private sector financial management: Hon. Ted McPherson (former CFO, Dept. of Agriculture; Deputy Secretary, Dept. of Education); Hon. Michael Montelongo (former CFO, U.S. Air Force; Member, Audit Committee, Denny's); Robert Hanisee (Managing Director, Trust Company of the West; Member, Audit Committee, Orbital Sciences); Harold Stanislawski (attorney, Sidley Austin Wood) has been at the forefront of his firm's practice in the areas of Government contract cost accounting issues.

OCFO staff support has been provided to both committees by the same Executive Secretary, who has retained all records from the prior committee. Copies of minutes and presentations delivered to the previous committee are readily available for use by the current committee. The continuity of the Executive Secretary will assure that precious time and resources are not spent deliberating issues covered by the previous committee and available in the records. The new committee Chairman is aware of these records and their availability upon his request. The Executive Secretary has provided contact information for prior committee members to the current Chairman for use as he deems appropriate.

Questions submitted by Representative Mark Udall

Q1. What do you see as the biggest challenge in improving NASA's financial management situation?

- *Which material weakness is the most challenging for NASA to correct?*
- *What specific actions have you taken to correct it?*

A1.

- NASA's FY 2005 Report on Internal Controls identified material weaknesses for Financial Systems, Analyses, and Oversight; Fund Balance with Treasury; and Controls over Property, Plant, and Equipment and Materials; as well as a reportable condition for Controls in Estimating NASA's Environmental Liabilities. We intend to treat each of these areas of equal importance in improving financial management at NASA. To characterize any one area as the most challenging could detract from the appropriate focus and attention across all improvement areas.
- In my October testimony, I highlighted areas of improvement made through FY 2005. In FY 2006, we are continuing to execute and strengthen our corrective action plans to address these audit findings.

Q2. GAO's testimony describes in some detail the difficulty GAO had in trying to obtain information on travel costs during its recent review of aircraft utilization at NASA. Mr. Kutz points out that this raises a question of the accuracy of NASA's "full-cost" accounting, if these travel costs are not being captured to the relevant accounts. Yet the Travel Manager system, an IFMP element, has been in place since May 2003. Why is NASA still having such difficulty tracking and reporting travel costs?

A2. Mr. Kutz's comments with respect to NASA aircraft utilization refer to the fixed, variable and other costs of aircraft ownership and operation. OMB Circular A–126 requires that such aircraft utilization costs be captured and visible in an automated agency system. NASA is currently working to identify the policies, procedures and system changes necessary to fully comply with the Circular.

NASA's Travel Manager system is a fully automated capability that creates and routes travel authorizations (request to travel) and vouchers (request travel expenses) of individual travelers. Travel Manager is integrated with NASA's core financial system, where traveler costs are captured and reportable utilizing NASA's Business Warehouse tool.

Q3. NASA is planning to do a major upgrade of the core financial module next year.

- *Will that upgrade address the problems described by the Inspector General and GAO?*
- *Is NASA's process for integrating the upgrade into the existing system structured to avoid the kinds of problems that accompanied the rollout of the original core financial module?*

A3.

- The core financial system upgrade, the SAP Version Update (SVU) project, will address several issues and needs for improvement identified by the Office of Inspector General (OIG) and the Government Accountability Office (GAO). The update will contribute to improvements in NASA's financial tracking and reporting, support the goal of achieving financial management integrity, and expand core financial functionality to provide better project management information. The update will improve NASA's compliance with Federal Financial Management System Requirements (FFMSR), Federal Accounting Standards (FAS), and the Federal Financial Management Improvement Act (FFMIA).

  Specifically, the SVU will provide enhanced capabilities and better integration with the new Budgetary Ledger. This will provide greater integrity in NASA's Statement of Budgetary Resources, Standard General Ledger account relationships, and Statement of Transactions report to Treasury.

  Improved support for the Budget Distribution process will be achieved from process re-engineering activities and additional software capabilities from the new Budget Control System. The Internal Operating Plan can be recorded in SAP providing increased budget planning capability for the year of execution and the potential elimination of duplicate data entry and reconciliation activities. Additional software capabilities include less reliance on user selections during postings resulting in greater data integrity; improved support and flexibility in execution against the new budget structures; and automated routing and approval of budgetary documents.

  The updated version provides additional automation of existing business processes resulting in reductions in current manual processes, reconciliations and workload. Specific areas where problems are addressed, or existing 'gaps' in the current version are filled, include:

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- The ability to track returned invoices—eliminates the manual tracking process in the current version.
- The streamlined year-end closing process provides greater automation, less manual effort and resource requirements and shortens the cycle time to complete closing.

Additionally, NASA has taken steps to address the issues related to cost in excess of obligations and downward adjustments, another issue identified by the GAO related to non-compliance with Federal Accounting Standards. Process improvements in this area will be implemented as part of the SAP Version Update.

- For the core financial system upgrade, the SAP Version Update (SVU) project, NASA does not expect to experience the magnitude of problems that were experienced during the rollout of the original core financial module. However, NASA recognizes that a large software version upgrade such as this is a significant challenge. There are major architectural differences between the current version of SAP and the newer version that NASA plans to implement. NASA has put in place very thorough requirement management and testing processes which will be critical to the success of the upgrade. Also, as noted above, there are a large number of new capabilities and improvements that are inherent in the upgrade, which will necessitate rigorous training. NASA has established a project team focused on the upgrade, with sub-teams established for technical integration, functional process integration, change management, data management, application development, and quality assurance. The core team, at full strength, will consist of 16 civil servants and over 80 contractors. This team will follow proven and successful approaches to requirements management, design, testing, risk management, change management, and other disciplines required to successfully implement the financial upgrade.

Q4. The IEMP modules implemented at this point—resume management, position descriptions, calculating and allocating labor costs, travel—don't appear central to the main problems NASA has in financial management.

- *Is the prioritization of effort correct? Are the core financial module problems getting the bulk of your attention and resources at this time?*
- *You've recently deferred the asset management module, and the contract management module doesn't seem to do much more than sort Federal Acquisition Regulation clauses for contracting officers.*

Could you please provide the Committee with an analysis demonstrating how your staff's time and resources are being used on these projects?

A4.

- When the IEMP program was formulated in FY 2000, its first priority was to implement a single financial system for NASA. This was completed in June 2003. During this same time frame, smaller projects such as resume management, position description, and travel manager, were implemented while the financial system was still in development. These smaller projects, or "pathfinders," represented an opportunity to gain experience in Agency-wide implementations, filled important functional needs in other non-financial areas, and helped build momentum for the larger core financial effort. As noted by the GAO, NASA, and others, the initial core financial system needed improvement in several areas. Ongoing improvements have been made since the initial implementation. Since 2003, bi-annual configuration changes have been made to the current version of the software, which have resulted in various process and data integrity improvements. However, larger changes were implemented during FY 2005, and became currently operational at the beginning of this fiscal year (2006). Specifically, the Project Management Information Improvement (PMII) initiative implemented a new coding structure which improves how NASA manages project information by aligning the Agency's many technical and financial work breakdown structures into a sin-

gle data management structure. The Agency Labor Distribution System (ALDS) project extended the Core Financial system such that NASA now has a single capability—versus 10 Center-specific legacy systems—for allocating labor costs, significantly improving consistency of cost calculations and improving NASA's overall full cost management. IEMP is currently focused on a major update of the financial system. This effort, by far, is IEMP's largest project underway this fiscal year, both in terms of budget and personnel.

- Currently, NASA has five civil servants and two contractors focused on analysis of future asset management capabilities. They are performing market analysis and benchmarking with federal and private sector organizations, and are developing a business case describing various alternatives, including the costs, risks, and benefits of each alternative. The business case and associated recommendations will be presented in the spring of 2006 to NASA executive management for their review and decision.

Currently, NASA has six civil servants and 43 contractors working on the Contract Management Module (CMM) project. Prior to now, they had been focused on requirements development, design and configuration, unit testing, project management, and overall planning and communications on the project. Presently, they are conducting system and integration testing. The CMM module, which will become operational in May 2006, will do much more than sort Federal Acquisition Regulation (FAR) clauses for contracting officers. Specifically, it provides major functionality in four areas:

1. Contract Writing System: Provides electronic document generation and transmission system capable of seamlessly interfacing/integrating with the Agency's IEM Core Financial System.
2. Procurement Workload Management: Provides workload tracking capability to sufficiently supply metric and status data to Procurement personnel, managers, customers, and stakeholders.
3. Data Management: Meets Federal requirements for reports by efficiently providing accurate data to General Services Administration's (GSA) Federal Procurement Data System (FPDS) and NSF's Federal Assistance Awards Data System, along with reports to the Department of Labor (DOL) and Small Business Administration (SBA).
4. Contract Administration: Supports more effective contract management by providing automated capabilities to expedite and assist the contract professional in administering contracts.

Q5. Have you issued a financial management corrective action plan?

