DOD CHARGES TO NATIONAL AERONAUTICS AND SPACE ADMINISTRATION FOR CONTRACT ADMINISTRATION SERVICES

Report No. 94-114

May 25, 1994

Department of Defense

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Acronyms

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<td>Air Force Contract Management Division</td>
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MEMORANDUM FOR COMPTROLLER OF THE DEPARTMENT OF DEFENSE
DIRECTOR, DEFENSE LOGISTICS AGENCY

SUBJECT: Audit Report on DoD Charges to National Aeronautics and Space
Administration for Contract Administration Services
(Report No. 94-114)

This audit report is provided for your review and comments. The audit was
performed at the request of the Deputy Comptroller of the Department of Defense
(Management Systems) and the Comptroller, National Aeronautics and Space
Administration (NASA). The report discusses DoD billings to NASA for contract
administration services. Comments on a draft of this report were considered in
preparing the final report.

We did not receive comments from the Comptroller of the Department of
Defense on the draft of this report. As a result of management comments from the
Defense Logistics Agency, we revised two recommendations addressed to the Defense
Logistics Agency. DoD Directive 7650.3 requires that audit recommendations be
resolved promptly. Therefore, all addresses must provide final comments on the

We appreciate the courtesies extended to the audit staff. Please contact
Mr. Joseph P. Doyle, Audit Program Director, at (703) 692-3218 (DSN 222-3218) or
Ms. Carolyn R. Milbourne, Audit Project Manager, at (703) 692-3109
(DSN 222-3109) if you have any questions on this audit. Appendix F lists the
distribution of this report. The audit team members are listed inside the back cover.

David K. Steensma
Deputy Assistant Inspector General
for Auditing
DOD CHARGES TO NATIONAL AERONAUTICS AND SPACE ADMINISTRATION FOR CONTRACT ADMINISTRATION SERVICES

EXECUTIVE SUMMARY

Introduction. This audit was in response to a request from the Deputy Comptroller of the Department of Defense (Management Systems) and the Comptroller, National Aeronautics and Space Administration (NASA). DoD performs contract administration services for NASA on a reimbursable basis. Between FYs 1988 and 1991, DoD billed NASA $148 million for 4 million hours of contract administration services. Contract administration services include quality assurance work.

In 1991, the Inspector General, NASA, issued an audit report that included two concerns to be resolved by the Inspector General, DoD. The Inspector General, NASA, questioned the use of an 18.5 percent surcharge that the Air Force Contract Management Division applied to direct quality assurance hours billed to NASA. The Air Force Contract Management Division ceased to exist in July 1990, and all offices formerly under its jurisdiction are now managed by the Defense Contract Management Command, Defense Logistics Agency. The 1991 NASA audit report also concluded that DoD supervisors and clerical personnel incorrectly charged direct hours to NASA projects when performing indirect duties. NASA requested the Inspector General, DoD, to determine whether the surcharge was appropriate, whether the DoD supervisor and clerical direct-hour charges were appropriate, and whether NASA should receive a reimbursement from DoD.

Objectives. The audit objectives were to determine the appropriateness of:

- an 18.5 percent surcharge applied to direct quality assurance charges billed to NASA by the former Air Force Contract Management Division, and
- direct hours billed to NASA for DoD supervisors and clerical personnel.

Audit Results. We could not confirm the appropriateness of the 18.5 percent surcharge rate used by the former Air Force Contract Management Division. Although the Air Force Contract Management Division and NASA decided on the 18.5 percent surcharge rate in 1985, the documentation to support the decision was not available. We believe that NASA should reimburse DoD for quality assurance charges for nonprogram hours worked that benefit both DoD and NASA, but that are not attributable to a particular contract. Based on discussions with personnel involved in the development of the 18.5 percent surcharge, and the decision between the Air Force Contract Management Division and NASA, we support DoD's use of a method to recoup the cost of nonprogram hours.

After assuming responsibility for contract administration services from the Air Force Contract Management Division in 1990, the Defense Contract Management Command stopped applying the 18.5 percent surcharge. Further, Defense Contract Management Command did not appropriately bill NASA for supervisors who performed direct work for NASA. Details are discussed in Appendix A.
The Defense Contract Management Command did not properly identify and bill NASA for all contract administration services provided. DoD underbilled NASA an estimated $12.5 million ($7.8 million for nonprogram hours and $4.7 million for unbilled direct labor hours) for the period July 1990 through September 1993. For further details, see Part II.

Internal Controls. The audit did not identify any material internal control weaknesses. See Part I for details of our review of internal controls.

Potential Benefits of Audit. Implementation of the recommendations will result in improved DoD recoupment procedures for contract administration services provided for NASA. Potential monetary benefits of about $12.5 million and an undeterminable amount of future benefits should result from billing NASA for all contract administration services DoD provides. The actual amount collected will depend upon negotiations between DoD and NASA. Appendix D details the potential benefits resulting from the audit.

Summary of Recommendations. We recommend that the Comptroller of the Department of Defense amend the interagency agreement with NASA to include recouping NASA's share of nonprogram hours beneficial to both NASA and DoD and recoup from NASA the cost of previously unbilled nonprogram hours and direct labor hours. We recommend that the Defense Logistics Agency develop a method for DoD to allocate the total contract administration services nonprogram hours worked to NASA and DoD and incorporate the method agreed upon into the billing system. Furthermore, we recommend that the Defense Logistics Agency calculate the basic hourly rate according to the coding in the payroll and accounting system, and notify Defense Plant Representative Office personnel of the proper method of charging according to their coding in the system as productive, supervisory, or administrative.

