



NASA OFFICE OF INSPECTOR GENERAL

**OFFICE OF AUDITS
SUITE 8U71, 300 E ST SW
WASHINGTON, D.C. 20546-0001**

September 27, 2021

TO: Karla Smith Jackson
Assistant Administrator for Procurement

SUBJECT: Summary of Results of Incurred Cost Audits (IG-21-028)

We are providing this memorandum summarizing the results of four incurred costs audits procured by our office during fiscal year (FY) 2020.¹ These audits were intended to identify potential gaps and risks in audit coverage of NASA prime and subcontract costs. Accordingly, we engaged audit services for four NASA contractors and subcontractors who were not included in the Agency's (FY 2020) audit procurement plan.

We utilized NASA's pre-established Agency-wide audit support services contract with certified public accounting firms and interagency agreements with the Defense Contract Audit Agency and the Department of the Interior, Interior Business Center. Based on the established memorandums of agreement and statements of work, the objective of each audit was to examine the costs claimed on NASA contracts and to express an opinion as to whether the costs are: allowable under the Federal Acquisition Regulation (FAR) and Cost Accounting Standards (if applicable), reasonable, applicable to the contract, and not prohibited by statute or regulation. The audits were to be conducted in accordance with Generally Accepted Government Auditing Standards. See Table 1 for a profile of the four audits.

¹ Incurred cost audits assess whether the direct and indirect costs contractors charge are allowable, allocable, and reasonable.

Table 1: Summary of Procured Audits

Contractor	Years Audited	Audited Costs ^a	Type of Audit	Auditor
KBR Engineering, Science, and Space Segment	2018	\$246,364,881	Direct and Indirect Incurred Cost Audit	Defense Contract Audit Agency
Malin Space Science Systems, Inc	2017 2018 2019	55,618,409	Direct Incurred Cost Audit	Castro & Company, LLC
HX5, LLC	2018 2019	21,776,552	Direct Incurred Cost Audit	Department of the Interior, Interior Business Center
MDA US Systems, LLC	2016 2017 2018	15,494,055	Direct Incurred Cost Audit	Regis & Associates, PC

Source: NASA OIG presentation of audits procured.

^a The audited costs include only NASA contract costs.

RESULTS OF AUDITS

The resulting audit reports were issued to the relevant NASA contracting officers and provided to the Office of Inspector General. The reports will be used by NASA contracting officials to conduct award, administration, and closeout functions of contracts. Our office is reviewing the results to determine if there are any systemic issues that warrant additional audit coverage of NASA contractors and subcontractors. Our intention is to continue to explore the potential gaps and risks of audit coverage in future years. Each of the four reports is summarized below.

KBR Engineering, Science, and Space Segment

The report issued by the Defense Contract Audit Agency, dated August 27, 2020, cites a qualified opinion and identifies two material noncompliances. The auditors questioned 0.13 percent of the contractor's claimed overhead rate due to fringe expenses not complying with Cost Accounting Standards and the FAR requirements. The contractor disagreed with the questioned costs. The second noncompliance was unrelated to NASA contracts. The auditors found no issues with the claimed direct costs on NASA contracts and did not make any recommendations in the report. The questioned overhead rate will be settled by the administrative contracting officer when establishing the final indirect rates, and those rates will be applied by the NASA contracting officers when closing out contracts.

The report also identified four scope limitations, which resulted in the auditors not completing all necessary procedures and reporting a qualified opinion. First, the auditors utilized scanned images to examine source documentation and were unable to validate the scanned data to original source documentation. Second, the auditors were unable to conduct physical observation of the contractor employees performing their assigned jobs or perform alternative procedures to verify employee existence. The third scope limitation related to the auditor's limited access to contractor records and

personnel due to the Coronavirus (COVID-19) pandemic. Finally, the auditors were unable to obtain sufficient documentation from the contractor to determine reasonableness for a number of intercompany transfer transactions.

Malin Space Science Systems, Inc.

The report issued by Castro & Company, LLC, dated March 4, 2021, cites a qualified opinion due to a scope limitation related to the auditor's inability to determine the reasonableness of over \$23 million in subcontractor and material costs. The contractor was unable to provide cost or pricing data in the form of quotes from multiple subcontractors and vendors to support the sole source justifications. Additionally, the auditors questioned \$2,379 in direct travel costs, which exceeded the allowable per diem and airfare rates for travel.