- *When do you plan on completing a corrective action plan?*
- *What specific steps have you taken/are you taking to identify the needs of the Mission Directorates and Support Offices and to incorporate those needs into the corrective action plan?*
- *What specific steps have you taken/are you taking to ensure that the corrective action plan will be approved by the Administrator?*

A5.

- NASA's corrective action plan will be completed and submitted to the Committees on February 15, 2006.
- The corrective action plan documents how NASA will address weaknesses identified in the audit report, including the specific organizations that are responsible for completing the actions.
- The corrective action plan is being developed in coordination with the NASA organizations that play a role in the success of the plan. The NASA Office of Inspector General (OIG) has reviewed and commented on interim deliveries of the plan. Prior to finalization, the plan will be reviewed with the NASA Deputy Administrator.

Q6. How have the CFO responsibilities/duties at the NASA Centers changed since they have begun reporting to the Headquarters CFO? That is, to what extent have the Center CFOs been involved in the development of the financial management corrective action plan? How much guidance and what specific types of guidance do you provide the Center CFOs? Do you provide feedback on a regular basis to the Center CFOs regarding the Center's financial reporting?

A6. The responsibilities and duties of the NASA Center CFOs have undergone a change since they began reporting to the NASA CFO. The Center CFOs continue

to work closely with the NASA Center Directors in supporting their respective Center's financial management requirements. The change in reporting has increased the Center CFO's accountability for the overall Agency's financial management condition. Center CFOs are aware of this increased accountability as they are now required to sign monthly certifications attesting to the condition of their financial records.

Center CFOs played a key role in developing the financial management corrective action plan. The Center CFOs provided input to a root cause analysis which directly contributed to the draft corrective action plans.

Center CFOs receive feedback regarding their Center's financial reporting through several venues. Biweekly video teleconferences are held to discuss financial management issues with the Agency CFO, Center CFOs, and headquarters staff. In addition, the Agency CFO and Center CFOs meet in person at least quarterly. These meetings provide an opportunity for the Agency CFO to discuss overall strategic direction, review Agency financial management priorities, and provide detailed direction to the Center CFOs.

ANSWERS TO POST-HEARING QUESTIONS

Responses by Robert W. Cobb, Inspector General, NASA

Questions submitted by Chairman Ken Calvert

Q1. Please provide what you believe are the top three or four financial management-related issues that NASA needs to address, and what progress NASA needs to make on these issues in the next 12 months.

A1. During the next 12 months, the Agency should focus on addressing two important issues: (1) demonstrating that current processes are working as intended, and (2) demonstrating that it is making progress in addressing and resolving the existing material weaknesses and reportable conditions in its internal controls. While it is unlikely that NASA will be able to remediate all of its deficiencies over the next 12 months, the ability to show that it is making progress in addressing its deficiencies will be an important step in the right direction.

To demonstrate that current processes are working as intended, the Agency will need to ensure that all accounting policies and procedures comply with applicable requirements and all users and system components are processing current year transactions in accordance with those policies and procedures. If the Agency can do this it will enable the independent public accountant (IPA) to begin the process of assessing whether the processes are working as intended and providing financial information that is accurate and reliable. Given the accelerated year-end reporting requirements, revised policies and procedures should be established and implemented as early as possible in the fiscal year so the independent public accountant can test them because later implementations present a testing challenge for that year's financial statement audit.

In order to demonstrate progress in addressing and resolving internal control deficiencies, the Agency will need to develop and implement a corrective action plan that articulates a strategy for addressing the underlying problems. Some of the material weaknesses/reportable conditions should be easier to address than others. For example, resolving the weaknesses in NASA's internal controls for estimating environmental liability should require less effort and time than those for property, plant, and equipment (PP&E), which will require a coordinated long-term effort. The goal should be to remediate the deficiency where possible and to show progress in addressing these areas where it will take time to develop and implement a remedy.

The material weaknesses and reportable conditions (identified by these that should be the easiest to address to the most difficult) and the progress that NASA should make during the next 12 months are:

Estimates of NASA's Environmental Liability

In both the FY 2004 and FY 2005 audit reports, the IPA found a reportable weakness in NASA's ability to generate auditable estimates of its unfunded environmental liabilities (UEL), which totaled $825 million as of September 30, 2005. This deficiency is one that the Agency should be able to resolve over the next 12 months. To do so, the Agency will need to complete the following actions:

- Revising its action plan developed in response to the FY 2004 audit.
- Expediting the timeline for completion of the final UEL estimates.
- Executing the corrective actions, including ensuring that NASA personnel receive sufficient training on how to prepare auditable estimates.
- Perforining a self-assessment of the estimation and aggregation process to ensure all weaknesses are identified and corrected.
- Validating and accrediting the Integrated Data Evaluation and Analysis Library model and methodology used to prepare UEL estimates.

Fund Balance With Treasury Differences

The IPA reported Fund Balance with Treasury as a material weakness for the past three years. Significant differences existed between the Treasury's and NASA's fund balances. Treasury regulations require that each federal entity ensure that it reconciles its financial records with Treasury's records on a monthly basis, and promptly resolve differences. The Agency may be able to resolve this deficiency over the next 12 months if it can successfully accomplish the following actions:

- Improving current procedures so that reconciliations are timely and in accordance with policy; differences are thoroughly researched, timely resolved, and

reviewed by Center and headquarters OCFO management; and the audit trail is sufficiently documented.

- Ensuring that the reasons for historical imbalances have been identified and corrected and there is an audit trail for verification by management and the independent public accountant.
- Revising policies for reconciling differences in the fund balance to ensure compliance with applicable requirements.

Financial Systems, Analyses, and Oversight

The IPA reported financial systems, analyses, and oversight as a material weakness for the past four years. During FY 2004 and FY 2005, NASA's management continued to identify and work toward resolving its major system conversion, configuration, and data integrity issues. Many of the deficiencies in this area are complex and longstanding, and resolving all of them may take several years. However, the Agency can demonstrate progress in the next 12 months by taking the following actions:

- Developing a plan to bring the financial management system into compliance with the *Federal Financial Management Improvement Act of 1996* (FFMIA).
- Identifying and resolving data errors in Systems, Applications, and Products (SAP) resulting from data conversion, and support the resolution of data errors by sufficiently documenting how the errors were identified and corrected.
- Maintaining sufficient documentation to serve as an audit trail for both routine and non-routine adjustments to transactions and balances in SAP. The FY 2006 quarterly financial statements must not only be generated from SAP, but any adjustments made to reported amounts, whether made within or outside of SAP, need to be fully substantiated by adequate documentation.
- Completing configuration in SAP to accommodate, to the extent possible, accounting and reporting requirements for NASA's business processes. For example, NASA must configure SAP to identify corrections to prior-year transactions as adjustments rather than as current-year transactions.
- Establishing a periodic monitoring mechanism to run queries in SAP to identify inconsistencies such as abnormal balances in accounts and abnormal account relationship issues. This would also help NASA discover errors in account balances well before quarterly financial statements are prepared.
- Improving the process of financial statement preparation and analysis with a goal of complying with all applicable requirements (e.g., producing a statement of net cost that meets requirements).
- Ensuring that accounting policies and procedures comply with applicable requirements and that all users and system components are processing current-year transactions in accordance with those policies and procedures. Given the accelerated year-end reporting requirements, revised policies and procedures should be established and implemented as early as possible in the fiscal year so the independent public accountant can test them. Implementations late in the fiscal year present a testing challenge for that year's financial statement audit.

Property, Plant, and Equipment Management

The IPA reported repeated material weaknesses in NASA's internal control over property, plant, and equipment (PP&E). If not corrected, these weaknesses could prevent material misstatements from being detected and corrected in a timely manner. The total worth of NASA's PP&E is approximately $34.9 billion, or 75 percent of NASA's reported assets. The most serious internal control weaknesses in this area relate to contractor-held property reporting and NASA's property capitalization policies and procedures. Solving this complex deficiency will take time, so a reasonable goal for the Agency is to demonstrate progress in the next 12 months by developing a coordinated comprehensive plan that provides for:

- Resolving prior year audit recommendations;
- Revisiting its approach to capitalizing property to include establishing and instituting a comprehensive and consistent property capitalization policy. Such a policy would also include establishing a system to help NASA accumulate and record the cost of capitalized property as it is acquired.
- Vetting its draft policy on capitalization for theme assets with the financial oversight community and making revisions to the policy as necessary.

- Requiring that supervisory approval of data is provided by someone other than the individual who is entering values of contractor-held property into the Contractor Held Asset Tracking System (CHATS).
- Ensuring that internal controls over property specify that adequate information on all expenditures made by NASA, including its contractor activities, is available for scrutiny as necessary.
- Requiring contractors to report property subsidiary details to support property values reported in CHATS. This detailed subsidiary report should include a list of individual property items and values.
- Reconciling property values reported on NASA Form 533s (used to report project costs as incurred) with the related amounts reported in CHATS. This reconciliation should be included as part the NASA property accountants' periodic contractor-held property validation process.
- Ensuring that the Inspector General and IPA confirm the coordinated comprehensive plan, if executed, will meet all management and audit requirements.