Management Comments. The Defense Logistics Agency nonconcurring with the recommendations to develop and negotiate a method with NASA for recovering nonprogram costs and to incorporate the agreed-upon method into the billing system. The Defense Logistics Agency maintains that a satisfactory method already exists. The Defense Logistics Agency also disagreed with the draft recommendation to revise guidance to include coding personnel as direct or indirect because all positions are already coded in the payroll and accounting system and this system is used to calculate the basic hourly rate. The Defense Logistics Agency agreed with the internal control weakness on supervisory direct charges but did not consider the weakness material. In addition, the Defense Logistics Agency disagreed with the $12.5 million in monetary benefits. We did not receive comments from the Comptroller of the Department of Defense on a draft of this report. A discussion of the responsiveness of management comments on the recommendations is in Part II of the report. The complete text of management comments is in Part IV of the report.

Audit Response. As a result of management comments, we revised two recommendations made to the Director, Defense Logistics Agency. We do not agree that the existing Defense Logistics Agency method adequately recovers NASA's fair share of nonprogram hour costs, and we still believe that the $7.8 million in potential monetary benefits are valid. We agree that the Defense Logistics Agency draft policy changes should preclude DoD from overcharging NASA for supervisory personnel for future periods. However, the $4.7 million in potential monetary benefits are still valid, because the payroll and accounting system was not fully used to calculate the basic hourly rate. Comments on this final report are requested from the Comptroller of the Department of Defense and the Director, Defense Logistics Agency, by July 25, 1994.
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This report was prepared by the Contract Management Directorate, Office of the Assistant Inspector General for Auditing, Department of Defense.
Part I - Introduction
Introduction

Background

The audit was in response to a request from the Deputy Comptroller of the Department of Defense (Management Systems) and the Comptroller, National Aeronautics and Space Administration (NASA). NASA requested that we review the appropriateness of the 18.5 percent surcharge applied to direct quality assurance hours from August 1985 to July 1990 and of supervisor and clerical direct-hour charges. NASA also requested that we make recommendations with respect to credit adjustments, if any, to NASA.

Contract Administration Services Agreement Between DoD and NASA. To avoid duplication of contract administration services in contractor facilities, DoD and NASA entered into an interagency agreement. The "Agreement between the National Aeronautics and Space Administration and the Department of Defense for Reimbursing the Department of Defense for Contract Administration and Related Support Services," March 5, 1969, (the Agreement) specified that NASA would reimburse DoD for contract administration services provided. NASA uses letters of delegation to specify what contract administration services will be performed by DoD on each NASA contract. Contract administration services include contract administration, property administration and plant clearance, production engineering and support, and quality assurance.


Objectives

The audit objectives were to determine the appropriateness of:

- an 18.5 percent surcharge applied to direct quality assurance charges billed to NASA by the former AFCMD, and

- direct hours billed to NASA for DoD supervisors and clerical personnel.
Scope and Methodology

Locations and Work Performed. We visited DPROs Rockwell, Thiokol, and Michoud-Stennis. The three DPROs accounted for 45 percent of the 858,000 hours and $32.5 million DoD billed NASA for contract administration services in FY 1991. The three contractors are responsible for constructing and testing portions of both the NASA Space Shuttle and the Space Station Freedom.

At the DPROs visited, we reviewed guidance, reimbursement forms, bills, reports, letters of delegation, and personnel data for FYs 1985 through 1992, depending on availability and record retention requirements. Different records had different retention periods. For Air Force, the normal retention period was 1 year. For DLA, the normal retention period was 3 years. In some cases, the records reviewed were obtained from employee personal files. We also reviewed historical information on the AFCMD surcharge; related Inspector General, NASA, workpapers; correspondence between DoD and NASA; and calculations of the NASA rates. We interviewed NASA, DLA, Comptroller of the Department of Defense, and former AFCMD personnel. We reviewed nonprogram hours billed for the period October 1987 through June 1990, when DLA took over from AFCMD and stopped applying a surcharge. In addition, we reviewed direct charges by supervisors and clerical personnel for the period March 1991 through February 1992.

Limitation on Scope. We could not confirm how the 18.5 percent surcharge rate used by the former AFCMD was developed in 1985 because supporting documentation was not available. The records were discarded January 1991, before our January 1992 audit start date, because the retention period had expired. Although documentation was not available, we based the monetary benefits on hours charged and the 18.5 percent surcharge rate.

The conclusions on supervisory charges were derived from a review of prior basic hourly rate calculations. Record availability and retention requirements caused the monetary benefits on the supervisory issue to be derived from a calculation of billed and unbilled hours and the average workyear per employee.

Technical Assistance. A statistician from the Audit Planning and Technical Support Directorate, Office of the Assistant Inspector General for Auditing, DoD, assisted in this audit. The statistician supported the methodology to be used in calculating the monetary benefits and reviewed the methodology and calculations before publication of the report.

Audit Period and Standards. This economy and efficiency audit was made from December 1991 through October 1993 in accordance with auditing standards issued by the Comptroller General of the United States as implemented by the Inspector General, DoD. Accordingly, the audit included tests of internal controls that were considered necessary. Computer-processed data obtained from AFCMD on nonprogram hours were used and were determined to be generally reliable. Appendix E lists organizations and individuals visited or contacted during the audit.
Introduction

Internal Controls

We evaluated DPROs Rockwell, Thiokol, and Michoud-Stennis policies and procedures for billing NASA for reimbursable work. In addition, we evaluated former AFCMD policies and we evaluated current policies and draft policy changes by the Comptroller of the Department of Defense and DLA on NASA reimbursement to DoD for contract administration services. No material internal control weaknesses were identified.

As of March 1994, Defense Contract Management District-South, Defense Contract Management Command, is developing an internal control management program for reimbursement for contract administration services. The internal control management program being developed will include reviews of bills to ensure that supervisors are charging direct hours appropriately. Inspector General, DoD, Report No. 89-060, "Report on the Audit of Reimbursable Billing System at DLA," March 20, 1989, stated that internal controls at DLA were not adequate in the area of reporting and billing for reimbursable services. We did not review the implementation of the DoD Internal Management Control Program because of a separate review of the internal management control program at the Defense Contract Management Command. The Inspector General, DoD, assessed and reported on the adequacy of implementation of the DoD Internal Management Control Program in Inspector General, DoD, Report No. 93-174, "The Internal Management Control Program at the Defense Contract Management Command," September 30, 1993. The report noted no material internal control weaknesses at Defense Contract Management Command associated with the DoD Internal Management Control Program. Appendix D summarizes the potential benefits resulting from the audit.