The auditors made four recommendations. Two were directed to Malin Space Science System management to design and implement a policy and procedures to perform and document an appropriate cost and price analysis prior to incurrence of subcontracts costs, and to conduct training for project personnel for the preparation and approval of expense reports to ensure costs claimed are allowable and in accordance with regulations. Malin Space Science Systems agreed with the auditor's findings. The other two recommendations were directed to NASA to follow up with the contractor related to the cost analysis and questioned travel costs to determine the appropriate corrective action.

NASA's administrative contracting officer has requested a corrective action plan from the contractor by September 30, 2021. Once received, the administrative contracting officer will determine whether the actions of Malin Space Science Systems, Inc., are responsive to the recommendations. Prior to closing out the contracts, NASA contracting officers will determine whether to recover the questioned direct travel costs.

HX5, LLC

The report issued by the Department of Interior Business Center, dated July 30, 2021, cites a qualified opinion due to two scope limitations. However, except for the scope limitations described below, the auditors found that HX5's proposed direct amounts for fiscal years 2018 and 2019 complied, in all material respects, with the contract terms and regulations.

The scope limitations related to the auditor's reliance on electronically scanned documents because they were unable to verify scanned documents to original source documentation. Additionally, due to the COVID-19 pandemic, the auditors were unable to conduct real-time testing of labor and could not completely mitigate the risk regarding the existence of employees and allocability of labor costs.

MDA US Systems, LLC.

The report issued by Regis & Associates, PC, dated August 27, 2021, states the NASA direct cost identified in the incurred cost proposal submissions, as adjusted, presents fairly, in all material respects, the allowable NASA direct costs claimed for the calendar years 2016, 2017, and 2018; in conformity with provisions of the contracts and the FAR. However, the auditors questioned \$982,800 in direct travel, material, subcontract, and labor costs that did not meet the requirements outlined in the FAR. Specifically, the auditor's questioned over \$5,600 in direct travel costs for airfare, rental car, and per diem costs that were above the amounts allowable per regulation or that the auditors were unable to substantiate due to a lack of documentation to support the costs.

Additionally, approximately \$54,000 in direct material and direct labor costs were questioned as unsupported because the contractor could not provide vendor invoices, delivery receipts, or payroll records. Lastly, the auditors questioned over \$923,000 in subcontractor labor costs due to MDA US Systems, LLC declining to provide detailed support such as payroll information or timecards for these costs incurred by its parent company which, in the auditor's opinion, are considered related party transactions. MDA US Systems, LLC did not concur with the questioned costs related to the unsupported subcontract costs. The contractor stated the transactions were done at arm's length between two separate entities and that the systemic information provided to the auditors contained all the information needed to validate the sample transactions. The auditors disagreed and stated that they could not determine from the systemic information provided whether the related party costs transferred were at cost as required per the FAR. NASA's contracting officers will make a determination on whether to recover the questioned costs prior to closing out the contracts.

The report also identified two internal control deficiencies. The first was attributed to the inability of MDA US Systems, LLC to provide sufficient and competent audit documentation to support several transactions. The contractor did not retain copies of receipts and invoices from its legacy accounting system. Second, as early as 2016, the contractor recorded non-affiliated subcontractor and parent company transactions as direct labor instead of subcontractor costs in the financial records. The errors were eventually discovered and corrected in fiscal year 2018. The auditors made two recommendations to MDA US Systems, LLC to update its record retention policies and procedures and conduct periodic reviews of these policies. Additionally, the auditors recommended that the contractor enhance its timekeeping polices and its written procedures related to setting up contracts and subcontracts in the accounting system, and to strengthen procedures for reviewing and reconciling of subcontractor and intercompany labor transactions. The contractor concurred and stated that those deficiencies have been remediated. The NASA administrative contracting officer will make a final determination on whether the contractor's actions are responsive.

The auditors are responsible for the reports described above and the conclusions expressed. Accordingly, we do not express any opinion on the contractors' incurred costs. Going forward, we may procure additional audits and report systemic issues to your office. If you have questions or wish to comment on the quality or usefulness of this memorandum, contact Laurence Hawkins, Audit Operations and Quality Assurance Director, at 202-358-1543 or laurence.b.hawkins@nasa.gov.

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cc: Rochelle Overstreet
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