Q2. What do you believe is the earliest year that NASA might be able to receive a clean audit opinion?

A2. It is difficult to project when NASA might be able to receive a clean audit opinion. Given the complexity and longstanding nature of the Agency's internal control deficiencies, with sustained focus on correcting the root causes of the material weaknesses, it will still likely take a few years for the Agency to be able to prepare auditable financial statements. In order for NASA to address its financial management problems, it will need to articulate a strategy that addresses both the problems and the actions required to resolve those problems, including the personnel and other resources needed to fix the problems. Once a corrective action plan has been developed, approved, and implemented, and the Agency can represent that it is producing auditable financial statements, the IPA will then be in a position to conduct the detailed testing required to render an opinion.

Questions submitted by Representative Mark Udall

Q1. What do you see as the biggest challenge in improving NASA's financial management situation?

A1. NASA's biggest challenge is to implement a fully automated integrated financial management system that provides program managers and other key stakeholders and decision-makers—including the Congress—with reliable financial information needed to measure program performance, estimate future costs, and ensure accountability.

Until NASA has a fully operational and integrated financial management system, it will not be able to address its longstanding financial management practice and business process issues. The Integrated Enterprise Management Program (IEMP) in its current state does not routinely provide reliable financial information. As a result, program managers and cost estimators continue to use systems outside of IEMP and other labor-intensive means to capture the data they need to manage their programs.

Q2. Which material weakness is the most challenging for NASA to correct?

A2. Instituting adequate internal control over PP&E is NASA's greatest material weakness challenge. PP&E represents 75 percent of NASA's reported assets. The two categories of PP&E most difficult to correct are controls over contractor-held property and theme assets. Contractor-held property presents the greater of the two challenges because it is not controlled by NASA employees and is not located in NASA facilities, thus meeting this challenge requires an internal control plan that provides the Agency a basis for independently ensuring the reliability and accuracy of contractor-reported property values. Theme assets, those things that the Agency launches into space, present a unique challenge in developing a capitalization policy that conforms to generally accepted accounting principles and results in the reporting of meaningful values on NASA's financial statements.

Q3. NASA is planning to do a major upgrade of the core financial module next year. Will that upgrade address the problems described by the Inspector General and the Government Accountability Office (GAO)?

A3. It is too early to tell given that the Agency just initiated the SAP Version Update (SVU) in September 2005. However, according to the IEMP Program Office, the

SVU is intended to deliver enhanced functionality to the existing Core Financial module, including:

- improved data integrity based on SAP Funds Management redesign,
- improved processes for reducing errors and mispostings,
- additional automation of adjustment accounting entries,
- improvements to the budget distribution process,
- analysis and potential redesign of lower level funds control and funds distribution,
- addressing program/project management needs by modifying business processes and systems architecture to unbundle management reporting from general ledger accounting through analytical staff and data warehouse configuration, and
- streamlined year-end processing starting with FY 2007 year-end processing.

Collectively, these improvements, if realized through the SVU, should contribute to improving NASA's financial tracking and reporting. However, to ensure that the SVU project is successful, an effective project governance structure and process must be established that will integrate and prioritize the diverse requirements that will be levied on the project through the active participation and commitment of key stakeholders. We have initiated a review to determine whether NASA has established an effective project governance structure and process to manage the SVU.

Q4. Is NASA's process for integrating the upgrade into the existing system structured to avoid the kinds of problems that accompanied the rollout of the original core financial module?

A4. We recently initiated an audit of NASA's project governance structure and process to manage the upgrade effort. We intend to focus that audit on determining whether NASA is taking action to avoid problems encountered with the deployment of the Core Financial module. Specifically, we will determine whether NASA has (1) ensured there is adequate leadership and direction to coordinate, evaluate, and monitor the upgrade; (2) resolved data integrity issues and initiated end-to-end business process re-engineering before upgrading the core financial module; and (3) focused training on user needs—all actions NASA did not take during the initial implementation of the core financial module. Given that we only recently begun the audit, we do not yet have any findings to disclose.

Q5. In your opinion, why has NASA been unable to outline either a clear strategy for resolving the weaknesses or develop a corrective action plan over the past three and a half years?

A5. Over the past three and a half years, the Agency has attempted to develop several corrective action plans to correct the identified weaknesses, but those plans have not outlined a clear strategy for resolving those weaknesses, nor have they been put into final form. NASA senior management continues to provide only high-level, broadly worded proposed initiatives that lack sufficient detail and strategies to address the outstanding deficiencies. Moreover, the Agency has not embraced the idea that an effective corrective action plan should be the product of NASA program and institutional leadership, within parameters set by financial management and accounting laws and regulations.

Q6. What do you think it will take for NASA to do so?

A6. My office, along, the Office of the Chief Financial Officer (OCFO), is engaged in a conversation with the NASA leadership for identifying the best path forward. However, for a corrective action plan to come to fruition, the collaboration of many organizations within NASA including the OCFO, Center CFOs, institutional leadership, the Integrated Enterprise Management Program Office, mission program offices, and infrastructure and administrative offices both at Headquarters and at NASA Centers is required. A necessary prerequisite for a successful corrective action plan is cross-organizational collaboration and coordination, especially as financial management is an issue that cuts across these many organizations. As each organization within NASA has its own mission, interests, and operational requirements, involvement by each of these organizations is necessary in both the formulation and implementation stages of the plan.

ANSWERS TO POST-HEARING QUESTIONS

Responses by Gregory D. Kutz, Managing Director, Forensic Audits and Special Investigations, GAO

Question submitted by Chairman Ken Calvert

Q1. What are the top three to four financial management issues NASA needs to address and the progress the Agency should make in addressing these issues over the next 12 months?

A1. Because NASA did not adopt disciplined acquisition and implementation practices as part of its Integrated Enterprise Management Program (IEMP) effort, it must now take actions that should have been accomplished prior to implementation in order to produce a system that meets user needs. To minimize the impact of past mistakes and begin to reap the benefits of operating with an integrated financial management system sooner, we believe that NASA should expeditiously implement each of the IEMP recommendations we made in fiscal year 2003. However, there are three issues that should take priority and be addressed immediately.

First, to stabilize and improve the functionality of IEMP, we continue to believe that NASA needs a detailed, comprehensive financial management improvement plan. Such a plan should include the specific improvement activities required to address deficiencies in NASA's systems, processes, and human capital that we and other auditors have identified; dates for completion; how progress will be measured; and clear accountability for each action not completed in a timely and effective manner. Further, the plan should be developed in coordination with the Offices of the CFO, Chief Engineer, and Program Analysis and Evaluation to ensure that it addresses weaknesses associated with external financial reporting as well as internal management decision making capabilities. A detailed, comprehensive financial management improvement plan will not only help NASA develop and implement solutions to its long-standing financial management problems more efficiently and effectively, it will serve as a tool that will allow the Congress to oversee NASA improvement efforts in the coming months and years. By continuing to operate without an adequate financial management improvement plan, NASA risks developing solutions that only partially address its financial management challenges.

Second, NASA must begin implementing its plans to reengineer its contractor cost reporting requirements and processes. Re-engineering NASA's contractor cost reporting process is the key to ensuring that program managers and cost estimators have the information they need to do their jobs as well as the key to obtaining the information needed to properly account for billions of dollars of property, plant, and equipment (PP&E) and materials. Although NASA has indicated that it plans to reengineer its contractor cost reporting requirements by October 2006, many questions remain unanswered as to how NASA will implement these new requirements. For example, it is unclear whether NASA will renegotiate existing contracts to include new contractor reporting requirements or implement these changes prospectively as new contracts are awarded. We suggested at the hearing that, at a minimum, NASA pilot the re-engineered contractor cost reporting requirements and processes using the Crew Exploration Vehicle (CEV) contract. Further, these plans do not consider and have not addressed the issue of property accounting. Until NASA successfully develops a methodology to identify and record capital costs as they occur, the Agency will continue to experience difficulties maintaining effective control over PP&E and ensuring that it is not vulnerable to fraud, waste, and abuse. The key to identifying and recording capital costs as they occur is ensuring that those costs are identified and reported on NASA's contractor cost reports.

Over the next 12 months, NASA's Office of the CFO in partnership with the Office of the Chief Engineer and Office of Program Analysis and Evaluation should, as part of a comprehensive financial management improvement plan, (1) determine what contractor data are needed for both external reporting and internal management decision making, (2) outline the steps NASA needs to take to routinely obtain the contractor data needed, (3) determine how NASA should address deficiencies in contractor cost reporting requirements on existing contracts, (4) ensure that new contractor cost reporting requirements are included in all new contracts, and (5) as part of the disciplined requirements management and testing process discussed below, ensure that IEMP will be able to accommodate the information obtained from contractors.