Prior Audits and Other Reviews

General Accounting Office Report No. NSIAD-92-75 (OSD Case No. 8918), "NASA Procurement--Improving the Management of Delegated Contract Functions," March 1992, states that DoD provided bills with insufficient detail and that NASA did not review the accuracy of the charges. The report recommended that the Administrator, NASA, establish and implement procedures for reviewing bills. The report made no recommendations to DoD. NASA is reviewing a new system being developed by DLA that will allow NASA to review bills in detail.

Inspector General, DoD, Report No. 89-060, "Report on the Audit of Reimbursable Billing System at DLA," March 20, 1989, states that the reimbursable hours billing system needed improvement to ensure DoD billed other Federal agencies and foreign military sales customers for services performed. The report concludes that, during FY 1987 and the first quarter of FY 1988, DLA underbilled Federal agencies and foreign governments about $2.1 million. The report did not recommend recoupment of the $2.1 million.
NASA was included in the $2.1 million underbilling. The report recommended improvements in billing accuracy. DLA is now developing a new billing system.

Inspector General, NASA, Report No. A-MA-90-0001, "Audit of Contract Administration Delegation, Marshall Space Flight Center," September 27, 1991, questions AFCMD application of an 18.5 percent surcharge to direct quality assurance hours. The report concludes that more definitive guidance was needed from both NASA and DoD on the implementation of the Agreement. The report also concludes that supervisors and clerical personnel charged direct time to NASA when performing indirect duties. NASA requested that the Inspector General, DoD, determine whether the previous charges were appropriate and whether credit adjustments were due NASA. The Inspector General, DoD, performed this audit in response to NASA's request.
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Part II - Finding and Recommendations
Reimbursement for Contract Administration Services

DoD did not bill National Aeronautics and Space Administration (NASA) for all contract administration services provided. This occurred because NASA and DoD did not specify a methodology for NASA to reimburse DoD for nonprogram hours in the Agreement covering contract administration services. Also, DoD procedures were not clear about the circumstances under which supervisors could charge NASA for direct hours of contract administration services worked. As a result, DoD underbilled NASA an estimated $12.5 million ($7.8 million for nonprogram hours and $4.7 million for unbilled direct hours) for the period of July 1990 through September 1993.

Background

Nonprogram Hours. Nonprogram hours are the hours DoD contract administration personnel work that benefit both DoD and NASA but that are not attributable to a particular DoD or NASA contract. In-plant quality evaluations, an example of nonprogram hours, help to detect and prevent problems in the manufacturing process and to improve the work process at the facilities, but in-plant quality evaluations are not linked to any specific program or contract. AFCMD and NASA personnel agreed at an August 1985 workshop to apply an 18.5 percent surcharge to quality assurance hours to recoup nonprogram hours. In 1985, when the standard surcharge rate was developed, there were other examples of nonprogram hours. At present, the only apparent remaining example of nonprogram hours is in-plant quality evaluations.

AFCMD Policy on Nonprogram Hours. Nonprogram hours are referred to as allocated or distributed workhours in AFCMD Regulation 170-4, "Management of Non-DoD Agencies Delegated Reimbursable Work," November 30, 1983. The hours are defined as "direct workhours expended which are required by delegation but not identifiable with a specific contract."


there may be situations in which a technique for prorating hours has been approved by the customer... Hours may be prorated according to the ratio of reimbursable dollar value of contracts to the total nonreimbursable dollar value and the benefitting reimbursable customers will be billed for their share.
Reimbursement for Contract Administration Services

Nonprogram-hour Reimbursement

DoD contract administration personnel perform nonprogram hours in support of NASA. However, DoD does not have a satisfactory method to seek reimbursement from NASA for the nonprogram hours. When DLA took over the AFCMD responsibilities in July 1990, DLA discontinued AFCMD's nonprogram-hour reimbursement method. AFCMD's method, the 18.5 percent surcharge, is discussed in Appendix A. DLA has a procedure in place for nonprogram-hour reimbursement; however, the method does not allocate the total cost of nonprogram hours between benefitting customers.

Reimbursement for In-Plant Quality Evaluations. DLA performs in-plant quality evaluations that benefit both NASA and DoD without complete compensation from NASA. The method developed by AFCMD would be a satisfactory method for DLA to use to allocate the cost of performing the in-plant quality evaluations to NASA and DoD. NASA should reimburse DLA for the NASA portion of the nonprogram hours worked from July 1990 through September 1993 for the three DPROs reviewed in our audit for which NASA was not billed.

DLA Reimbursement Policy. Under the DLA reimbursement policy, DLA would recoup the costs of nonprogram hours by charging the customer the costs that were in addition to the costs DoD would have incurred for DoD mission work. DLA would reject the letters of delegation if NASA did not agree to the additional costs.

Amount of Nonprogram-Hour Reimbursement. Although we could not validate the specific rate used in the surcharge, we believe that assessing a surcharge is a reasonable method for DLA to recoup nonprogram hours expended for NASA. We used the 18.5 percent surcharge rate to calculate potential monetary benefits for nonprogram hours because, in August 1985, NASA and AFCMD decided on the rate. We calculated that DoD did not recover about $7.8 million from NASA for nonprogram hours worked for July 1990 through September 1993 (Appendix B).