Finally, NASA must establish core financial system requirements that are consistent, verifiable, and traceable—containing the necessary specificity to minimize requirement-related defects. Requirements represent the blueprint that system de-

velopers and managers use to design, develop, and acquire a system. Improperly defined or incomplete requirements have been commonly identified as a cause of system failure, resulting in systems not meeting their costs, schedules, or performance goals. Due in part to weaknesses in NASA's requirements management and testing processes, the core financial module NASA fielded in June 2003 was not properly configured or designed to meet NASA's financial reporting and management needs. While NASA has improved its requirements management and testing processes since it implemented the core financial module in June 2003, the effectiveness of these processes cannot be determined until they are used for the software upgrade to the core financial module, which is scheduled to be completed in October 2006. As part of this upgrade, NASA plans to redefine the requirements for the core financial module and has cited this upgrade as the solution to many of its current IEMP problems. However, unless NASA takes the time to effectively implement disciplined requirements management and testing processes, the system will continue to fall short of NASA's expectations. Therefore, over the next year, it is critical that NASA provide the management support and sustained leadership needed to successfully implement this important initiative.

Questions submitted by Representative Mark Udall

Q1. What is NASA's biggest challenge with respect to improving its financial management situation?

A1. While NASA has focused much attention on obtaining an unqualified or "clean" opinion on its financial statements, this will not be NASA's greatest financial management challenge. Instead, NASA's greatest challenge to improving its financial management operations will be ensuring that its financial management operation fully supports and is integrated with its program management decision making. As we and others have reported in the past, NASA's financial management difficulties are rooted in an agency culture that has not viewed financial management as an integral part of the Agency's program management decision process. Successfully stabilizing and enhancing NASA's financial management system are essential to enabling the Agency to provide its program managers with the kind of timely, relevant, and reliable information that they need to manage cost, measure performance, and make program-funding decisions. However, NASA cannot rely on technology alone to solve its financial management problems. Rather, NASA must transform its financial management organization into a customer-focused partner in program results.

Clear, strong executive leadership will be critical for ensuring that NASA's financial management organization delivers the kind of analysis and forward-looking information that the Agency needs to effectively manage its many complex programs. To be effective, such leadership must be combined with effective organizational alignment, strategic human capital management, and end-to-end business process improvement. This goes far beyond merely obtaining an unqualified audit opinion. It requires that agency financial managers focus on their overall operations in a strategic way and not be content with an automated system that helps the Agency get a "clean" audit opinion once a year without providing additional value to the program managers and cost estimators who use its financial data.

Q2. What material weakness will be the most challenging for NASA to correct?

A2. The material weakness that presents NASA with the greatest challenge to correct will likely be its internal controls over PP&E and materials. As discussed previously, NASA has yet to develop a methodology to identify and record capital costs as they occur—which will ultimately require NASA to re-engineer its contractor cost reporting processes. As a result, the Agency continues to experience difficulties maintaining effective control over PP&E and ensuring that it is not vulnerable to fraud, waste, and abuse.

Q3. Given the fact that NASA has implemented a new travel system, why is NASA having difficulty tracking and reporting travel costs?

A3. Many of the problems we encountered when trying to obtain information on NASA's travel costs during our recent audit of NASA's utilization of passenger aircraft can be linked to weaknesses associated with NASA's financial management system. However, NASA's failure to properly classify the cost associated with its use of passenger aircraft as a travel expense was not a system-related weakness. Instead, it was a failure on the part of NASA to fully understand how it does business and properly capture the cost associated with doing business. According to NASA officials, the only expenditures it classifies as travel related costs are (1) expendi-

tures that are submitted on employee travel vouchers through NASA's travel manager system and (2) centrally billed travel card expenditures. Travel expenditures that were paid for on contract were not captured as a travel related cost. For example, it was not uncommon for NASA to utilize its own passenger aircraft or other charter aircraft services as a means of transportation for business travel. However, because NASA paid for these passenger aircraft services using a contract, expenditures associated with this travel were not classified as a travel cost.

Q4. Will NASA's planned core financial system upgrade address the problems described by GAO and NASA's Office of the Inspector General (OIG) at the hearing and is NASA's process for integrating the upgrade into the existing system structure intended to avoid the kind of problems that accompanied the rollout of the original core financial module?

A4. It is too early to predict whether NASA's planned core financial system upgrade will address the problems we and the NASA OIG have outlined in our testimonies or whether NASA's upgrade process will avert the kind of problems that accompanied the rollout of the original core financial module. NASA's success will depend on whether the Agency follows the disciplined requirement management and testing processes we have recommended in our prior reports on this topic. As discussed previously, unless NASA takes the time to effectively implement these disciplined processes, the system will continue to fall short of NASA's expectations. This will require more than just CFO involvement. The mission functions of NASA will need to play a key role in determining what the new system needs to provide and event-driven project schedules will need to be developed to support this upgrade. If NASA views the upgrade as a "fix" for its financial statement problems and adopts the same schedule-driven approach that was used in its original efforts, then the upgrade has little likelihood of addressing the long-standing financial management system weaknesses.

Further, many of the financial management problems we and the OIG have discussed—including problems associated with providing program managers and cost estimators with the information they need to do their jobs and obtaining the information needed to properly account for PP&E and material—will not be resolved by the systems upgrade alone. As discussed previously, re-engineering NASA's business processes—including its contractor cost reporting process—will be the key to resolving many of NASA's most challenging financial management problems.

We are currently undertaking a review of the Core Financial System Upgrade and will advise the Committee of any concerns when our work is completed.

Q5. With respect to NASA's failure to develop a complete enterprise architecture, you asked us what specific information is lacking that would affect NASA's ability to complete its financial management system?

A5. The enterprise architecture provides the authoritative frame of reference against which program or system-specific requirements (e.g., functional, performance, data, security) can be vetted to ensure that they are in alignment with corresponding enterprise-wide requirements. Without this frame of reference, program-specific requirements and subsequent design decisions for individual program and system investments, like the financial management system modernization, may later prove inconsistent with the kind of enterprise-wide standards needed to achieve integration and avoid overlap. It is this lack of enterprise-wide information that would affect an agency's ability to complete a financial management system modernization, for example, in a way that is in the best interest of the Agency as a whole.

Q6. Is it accurate to say that the enterprise architecture is for the most part not the Chief Financial Officer's responsibility? If the delay in developing that architecture is a primary reason for the difficulties experienced in the CFO office, who should Congress hold accountable?

A6. An enterprise architecture is a tool to guide and constrain business and system investments in a way that promotes integration and minimizes overlap and duplication across an organization. Thus, enterprise architecture management best practices and federal guidance assign responsibility and accountability for its development and use to a senior-level, executive committee or board, reporting to the head of the organization and consisting of the business leaders from across the organization. Such an executive-level body would include the CFO, who would thus share responsibility and accountability for the enterprise architecture's development and use. Ultimate accountability and responsibility for the architecture would reside with the NASA Administrator.

Q7. What other effects is the lack of a complete enterprise architecture having on management at NASA?

A7. Our work at NASA has focused on the development and use of an enterprise architecture relative to NASA's financial management system. We have not attempted to examine other effects related to NASA having operated without an enterprise architecture.

Appendix 2:

Additional Material for the Record

OSDBU Information Bulletin

Published by the Office of Small & Disadvantaged Business Utilization (OSDBU) of the National Aeronautics & Space Administration (NASA) Headquarters, Washington, D.C. <www.osdbu.nasa.gov>October 2005

NASA SMALL BUSINESS PROGRAM HIGHLIGHTS OF FY 2005

- NASA set **nine (9) agency small business performance records,** including most **total prime and subcontract dollars to small businesses** - $3.65 billion; most total prime and subcontract dollars to minority small and disadvantaged businesses - $921 million; **most prime contract dollars to 8(a) companies**, $546 million; **most total prime and subcontract dollars to women owned** small **businesses**, $847 million; and, the highest percentage of total prime and subcontract dollars to small disadvantaged businesses (which includes minority and women owned businesses and minority educational institutions, $2.2 billion.

- NASA OSDBU produced the **"Role of Small Businesses in NASA's Return to Flight Initiative"**, which highlights the specific role of selected small businesses of all categories who helped to make the STS-114 Return to Flight launch in August 2005 a reality.

- NASA OSDBU coordinated a successful inaugural **"Small Business Solutions Conference"** in New York City which featured four of the seven crew members from STS-114, including Commander Eileen Collins. Conference featured 14 workshops, including significant participation from the **NASA Office of the Chief Information Officer,** which conducted a workshop on the **NASA IT Enterprise Architecture**. The workshop also featured a **"Lessons from the Boardroom"** seminar from past participants on the popular **"The Apprentice"** reality television show.

- NASA OSDBU conducted its **9th Annual Mentor Protégé Program Education and Training Conference** in Washington, D.C. One of the top mentor protégé relationships of the year was that of an agreement signed between **Mainthia Technologies, Inc**. of Middleburg, Ohio and **the Boeing Company**. Under the agreement Manthia will be supplying repair and maintenance parts for the **International Space Station**. This will lead to Boeing outsourcing about $20 million of its space station logistics business through FY 2007.

- The NASA OSDBU has a member of its staff on the Government-wide **Electronic Subcontract Reporting System Council** after being one of the first Federal agencies to automate its system in which its major prime contractors report its subcontracting achievements with small businesses.

- NASA OSDBU served as **subject matter experts** on a number of NASA's major contracts, including the **Human Robotics and Technologies Contract, the Crew Exploration Vehicle Contract, and the NASA Shared Services Center Contract (NSSC).** On the **NSSC Contract**, which was awarded to CSC, the NASA OSDBU negotiated **a 40% percent small business subcontracting goal.**

- In conjunction with its Prime Contractors Roundtable, the NASA OSDBU produced a publication entitled, ***Marketing to Major Corporate Prime Contractors of the National Aeronautics and Space Administration,*** which gives tips on how small businesses should effectively market to NASA's large contractors for subcontract opportunities. The NASA OSDBU also updated its publication entitled, ***NASA's List of Major Corporate Prime Contractors,*** which is an information-based directory which shows small businesses how to reach the points of contact within major corporations.

- The NASA OSDBU also produced the fifth edition of its publication, ***NASA IT Guide for Small Businesses,*** which is available on the NASA OSDBU website at www.osdbu.nasa.gov

- NASA was presented with the **"Top Government Agency for Multicultural Business Opportunities Award,"** after a nationwide online election of diverse small business owners conducted by **Diversitybusiness.com** in which NASA received more votes than any major contracting agency for providing contracting opportunities to multicultural businesses. The Small Business Administration awarded NASA the **Frances Perkins Vanguard Award** for its contract accomplishments with women-owned businesses. OSDBU staff members received individual recognition, including the **"Man of the Year Award,"** from ***Minority Enterprise Advocate*** Magazine, a **Space Flight Awareness Award** from NASA, and a Plaque of Appreciation from a chapter of the **African American Chamber of Commerce**.

- NASA's two major small business conferences were successfully held in conjunction with the **Jet Propulsion Laboratory** in Los Angeles, California and the **Kennedy Space Center** at Port Canaveral, Florida . Each conference netted over 1200 and 1000 attendees respectively.

- In conjunction with NASA Office of Education, the NASA OSDBU conducted a national workshop at the Goddard Space Flight Center for **Tribal Colleges** all over the country entitled, ***"Contracting with NASA as a Minority Serving Institution."***

- NASA OSDBU placed all of its major publications on its website.

- NASA OSDBU held its **13th Annual Minority Business and Advocates Awards Ceremony** which featured a "State of Small Business at NASA Address" by the NASA Administrator.

EXECUTIVE SUMMARY

AGENCY RECORDS SET

➢ NASA set agency records in the following categories for FY 2004:

- **Total Prime and Subcontract Dollars to Small Business** - $3.65 billion;
  (*Previous Record* - $3.6 billion – FY 2001)

- **Prime Contract Dollars to Small Businesses** - $1.75 billion;
  (*Previous Record*: $1.7 billion – FY 2001; FY 2002)

- **Percent of Total Contract Dollars to Small Businesses** – 15.1%
  (*Previous Record* - 14.9% - FY 2002)

- **Total Prime and Subcontract Dollars to Minority Small Disadvantaged Businesses** - $921 million
  (*Previous Record* - $859.7 million – FY 2002)

EXECUTIVE SUMMARY

AGENCY RECORDS SET (CONT'D)

- **Prime Contract Dollars to 8(a) companies** - $546 Million;
  (*Previous Record*: $497.7 Million- FY 2002)

- **Total Prime and Subcontract Dollars to Women Owned Small Businesses**: $847 million;
  (*Previous Record*: $743 Million – FY 2002)

- **Prime Contract Dollars to Women Owned Businesses** - $323 million;
  (*Previous Record*: $292.5 Million – FY 2002)

- **Subcontract Dollars to Women Owned Businesses** - $524 million;
  (*Previous Record*: $451 Million – FY 2002)

- **Percentage of Total Prime and Subcontract Dollars to Small Disadvantaged Business (SDB)** against 8% SDB goal pursuant to P.L. No. 101-144- 19.4%;
  (*Previous Record*: 19.3% - FY 2001)

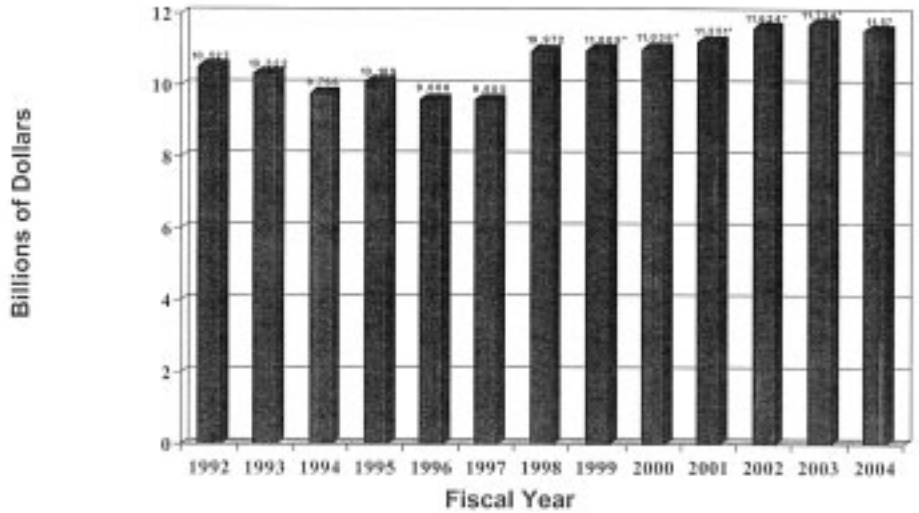
EXECUTIVE SUMMARY

AGENCY RECORDS SET (CONT'D)

- Awarded $104.5 million to **Service-Disabled Veteran Owned Small Businesses** ($64.7 million in Prime Contract Dollars and $39.8 million in Subcontract Dollars).

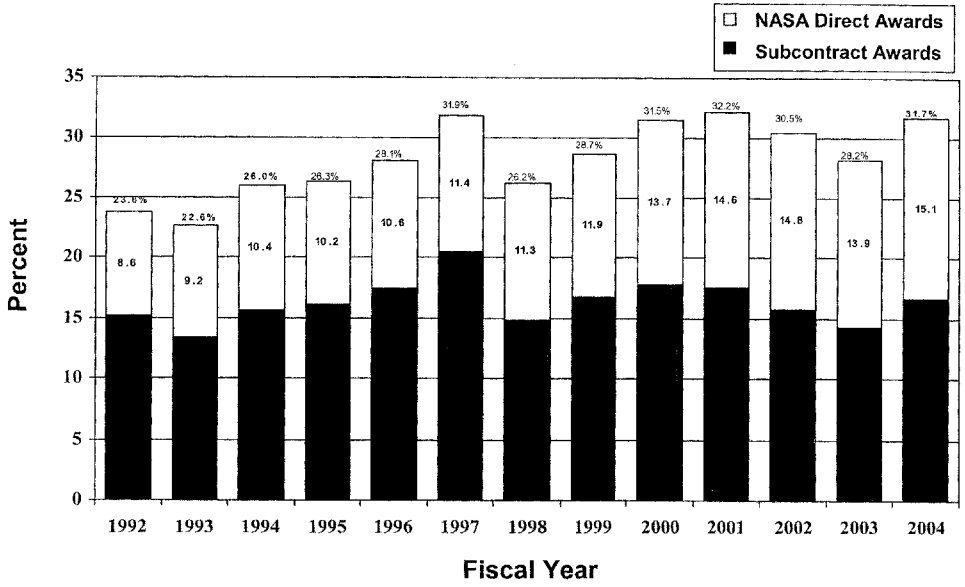
- Awarded $96.4 million to **Historically Underutilized Business (HUB)Zone Contractractors** ($39 million in Prime Contract Dollars and $57.4 million in Subcontract Dollars).