Direct Labor Hour Reimbursement

Definition of Direct Hour. DoD and NASA personnel did not clearly understand, and interpreted differently, guidance in the Agreement on billing of direct labor hours. Direct labor hours were hours worked that could be identified with particular products or services. By contrast, indirect labor hours were hours spent performing supervisory, administrative, and headquarters functions. The Agreement provided that NASA reimbursement to DoD for contract administration services would be derived from actual direct hours worked, multiplied by the basic hourly rate. The cost of indirect labor hours was to be recouped only through the hourly rate. The Agreement did not define
the term "direct hour," or specify when and by whom direct hours could be charged. Because the terms were not defined, DoD and NASA personnel were not clear on who could charge direct hours. As a result, the DPROs both underbilled and overbilled for direct hours.

**Basic Hourly Rate Determination.** The Agreement provided that the NASA reimbursement to DoD for contract administration services would be calculated by multiplying actual direct hours worked by the basic hourly rate. The elements of the basic hourly rate were direct labor, indirect labor, fringe benefits, travel, and administrative support. The Comptroller of the Department of Defense provided the formula for the basic hourly rate. The elements of the basic hourly rate were calculated for each productive employee and were divided by the average number of annual productive work hours for one employee. After the basic hourly rate was calculated, NASA and DoD negotiated each element to come up with the billable rate. The Comptroller of the Department of Defense and the Comptroller, NASA, negotiate the billable rate yearly, and each rate change is considered an amendment to the Agreement.

**Interpretation of Direct Labor Hour Billing Policies.** The interpretations of the Agreement, as reflected in AFCMD Regulation 170-4 and DLAM 7000.4, resulted in confusion at the DPROs over the policy on supervisors charging direct hours. For AFCMD and DLA, a direct labor hour was an hour of work associated with the product or service. Both AFCMD and DLA interpreted the Agreement to mean that, if a direct labor hour was performed, it could be charged as a direct hour, regardless of who performed the direct labor.

**AFCMD Policy on Direct Labor Hour Billing.** AFCMD Regulation 170-4 defined direct labor hours as "time expended which can be identified to a particular end product, group of products or services, accurately and without undue effort and expense." The regulation was used by all Air Force Plant Representative Offices before July 1, 1990.

**DLA Policy on Direct Labor Hour Billing.** DLAM 7000.4 states:

Only hours (regular and overtime) worked by functional specialists will be charged. Overhead cost (clerical, supervisory, etc.) are included in the standard hourly rate. . . . If the contract/request for service is assigned to a supervisor for direct performance, the supervisor will charge the time spent performing those delegated functions.

Both AFCMD Regulation 170-4 and DLAM 7000.4 allowed supervisors to charge direct labor hours; however, inconsistent policies on when a supervisor could charge a direct labor hour existed between and within DPROs. We found the following examples of inconsistent billing:

- At DPRO Rockwell, supervisory personnel billed when the personnel worked a direct hour.

- At DPRO Thiokol, in December 1989, the DPRO went from billing supervisors at 100 percent of hours worked to not billing for supervisors at all.
At DPRO Michoud-Stennis, the policy changed in September 1990 from billing based on percentage of direct labor hours worked to billing for all direct labor hours worked. As of March 1992, DPRO Michoud-Stennis discontinued the policy of billing for supervisory and administrative direct hours.

**NASA's Interpretation of Direct Labor Hour Billing Policy.** Inspector General, NASA, found that some DoD supervisors were charging direct labor hours and concluded that NASA had been overcharged. NASA believed that all supervisors were included in the indirect portion of the basic hourly rate. Direct labor hours, according to NASA, were hours worked by productive employees (non-supervisors and non-clerical personnel). Therefore, NASA considered any supervisor and clerical personnel direct labor hours charged as an overcharge.

**Effect on Billing.** To calculate monetary benefits for this report, we verified that some supervisors were included in the direct portion of the basic hourly rate. During our audit, we identified the personnel who should have been charging direct hours and those who should not have been charging direct hours. We calculated that DoD underbilled NASA by a net amount of $4.7 million for the period July 1, 1990, through September 30, 1993 (Appendix C).

**Underbillings.** Underbillings were the result of personnel allowed to charge direct hours and who were not included in the indirect portion of the basic hourly rate. We calculated the number of direct hours that should have been charged, reduced this amount by the direct hours that were charged, and applied the negotiated basic hourly rate for each fiscal year to determine the extent to which DoD underbilled NASA. DoD underbilled NASA by $4,766,878.

**Overbillings.** Overbillings were the result of personnel not allowed to charge direct hours and who were included in the indirect portion of the basic hourly rate. We took the improperly charged direct hours and applied the negotiated basic hourly rate for each fiscal year to determine the extent to which DoD overbilled NASA. DoD overbilled NASA by $98,262.

**Compliance with the Agreement.** DoD and NASA revised the Agreement on August 14, 1992. The new Agreement precluded charging both directly and indirectly for the same effort. DLA is proposing procedures to subtract the indirect portion of the hourly rate when supervisors charge direct through the use of coding in the accounting system. The draft guidance is presented in draft DLA Directive 8000.5, "Defense Contract Management Command (One Book)," part II, chapter 6. The procedures were to be implemented by a DLA policy letter scheduled to be issued by April 30, 1994. The draft procedure would preclude DoD from charging both directly and indirectly for the same effort as required by the August 14, 1992, Agreement.
Reimbursement for Contract Administration Services

**Auditing the Labor Accounting System.** The August 14, 1992, Agreement required that the labor accounting system be auditable and precluded charging both direct and indirect for the same effort. NASA was concerned about being overcharged, and DPRO personnel were unclear on when direct hours could be charged to NASA. To make the system auditable and to ensure that NASA is not overcharged, DLA should calculate the direct and indirect portion of the basic hourly rate using the DLA payroll and accounting system. DLA also needs to inform the DPRO personnel of their codes and of the proper method of charging within the system. If DLA does the calculation of the basic hourly rate in this manner and notifies the personnel of the proper billing procedures, DLA would be able to provide NASA with auditable information that would verify that NASA was not being billed direct and indirect for the same effort.

**Conclusion**

For the three DPROs visited, we estimated that DLA underbilled NASA $12.5 million for contract administration services provided from July 1990 through September 1993. Underbilling may exist at other DPROs not visited during the audit, resulting in additional money not being recovered. If DLA does not establish a method to allocate nonprogram hours between NASA and DoD, then DLA will continue to not fully recover the cost of contract administration services work performed in support of NASA. DLA should calculate the hourly rate so that personnel coded in the payroll and accounting system are similarly accounted for in the calculation of the basic hourly rate. The DLA draft guidance and draft procedures on supervisory direct charges should preclude overcharging NASA in the future, as long as personnel are properly accounted for in the calculation of the basic hourly rate and charged accordingly.

**Recommendations, Management Comments, and Audit Response**

**Revised Recommendations.** As a result of the DLA comments and additional discussions with DLA personnel, we revised two recommendations to the Director, Defense Logistics Agency. We clarified draft Recommendation 2.a. to develop and initiate a method to recover nonprogram hour costs. We also revised draft Recommendation 2.c. on coding personnel to require the calculation of the hourly rate to be derived from the coding of personnel in the DLA payroll and accounting system and to notify personnel of proper billing procedures.

1. We recommend that the Comptroller of the Department of Defense:

   a. Amend the "Agreement between the National Aeronautics and Space Administration (NASA) and the Department of Defense (DoD) for Reimbursing DoD for Contract Administration, Contract Audit and
Reimbursement for Contract Administration Services

Related Support Services Provided in Support of NASA Contracts," August 14, 1992, to include recouping National Aeronautics and Space Administration’s share of nonprogram hours.

b. Recover $12.5 million from the National Aeronautics and Space Administration for contract administration services charges associated with performance of nonprogram hours and unbilled supervisory work for July 1990 through September 1993.

Management Comments. The Comptroller of the Department of Defense did not comment on a draft of this report. However, the Defense Logistics Agency disagreed with recovering $7.8 million in unbilled nonprogram hour costs from NASA because the Inspector General, DoD, could not confirm that the 18.5 percent surcharge was the appropriate rate to use to project unbilled nonprogram hour costs. DLA also disagreed with recovering $4.7 million in unbilled supervisory charges because DLA maintained that all supervisors were included in the indirect portion of the basic hourly rate.

Audit Response. We believe that the $7.8 million in monetary benefits for the recovery of nonprogram hour costs are valid. DLA personnel are performing nonprogram hour work in support of NASA, and the costs are not being fully recovered. The method AFCMD developed, the 18.5 percent surcharge, was a fair way of allocating the total nonprogram hour costs according to the percentage of direct NASA hours worked to the total direct hours worked. Further, the 18.5 percent surcharge was the only method available to quantify any amount of unbilled nonprogram hour costs. If desired, the DoD can negotiate a different amount to collect from NASA for nonprogram hours. The audit shows that the nonprogram hours were not accounted for and DoD should bill NASA something for the work performed. We also believe that the $4.7 million in monetary benefits for recovery of unbilled supervisory charges are valid. Productive personnel at the working supervisory or team leader level were included in the direct portion of the hourly rate and should have charged direct. Some personnel included in the indirect portion inappropriately charged direct. We calculated the underbilling by determining the amount that should have been charged and by then deducting the inappropriate overbillings. Accordingly, we request the Comptroller of the Department of Defense to respond to the recommendation and provide comments on the final report.

2. We recommend that the Director, Defense Logistics Agency:

   a. Develop a method for DoD to allocate the total contract administration services nonprogram hours worked to National Aeronautics and Space Administration and DoD and negotiate the method developed with the Comptroller, National Aeronautics and Space Administration.

   b. Incorporate the method agreed upon into the billing system.

DLA Comments. DLA nonconcurred with the recommendations because DLA maintains that a satisfactory method exists. DLA management stated that their
Reimbursement for Contract Administration Services

policy was to charge the customer when nonprogram hours resulted in marginal costs above that which would have been incurred by DoD for DoD mission work.

Audit Response. We disagree that DLA's method to recoup nonprogram hour costs is satisfactory. The nature of nonprogram hours is that they cannot be identified to a particular program or contract and, therefore, nonprogram hours should be allocated in some way to all programs. The presence of another customer results in a mutual benefit; therefore, the total hours should be allocated between all benefitting customers. NASA represented from 74 to 99 percent of the work at the three sites visited; therefore, NASA would benefit substantially, not marginally, at the three sites visited. We revised draft Recommendation 2.a. to clarify our belief that a method to recover NASA's fair share of the costs of nonprogram hours worked is essential. Accordingly, we request DLA to respond to the revised recommendation and provide comments on the final report.

c. Require the calculation of the basic hourly rate to be derived from the coding in the Defense Logistics Agency payroll and accounting system, and notify personnel of the proper method for charging hours according to their coding in the Defense Logistics Agency payroll and accounting system as productive, supervisory, or administrative.

DLA Comments. DLA nonconcurred with the recommendation to code positions, stating that no action was required because all positions were already coded in the DLA payroll and accounting system and because the system is used to compute the hourly rate. In addition, DLA referred to draft DLA guidance scheduled to be issued April 30, 1994, that would implement a procedure whereby the indirect portion of the hourly rate would be subtracted from the cost to NASA for direct hours worked by supervisors.

Audit Response. DLA's planned actions are partially responsive. We agree that the DLA draft guidance should help ensure that NASA is not billed direct and indirect for the same effort. However, we disagree that the basic hourly rate is mainly derived from the data contained in the DLA payroll and accounting system. The core of the basic hourly rate calculation is the direct portion, which is derived from the average annual salary of a productive employee. The average annual salary is determined by the average grade of productive personnel, which is not based on the coding in the payroll and accounting system. In addition, DPRO personnel were unclear on when direct hours worked could be charged to NASA.