Total NASA Awards to Business—
FY 1992 to FY 2004

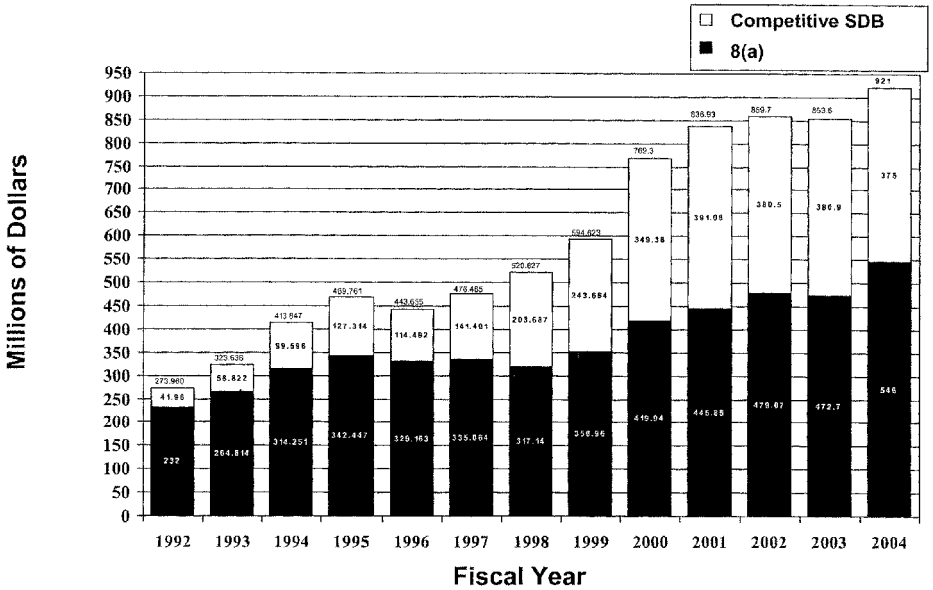


*As reported by Federal Procurement Data Center under new guidelines, which include JPL in the business base.

Small Business Percent of Total NASA Dollar Awards



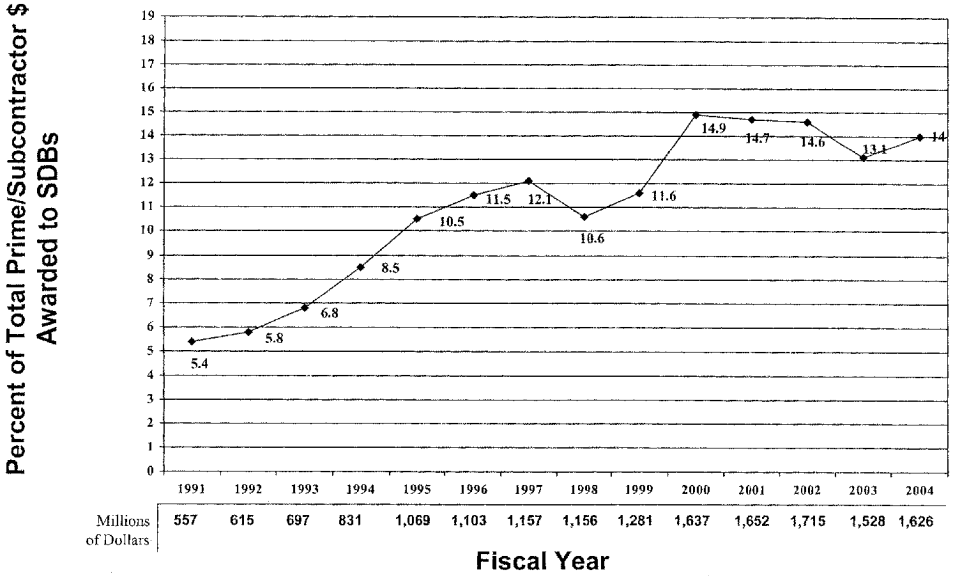
NASA Minority Direct Awards and 8(a) Awards—FY 1992 to FY 2004



Minority Small Disadvantaged Business Awards
Fiscal Years 1994-2004 (in Millions)

	Fiscal Year										
	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
Total Awards to Business	$9,799	$10,109	$9,606	$9,605	$10,972	$11,009	$11,036	$11,251	411,624	$11,734	$11,570
Large Business Awards to SDB	$416.8	$598.9	$659.1	$680.2	$635.4	$686.1	$868.0	$817.9	$833.0	$674.3	$705
Direct Awards to SDB	$431.8	$469.8	$443.7	$476.5	$520.7	$594.6	$769.3	$836.9	$859.6	$853.6	$921
Total Awards to SDB	$830.6	$1068.7	$1,102.8	$,1156.7	$1,156.1	$1,280.7	$1,637.3	$1,654.8	$1,692.6	$1,527.9	$1,626
Percent Awards to SDB											
Direct Awards by NASA	4.2%	4.6%	4.6%	5.0%	4.8%	5.4%	7.0%	7.4%	7.4%	7.3%	7.9%
Subcontracted by Primes	4.3%	5.9%	6.9%	7.1%	5.8%	6.2%	7.9%	7.3%	7.2%	5.8%	6.1%
Total Awards	8.5%	10.5%	11.5%	12.1%	10.6%	11.6%	14.9%	14.7%	14.6%	13.1%	14.0%

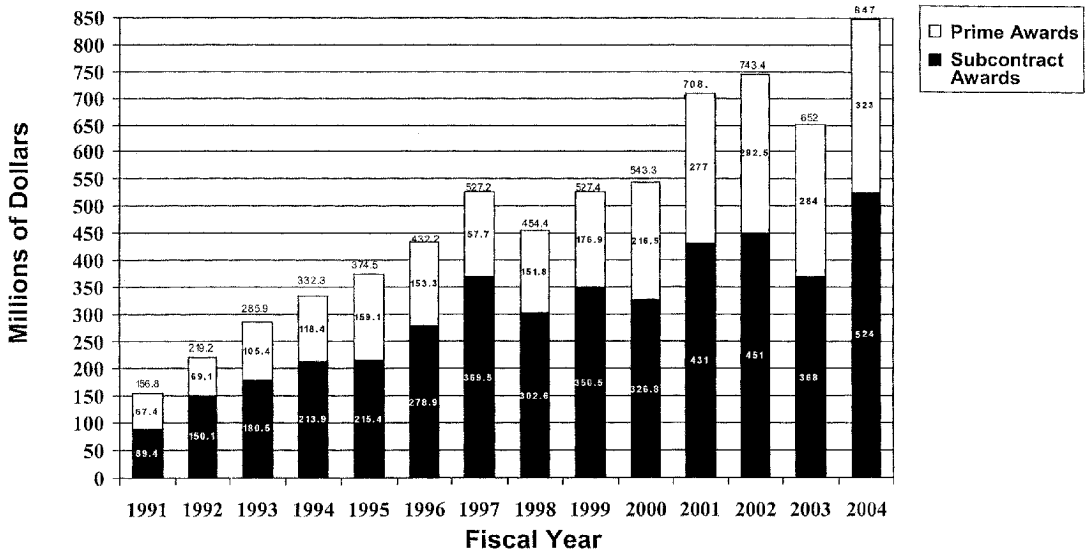
Minority Small Disadvantaged Business Awards Fiscal Years 1991–2004 ($ Millions)



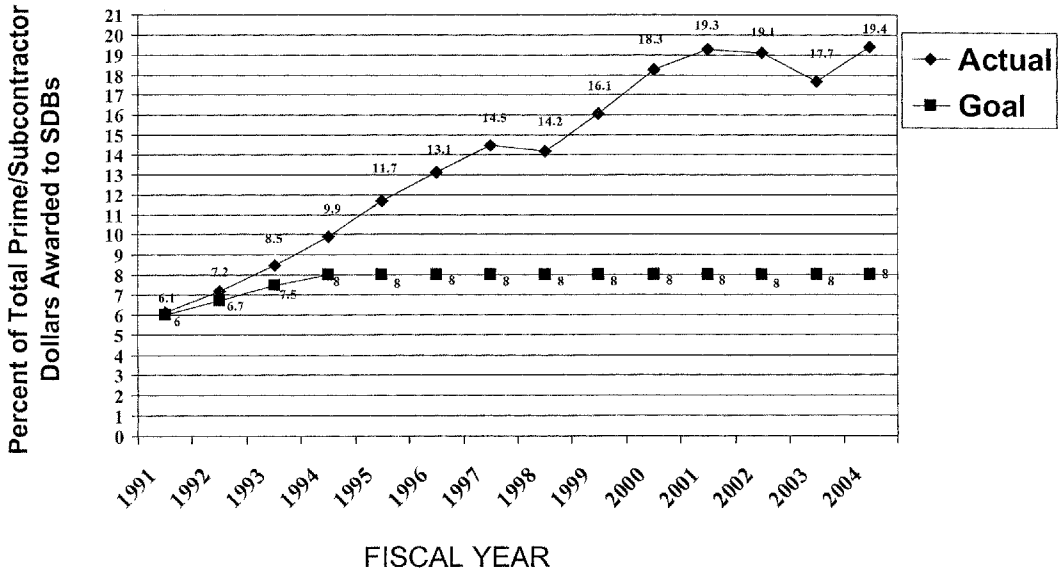
Women-Owned Small Business Awards
Fiscal Year 2004 (in Millions)

Total Awards to Business	$11,570
Large Business Awards to WOSB	$524
NASA Direct Awards to WOSB	$322
Total Awards to WOSB	$846
Percent Awards to WOSB	
Direct Awards (by NASA)	2.8%
Subcontracted (by Primes)	4.5%
WOSB Percent of Total Contract Dollars	7.3%

Total NASA Awards to Women-Owned Small Business—FY 1991–FY 2004



NASA'S 8% Small Disadvantaged Business Goal



FY 2004 Accomplishments of Prime Contract Goals Negotiated with the Small Business Administration

(Dollars in Millions)

Small Business	Goal[1]	Actual[2]	% of Goal
Small Business	$1,854 M / 16.1%	$1,753 M / 15.1%	93.8%
Section 8(a) Business	$424.4 M / 3.69%	$546.0 M / 4.7%	127.4%
Small Disadvantaged Business [non-8(a)]	$345.0 M / 3.0%	$375 M / 3.2%	107%
Women-Owned Business[3]	$575.0 M / 5.0%	$322.8 M / 2.8%	56%

1. Dollar goals computed on percentage of awards based on $11,500 million.
2. Total actual obligations in FY 2004 are equal to $11,570 million.
3. Non-negotiated goal with Small Business Administration.