The August 14, 1992, Agreement also requires that the labor accounting system be auditable. In our opinion, for the system to be auditable, the direct and indirect portion of the hourly rate should be derived from the coding of personnel in the DLA payroll and accounting system. If the coding of personnel was used to calculate the basic hourly rate, the basic hourly rate would be accurate, and interested parties, such as NASA, would be able to verify which supervisors are included in the indirect portion. Consequently, the supervisory personnel should only be charging direct on an exception basis.
Therefore, we revised draft Recommendation 2.c. to require that the calculation of the basic hourly rate be derived from the coding in the DLA payroll and accounting system and that DLA notify personnel of the proper procedures for billing NASA, depending on their coding as productive, supervisory, or administrative. Accordingly, we request DLA to respond to the revised recommendation and provide comments on the final report.
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Part III - Additional Information
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Appendix A. Surcharge and Supervisory and Clerical Issues

The following questions and answers respond to the Inspector General, NASA, and the Comptroller, NASA, concerns about the 18.5 percent surcharge and direct hours DoD billed to NASA for supervisors and clerical personnel.

Surcharge Issues

1. Did DoD have a method by which NASA would pay for the benefit derived from nonprogram hours?

Before August 1985, 28 Air Force Plant Representative Offices (now DPROs) each used a different rate for recoupment of nonprogram hours, ranging from 5 percent to 40 percent. Concerns over use of varying percentages resulted in a tentative decision between NASA and AFCMD personnel in August 1985 at a NASA and AFCMD workshop. This decision allowed AFCMD to apply a standard surcharge to direct quality assurance hours billed to NASA. The purpose of this charge was to allow Air Force to allocate and bill NASA for nonprogram hours worked at all Air Force Plant Representative Offices. According to workshop briefing charts, the surcharge was determined using FY 1985 data. The standard surcharge was 18.5 percent from August 1985 to July 1990. After assuming responsibility for contract administration services from the Air Force Contract Management Division in 1990, the Defense Contract Management Command stopped applying the 18.5 percent surcharge.

DLA does not have a method to fully recover the cost of nonprogram hours. DLA states that NASA would be charged for nonprogram hours that resulted in marginal costs above that which would have been incurred by DoD for DoD mission work. All other non-program hour costs would be absorbed by DoD.

2. Was the 18.5 percent surcharge to be final?

No. The 18.5 percent was meant to be temporary. Documentation stated that, after 3 months, an evaluation was to be made, but NASA and AFCMD never established another proration method. In November 1985, NASA selected a method by which hours charged would be based on the percentage of NASA workload at each Air Force Plant Representative Office. Before implementation, NASA requested to review each Air Force Plant Representative Office’s percent of NASA work. However, the information was not forwarded, NASA did not follow up, and AFCMD continued to use the 18.5 percent surcharge.
Appendix A. Surcharge and Supervisory and Clerical Issues

3. Is DLA currently using the 18.5 percent surcharge or any other proration method?

No. DLA did not implement a proration method for recoupment of nonprogram hours when DLA assumed the billing function from AFCMD for Air Force Plant Representative Offices in July 1990.

Supervisory and Clerical Issues

1. What guidance on supervisory charges was provided in the Agreement?

The Agreement indicated that the basic hourly rate for contract administration services would include direct labor and indirect labor, but did not specify whether supervisors could perform direct labor.

2. Were all supervisors included in the indirect labor portion of the basic hourly rate?

We determined that all supervisors were not included in the indirect portion of the basic hourly rate before July 1, 1990. In the negotiation of the indirect labor portion of the basic hourly rate, NASA could negotiate the factors used in the calculation from a rate that included all supervisors to a rate that included only some supervisors. For example, the negotiated basic hourly rate calculation for Air Force for FY 1990 did not include all supervisors. However, DLA stated that all supervisors were included in the indirect labor portion of the basic hourly rate as of July 1, 1990. Our review showed that personnel who were considered direct in the calculation of the hourly rate were not charging direct because of their classification as supervisory for periods before October 1, 1993. According to Defense Logistics Agency personnel, coding procedures and draft guidance would make it possible to determine which supervisors are included in the indirect portion of the negotiated basic hourly rate after September 30, 1993.

3. Was the Agreement ever revised? If so, were the problems with billing for supervisors addressed?

Yes. DoD and NASA revised the Agreement on August 14, 1992, and some of the problems are addressed. The new Agreement indicates that working-level supervisors not included in the indirect labor category can be included in direct labor. However, the new Agreement requires that a consistent labor accounting method be used to preclude charging, both directly and indirectly, for the same effort. The new Agreement also requires DoD Components to maintain auditable records.

4. How significant were the direct charges by clerical personnel?

We did not find the amount of clerical charges to be significant enough to warrant further review. Only two examples of clerical charges were identified, and NASA representatives had approved both.
## Appendix B. Method Used to Calculate Surcharge