FY 2004 Accomplishments of Subcontract Goals Negotiated with the Small Business Administration

(Dollars in Millions)

Small Business	(1) Goal	(2) Actual	% of Goal
Small Business	$2.2 M / 49%	$1.9 M / 46%	94%
Small Disadvantaged Business	$745 M / 21%	$705 M / 17%	81%
Women-Owned Business	$450 M / 10%	$524 M / 13%	130%

1. Dollar goals are computed as percentages of prime subcontracted dollars of $4.5 billion.
2. Subcontracted actual obligations are equal to $4,132 billion.

FY 2004 Accomplishments of Prime and Subcontract Goals determined by the Small Business Administration (2)

(Dollars in Millions)

Small Business	Goal		Actual		% of Goal
Service Disabled Veteran Owned Small Business (SDVOSB)	$	%	$	%	%
Prime Awards	$115	1.0%	$64.7	0.56%	56%
Subcontract Awards	$45	1.0%	$39.8	$0.97%	97%
Historically Underutilized Business Zone (HUBZone)					
Prime Awards	$115	1.0%	$39	0.33%	33%
Subcontract Awards	$45	1.0%	$57.4	1.4%	125%

1. Goals are Computed as a Percentage of Total Contract awards of $11,000 million for Direct Awards and as a percentage of subcontracted awards of $4,132 million..
2. Non-negotiated Goals were determined by the Small Business Administration

OSDBU Information Bulletin

Published by the Office of Small & Disadvantaged Business Utilization (OSDBU) of the National Aeronautics & Space Administration (NASA) Headquarters, Washington, D.C. (202) 358-2088 March, 2005

NASA SMALL BUSINESS PROGRAMS & INITIATIVES

Small Business Training Program

To acquaint small businesses with the NASA culture, and to improve their ability to compete for contracts at NASA, the OSDBU developed a "doing business with NASA" training course for those firms primarily engaged in some form of high technology. This three-day intensive course teaches small business how to market to NASA; how to compete for NASA contracts; how to perform work for NASA; and, how to close out contracts with NASA. The course has trained more than 1800 small business owners and executives since its inception in 1994. The workshop is offered four times a year at various NASA field installations and other locations at no cost to small businesses. An advanced course has also been added.

Aeronautics Small Business Forum

On an annual basis the NASA Small Business Program holds a forum at each of its three aeronautics field centers, which are located at Glenn Research Center in Cleveland, Ohio; Langley Research Center in Hampton, Virginia; and, Dryden Research Center in Edwards, California. Four to six high-tech small businesses that possess outstanding capabilities necessary for the successful performance of contracts and subcontracts in the aeronautics arena are competitively selected to give presentations to NASA senior level technical managers, procurement officials and prime contractors. Since FY93, more than $80 million in contracts and subcontracts have been awarded to some of the presenters as a result of this forum.

Semi-Annual Science Forum for Small Business

In partnership with the NASA Science Mission Directorate, the OSDBU, in conjunction with the NASA Science Field Centers, seeks to identify high-tech small businesses to participate in NASA's complex science programs. Each year four to six exceptional small businesses are selected to present their technical capabilities at NASA's three

science centers, which are located at Goddard Space Flight Center in Greenbelt, Maryland; Jet Propulsion Laboratory in Pasadena, California; and, Ames Research Center in Moffet Field, California. These science forums create a "high-level marketing opportunity" for selected small businesses to present their capabilities to NASA managers and technical personnel in the Science arena. More than $40 million has been awarded to various participants due to this Forum.

Space Science Symposium for Small Businesses

On an annual basis the NASA science program managers from headquarters and field centers, along with major contractors, make presentations to small businesses on future science projects and programs that have potential contracting and subcontracting opportunities. Attendees have been awarded more than $20 million in subcontracts as a result of this symposium.

NASA Mentor-Protégé Program

The NASA Mentor-Protégé program is designed to provide incentive to NASA's major prime contractors to assist SDB's and women owned small businesses in expanding their technical capabilities into high technology areas where such firms are currently under-represented. This program enables participation of these firms in NASA's existing high-technology contracts and subcontracts with major prime contractors. A unique feature of this program is that the Mentor must have a prime contract with NASA, or be competing for one, ***and,*** the protégé must have a subcontract with the Mentor as a part of the Mentor-Protégé relationship. It also provides opportunities to SDBs and NASA prime contractors to establish long-term business relationships, and to compete as a team in future NASA contracts. A NASA Mentor- Protégé Conference is held every year in December in Washington, D.C. and attracts hundreds of potential mentors and protégés.

IT Briefing Manual for Small Businesses

In response to the overwhelming number of small businesses contacting NASA that are involved in Information Technology (IT), the OSDBU publishes an ***IT Briefing Manual for Small Businesses*** which includes all of NASA's current contract and subcontracts, center by center, in the IT field. It includes the contract numbers, dates when contracts are expiring, levels of current small business participation for each contract and a list of contact persons and phone numbers at all of the field centers.

Principles of Effective Teaming Agreements

This course is taught periodically to teach small businesses the fundamentals of effective teaming agreements. On occasion small businesses have expressed concern about being

on a team to compete for a contract and then not getting what was promised to them after their team wins the contract. This seminar is designed to enable small businesses to understand the legal structure of written teaming agreements, as well as factors to consider when choosing a potential teaming partner.

E-Mail Notification of Procurements

Under this initiative small businesses can sign up for immediate e-mail notification of the types of NASA procurements in which they are interested or the NASA Center(s) with which they want to work. This no-cost electronic notification for small businesses gives them prompt and easy access to business opportunities at all NASA Centers and eliminates the paperwork such firms previously had to submit to each NASA Center. This service can be accessed at: <http://prod.nais.gov/cgi-bin/nens/index.cgi>

ISO 9000 Certification Awareness Training

In anticipation of future competitive trends, NASA has encouraged small, disadvantaged, and women-owned small businesses to become ISO 9000 certified. ISO 9000 is a set of quality standards and guidelines for a quality assurance management system that is accepted internationally. Sometimes it is a prerequisite for a company to be ISO-9000 certified before it can perform a NASA contract.

NASA conducts classes at its major conferences that instruct small businesses on the benefits of being ISO 9000 certified, the mechanics of the ISO certification process, and how to accomplish it with minimum expense and administrative burden.

In June 2000 the NASA OSDBU itself became the first and only organization of its kind in the Federal Government to receive its ISO 9001 certification.

Website

The NASA OSDBU has its own website on which it posts all of its programs, initiatives and contract opportunities. See <www.osdbu.nasa.gov> In all outreach presentations the small businesses are referred to the website for details. In addition, when the OSDBU is contacted by small businesses by email about contract opportunities with NASA, they are referred to the website or sent an information package on "How to do Business with NASA." For small businesses that have access to the internet, the OSDBU makes visiting its website a prerequisite before providing one-on-one counseling by appointment.

Dissemination of Promotional Materials

The OSDBU produces a variety of written publications that promote NASA's programs and opportunities geared to small businesses. Whenever possible, NASA ensures that these publications are posted on its webpage. Hard copies are also made available at

office counseling sessions, outreach conferences, workshop presentations, and other NASA small business events.

For example, the NASA OSDBU publishes and distributes the following publications: ***Procurement Bulletins***, alerting small businesses of upcoming contract and subcontract opportunities; ***Information Bulletins***, which notify small businesses of upcoming outreach conferences and program events; ***Legislative Bulletins***, which inform small businesses of relevant pending and recently enacted legislation ; ***Technology Commercialization Bulletins***, which inform small businesses about NASA technologies that are ready to be commercialized; and, ***NASA OSDBU News Bulletin***, a newsletter which informs the public of small business accomplishments on NASA missions.

Conferences

The NASA OSDBU is the co-host and host of two major small business outreach conferences per year. These are "one-stop" conferences where small businesses can attend either one of those conferences and have access to representatives from all of NASA's field centers and all of its major prime contractors. They can also attend pertinent instructional workshops and seminars that are presented as a part of the conferences.