<table>
<thead>
<tr>
<th>Location/Timeframe</th>
<th>Total Hours Worked</th>
<th>Surcharge Hours</th>
<th>Basic Hourly Rate</th>
<th>Unbilled Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Rockwell</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>FY 1990</td>
<td>18,819</td>
<td>3,482</td>
<td>$38.74</td>
<td>$134,893</td>
</tr>
<tr>
<td>FY 1991</td>
<td>97,810</td>
<td>18,095</td>
<td>$37.94</td>
<td>686,524</td>
</tr>
<tr>
<td>FY 1992</td>
<td>86,125</td>
<td>15,933</td>
<td>$41.31</td>
<td>638,192</td>
</tr>
<tr>
<td>FY 1993*</td>
<td>86,125</td>
<td>15,933</td>
<td>$39.73</td>
<td>633,018</td>
</tr>
<tr>
<td>Subtotal</td>
<td>288,879</td>
<td>53,443</td>
<td></td>
<td>$2,112,627</td>
</tr>
<tr>
<td>Thiokol</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>FY 1990</td>
<td>24,416</td>
<td>4,517</td>
<td>$38.74</td>
<td>$174,989</td>
</tr>
<tr>
<td>FY 1991</td>
<td>100,257</td>
<td>18,548</td>
<td>$37.94</td>
<td>703,711</td>
</tr>
<tr>
<td>FY 1992</td>
<td>90,951</td>
<td>16,826</td>
<td>$41.31</td>
<td>695,082</td>
</tr>
<tr>
<td>FY 1993*</td>
<td>90,951</td>
<td>16,826</td>
<td>$39.73</td>
<td>668,497</td>
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<tr>
<td>Subtotal</td>
<td>306,575</td>
<td>56,717</td>
<td></td>
<td>$2,242,279</td>
</tr>
<tr>
<td>Michoud-Stennis</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>FY 1990</td>
<td>37,506</td>
<td>6,939</td>
<td>$38.74</td>
<td>$268,817</td>
</tr>
<tr>
<td>FY 1991</td>
<td>140,749</td>
<td>26,039</td>
<td>$37.94</td>
<td>987,920</td>
</tr>
<tr>
<td>FY 1992</td>
<td>149,157</td>
<td>27,594</td>
<td>$41.31</td>
<td>1,139,908</td>
</tr>
<tr>
<td>FY 1993*</td>
<td>149,157</td>
<td>27,594</td>
<td>$39.73</td>
<td>1,096,310</td>
</tr>
<tr>
<td>Subtotal</td>
<td>476,569</td>
<td>88,166</td>
<td></td>
<td>$3,492,955</td>
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<tr>
<td>Total</td>
<td>1,072,023</td>
<td>198,326</td>
<td></td>
<td>$7,847,861</td>
</tr>
</tbody>
</table>

1 Surcharge hours were calculated by multiplying hours worked by 18.5 percent, rounded to the nearest hour.

2 The annual basic hourly rate is negotiated between NASA and the Comptroller of the Department of Defense.

3 The unbilled amount ($7,847,861) is calculated by multiplying the surcharge hours, rounded to the nearest hour, by the basic hourly rate.

4 FY 1990 represents the time frame of July 1, 1990, through September 30, 1990.

5 FY 1993 actuals were not available. FY 1992 actuals are used as estimates for FY 1993.
Appendix C. Method Used to Calculate Supervisory Charges

We calculated potential monetary benefits by multiplying a 1,660-hour work year by the number of supervisors that should have charged NASA since July 1, 1990. The 1,660-hour work year was the direct hours used to calculate the FY 1992 NASA rate. The 1,660-hour work year represented 2,087 work hours per year (approximately 52 weeks at 40 hours per week) less 427 nonproductive hours. Nonproductive hours include holidays, sick leave, annual leave, other leave, and training. From the hours that should have been billed, we subtracted any hours actually billed and added 18.5 percent to the result to compensate for the unbilled surcharge. For example, seven supervisory quality assurance specialists should have billed NASA for their hours at DPRÓ Rockwell.

- The 1,660 hour work year times seven specialists equals 11,620 hours that should have been billed.
- The 11,620 hours minus 1,819 direct hours billed equals 9,801 unbilled hours charged.
- The 9,801 hours times 18.5 percent equals 1,813 unbilled surcharge hours.
- The 9,801 hours plus 1,813 unbilled surcharge hours equals 11,614 total unbilled hours for FYs 1991, 1992, and 1993 at DPRÓ Rockwell.

The following table represents our calculation of the unbilled and improperly billed hours and dollars based on the exclusion or inclusion of supervisors in the indirect portion of the basic hourly rate.
Appendix C. Method Used to Calculate Supervisory Charges

### Amount of Unbilled Supervisory Charges to NASA

<table>
<thead>
<tr>
<th>Location</th>
<th>Estimated Unbilled Hours</th>
<th>Value of Unbilled Hours</th>
<th>Improperly Billed Hours</th>
<th>Value of Improperly Billed Hours</th>
<th>Total Unbilled Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Rockwell</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>FY 1990⁶</td>
<td>2,904</td>
<td>$112,501</td>
<td>181</td>
<td>$7,012</td>
<td>$105,489</td>
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<tr>
<td>FY 1991</td>
<td>11,614</td>
<td>$440,635</td>
<td>722</td>
<td>$27,393</td>
<td>$413,242</td>
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<tr>
<td>FY 1992</td>
<td>11,614</td>
<td>$479,774</td>
<td>722</td>
<td>$29,826</td>
<td>$449,948</td>
</tr>
<tr>
<td>FY 1993</td>
<td>11,614</td>
<td>$461,424</td>
<td>722</td>
<td>$28,685</td>
<td>$432,739</td>
</tr>
<tr>
<td>Subtotal</td>
<td>37,746</td>
<td>$1,494,334</td>
<td>2,347</td>
<td>$92,916</td>
<td>$1,401,418</td>
</tr>
<tr>
<td><strong>Thiokol</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>FY 1990⁶</td>
<td>3,934</td>
<td>$152,403</td>
<td>0</td>
<td>$0</td>
<td>$152,403</td>
</tr>
<tr>
<td>FY 1991</td>
<td>15,737</td>
<td>$597,062</td>
<td>0</td>
<td>$0</td>
<td>$597,062</td>
</tr>
<tr>
<td>FY 1992</td>
<td>15,737</td>
<td>$650,995</td>
<td>0</td>
<td>$0</td>
<td>$650,995</td>
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<tr>
<td>FY 1993</td>
<td>15,737</td>
<td>$625,231</td>
<td>0</td>
<td>$0</td>
<td>$625,231</td>
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<tr>
<td>Subtotal</td>
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<td>$2,024,791</td>
<td>0</td>
<td>$0</td>
<td>$2,024,791</td>
</tr>
<tr>
<td><strong>Michoud-Stennis</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>FY 1990⁶</td>
<td>851</td>
<td>$32,968</td>
<td>138</td>
<td>$5,346</td>
<td>$27,622</td>
</tr>
<tr>
<td>FY 1991</td>
<td>10,210</td>
<td>$387,367</td>
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<td>0</td>
<td>$387,367</td>
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<tr>
<td>FY 1992</td>
<td>10,210</td>
<td>$421,775</td>
<td>0</td>
<td>0</td>
<td>$421,775</td>
</tr>
<tr>
<td>FY 1993</td>
<td>10,210</td>
<td>$405,643</td>
<td>0</td>
<td>0</td>
<td>$405,643</td>
</tr>
<tr>
<td>Subtotal</td>
<td>31,481</td>
<td>$1,247,753</td>
<td>138</td>
<td>$5,346</td>
<td>$1,242,407</td>
</tr>
<tr>
<td>Total</td>
<td>120,372</td>
<td>$4,766,878</td>
<td>2,485</td>
<td>$98,262</td>
<td>$4,668,616</td>
</tr>
</tbody>
</table>

1 The estimated unbilled hours were calculated by multiplying a 1,660 hour work year by those supervisors that should have charged, subtracting direct supervisory hours actually charged, and adding the 18.5 percent surcharge.