The conferences also give the small business an opportunity to network with each other as well as with various NASA officials and representatives of major corporations. Several small businesses have written to the OSDBU that they obtained contracts and/or subcontracts as a result of attending these conferences. In recent years NASA has allowed such firms to give " testimonials" of their experiences at the start of the conference. The conference are:

- **NASA/Jet Propulsion Laboratory (JPL) High Tech Small Business Conference** held in March of every year in Los Angeles, California
- **NASA Small Business Solutions Conference** will be held in September 2005 in New York City, New York

Several of the NASA Field Centers also host their own small business conferences throughout the year. In addition NASA annually supports more than 150 other conferences around the country that are sponsored by other government agencies and private industry groups.

For information on points of contacts and schedules, go to the NASA OSDBU Website at <www.lalaosdbu.nasa.gov>

NASA'S SPECIAL PROCUREMENT METHODS

1. **Master Buy Plan Process**: All requirements in their conception stage that are anticipated to be over $50 million must come to the NASA Small Business Office for early determination on the type and extent of small business participation.

2. **Uniform Methodology for Determining Small Disadvantaged Business (SDB) Subcontracting Goals**: A uniform Agency process has been developed by the NASA Small Business Office and approved by the Agency, for determining SDB subcontracting goals which provide maximum practicable opportunities. This methodology is a NASA Policy Directive and is used on all contracts over $50 million and is a guide for all other applicable contracts. The methodology is routinely used for all other categories of small business.

3. **Total Contract Value**: All subcontracting goals are expressed in terms of percentage of *total contract value,* and *not* the percentage of dollars subcontracted in order to better track the actual progress we are making. The latter method can be deceptive in that it can be showing huge percentages of a minimal base of dollars actually subcontracted.

4. **Solicitations**: All categories of small business goals are stated in NASA solicitations. Such numbers represent what NASA has concluded to be the "maximum practicable opportunities" utilizing its uniform methodology.

5. **Source Selection**: In accordance with Federal regulations SDB subcontract utilization has a specific evaluation point value in all major NASA procurements that require competitive proposals.

6. **Award Fee**: On Cost Plus Award Fee Contracts, as much as 15 percent of the award fee due the contractor on a semi-annual basis is dedicated to an evaluation of the prime contractor's progress in meeting its small business subcontracting goals.

7. **Goaling**: The OSDBU regularly tracks the progress of its HQ and its field centers in achieving its prime small business contract goals. Figures are tabulated on a monthly basis and sent to all procurement officers. They are able to see where they are at the end of a given month and where they need to be. They also can compare their progress against other Field Installations, including Headquarters.

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OSDBU INFORMATION BULLETIN

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UPCOMING EVENTS THAT NASA WILL EITHER HOST OR SIGNIFICANTLY PARTICIPATE IN

November 8, 2005: "Regional Business Opportunity Fair; **(Vernon Vann – NASA Langley Research Center – Matchmaker)** sponsored by ShoWorks; Chesapeake conference Center, Chesapeake, Virginia; Website: http://www.allianceforbiz.com/RBOF/registration.htm

November 8, 2005: "Minority Enterprise Entrepreneurs Conference 2005," sponsored by the **Minority Business and Professionals Network;** Zanzibar on the Waterfront, Washington, D.C., For more info: Call (703) 768-7031 or email at info@mbpn.org

November 8, 2005: "Advanced Minority Business Executive Program: Growing the Minority Business to Scale," **Dartmouth College Tuck School of Business**, Hanover, New Hampshire; (Ralph Thomas, Guest Instructor); Contact: Paula Graves at 603-646-3740

November 9, 2005: **Annual Minority Business Exchange (MBX);** sponsored by United Technologies Corp.(UTC), Hamilton Sundstrand, Windsor Locks, Connecticut; **(Ralph Thomas – Speaker)** Contact: Richard Kaufman at rich.kaufman@hs.utc.com

November 15, 2005: "Set-Aside Alert Publication's Small Business Breakfast," sponsored by Business Research Services, Inc., Marriott Fairview Park Hotel, Falls Church, Virginia; (Ralph Thomas – Keynote Speaker) Website: www.nbci.com

November 29-30: NASA Mentor Protégé Program Conference, Sponsored by NASA OSDBU, Hamilton Crowne Plaza Hotel, Washington, D.C.; **(NASA OSDBU Staff)**; Website: www.nasamp.com

January 10, 2006: "How Small and Minority Businesses Can Procure with the Government Conference," sponsored by the Partnership's Small Business Development Council and the Minority Business Development Council, **Buffalo, New York.** (Ralph Thomas – Speaker); Contact: Tracey Houston <thouston@thepartnership.org>

February 2-4, 2006: "Third Annual **Minority Serving Institutions Research Partnerships Conference**," in collaboration with the Environmental Protection Agency (EPA), National Aeronautics and Space Administration (NASA), Department of the Interior, and the Department of Commerce, University of Texas, Pan American, Edinburg, Texas; Website: http://citec.panam1.edu/msirc

March 6-8, 2006: "18th Annual **NASA/Jet Propulsion Laboratory (JPL) High-Tech Small Business Conference**," sponsored by the Jet Propulsion Laboratory, Westin Los Angeles Airport Hotel, Los Angeles, California; Website: http://acquisition.jpl.nasa.gov/boo Point of Contact: Jasmine Colbert 818.354.8689 Email:jasmine.n.colbert@jpl.nasa.gov

April 6, 2005: "17th National Training Conference & Small Business Expo, sponsored by the **National Association of Professional Asian American Women (NAPAW), (Ralph Thomas – Worshop Speaker on "Teaming Agreements")** Bethesda North Marriott Hotel & Conference Center, North Bethesda, Maryland; Website: www.napaw.org

April 20, 2005: "Federal OSDBU Directors Procurement Conference," sponsored by the Federal Offices of Small and Disadvantaged Business Utilization; Showplace Arena, Upper Marlboro, Maryland; Website: www.osdbu.gov

MAJOR AWARDS – NASA OFFICE OF SMALL AND DISADVANTAGED BUSINESS UTLIZATION (1994 – 2005)

2005	***Top Government Agency for Multicultural Business Opportunities***	DiversityBusiness.com
2005	***Frances Perkins Vanguard Award***	U.S. Small Business Administration
2005	***Man of the Year***	Minority Enterprise Advocate Magazine
2005	***Space Flight Awareness Award***	NASA
2004	***Minority Business Entrepreneur Advocate of the Year***	Asian Enterprise Magazine
2004	***Voted one of Top 20 Government Agencies --#3 Rank***	DiversityBusiness.com
2002	***Frances Perkins Vanguard Award***	Small Business Administration
2002	***Advocate of the Year Award***	National Association of Small Disadvantaged Businesses
2001	***Presidential Rank of Distinguished Executive***	Executive Office of the President
2001	***Outstanding Leadership Award***	NASA
2001	***Plaque of Appreciation***	Federal Bar Association
2001	***50 Influential Minorities in Business***	Minority Business and Professionals Network
2000	***Presidential Rank of Meritorious Executive***	Executive Office of the President
2000	***Man of the Year***	Minority Business and Professionals Network
2000	***Public Sector Award***	U.S. Pan Asian American Chamber of Commerce
2000	***Minority Business Advocate of the Decade***	Minority Business News, USA
1999	***Special Honor Award***	World Association for Small and Medium Enterprises
1999	***Ronald H. Brown Award for Governmental Excellence***	National Coalition of Minority Businesses
1998	***Certificate of Special Congressional Recognition***	House of Representatives
1997	***Exceptional Achievement Medal***	NASA
1996	***Small Business Advocate of the Year***	Asian American Business Roundtable
1996	***Outstanding Leadership Award***	Federal Small Business Directors Interagency Council
1994	***Exceptional Service Medal***	NASA

*Includes Awards to Assistant Administrator Individually as well as on behalf of Small Business Program

Report Card On Small Business Hiring Practices Seen As Unfair To NASA. The Federal Times (11/14, Thomas) reports, "The Democratic staff of the House Small Business Committee recently released its annual report card that purports to grade federal agencies on their small and disadvantaged business utilization. ... In fiscal 2004, NASA had its best year ever in small and disadvantaged business performance. It broke agency records in nine different small-business categories. Such figures represent double, triple and quadruple increases in both percentages and dollars spent with small, minority- and women-owned businesses since fiscal 1992 with essentially the same overall contracting budget. In addition, there is special congressional legislation that establishes an 8 percent goal for NASA in prime and subcontract dollars with small disadvantaged businesses, including women-owned businesses and minority educational institutions. NASA achieved 19.4 percent against that goal. Moreover, NASA is well-respected in the small-business community. In a nationwide online poll of diverse small-business owners conducted in 2004 by Diversitybusiness.com, the agency received the most votes of any major contracting agency for providing contracting opportunities to multicultural businesses. In the last two years alone, NASA has received honors and recognition from the Small Business Administration, the National Women's Business Center, Asian Enterprise Magazine, and Minority Enterprise Advocate Magazine, to name a few. Yet the House report card gave NASA an F. Why? Because the report card is limited solely to the numerical prime-contract dollars and takes an across-the-board approach with each federal agency, without regard to their unique budgets, products or services, its methodology generated some grades inconsistent with an agency's actual, overall performance with small businesses."