2 The value of unbilled hours is calculated by multiplying unbilled hours times the basic hourly rate. The result is rounded to the nearest dollar. The basic hourly rate is the rate negotiated annually between NASA and DoD Comptrollers. For fiscal year rates, see Appendix B.

3 The improper hours billed are based on hours improperly billed by supervisors, such as branch chiefs, who should not have billed NASA.

4 The value of improper hours billed is calculated by multiplying improper hours times the basic hourly rate. The result is rounded to the nearest dollar.

5 The total unbilled amount ($4,668,616) was calculated by subtracting the value of improper hours from the value of unbilled hours for the period July 1, 1990, through September 30, 1993.

6 FY 1990 represents only the fourth quarter, July 1, 1990, through September 30, 1990.
Appendix D. Summary of Potential Benefits Resulting From Audit

<table>
<thead>
<tr>
<th>Recommendation Reference</th>
<th>Description of Benefits</th>
<th>Amount and/or Type of Benefit</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.a.</td>
<td>Economy and Efficiency. Provides for proper payment for services rendered.</td>
<td>Undeterminable.¹</td>
</tr>
<tr>
<td>1.b.</td>
<td>Economy and Efficiency. Recoups from NASA costs associated with nonprogram hours and unbilled supervisory costs.</td>
<td>Funds put to better use of $12.5 million for July 1990 through September 1993.²</td>
</tr>
<tr>
<td>2.a., 2.b.</td>
<td>Economy and Efficiency. Recoups from NASA the costs associated with nonprogram hours.</td>
<td>Undeterminable.¹</td>
</tr>
<tr>
<td>2.c.</td>
<td>Internal Controls. Provides for appropriate and auditable billing procedures.</td>
<td>Undeterminable.¹</td>
</tr>
</tbody>
</table>

¹The amount of contract administration services work that will be billed in the future could not be determined.
²The actual amount collected will depend on negotiations between DoD and NASA.
Appendix E. Organizations and Individuals Visited or Contacted

Office of the Secretary of Defense
Comptroller of the Department of Defense, Washington, DC

Department of the Air Force
Former Staff Members, Air Force Contract Management Division, Kirtland AFB, NM

Defense Organizations
Defense Logistics Agency, Alexandria, VA
Defense Contract Management Division-South, Atlanta, GA
Defense Plant Representative Office, Michoud-Stennis, New Orleans, LA
Defense Contract Management Division-West, Los Angeles, CA
Defense Plant Representative Office, Rockwell, Canoga Park, CA
Defense Contract Management Division-Midwest, Chicago, IL
Defense Plant Representative Office, Thiokol, Brigham City, UT
Defense Contract Audit Agency Resident Office, Thiokol, Brigham City, UT

Non-Defense Federal Organizations
Comptroller, National Aeronautics and Space Administration, Washington, DC
Inspector General, National Aeronautics and Space Administration, Washington, DC
Inspector General, Marshall Space Flight Center, National Aeronautics and Space Administration, Huntsville, AL
Appendix F. Report Distribution

Office of the Secretary of Defense

Under Secretary of Defense for Acquisition and Technology
Comptroller of the Department of Defense
Assistant to the Secretary of Defense (Public Affairs)

Department of the Army

Auditor General, Department of the Army

Department of the Navy

Auditor General, Naval Audit Service

Department of the Air Force

Secretary of the Air Force
Assistant Secretary of the Air Force (Financial Management and Comptroller)
Assistant Secretary of the Air Force (Manpower, Reserve Affairs, Installations, and Environment)
Auditor General, Air Force Audit Agency

Defense Organizations

Director, Defense Contract Audit Agency
Director, Defense Logistics Agency
Commander, Defense Contract Management Command
Director, Defense Logistics Studies Information Exchange
Inspector General, Defense Intelligence Agency
Inspector General, National Security Agency

Non-Defense Federal Organizations

Office of Management and Budget
Technical Information Center, National Security and International Affairs Division,
General Accounting Office
Assistant Inspector General for Audits, National Aeronautics and Space Administration
Chairman and Ranking Minority Member of Each of the Following Congressional Committees:

- Senate Committee on Appropriations
- Senate Subcommittee on Defense, Committee on Appropriations
- Senate Committee on Armed Services
- Senate Committee on Governmental Affairs
- House Committee on Appropriations
- House Subcommittee on Defense, Committee on Appropriations
- House Committee on Armed Services
- House Committee on Government Operations
- House Subcommittee on Legislation and National Security, Committee on Government Operations
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Part IV - Management Comments
MEMORANDUM FOR ASSISTANT INSPECTOR GENERAL FOR AUDITING,
DEPARTMENT OF DEFENSE

SUBJECT: Draft Report on DoD charges to National Aeronautics and
Space Administration for Contract Administration
Services (Project No. 2CK-5011)

This is in response to your 5 January 1994 request.

4 Encl

JACQUELINE G. BRYANT
Chief, Internal Review Office

CC:
FOX
PURPOSE OF INPUT: INITIAL POSITION     DATE OF POSITION: 18 MAR 1994

AUDIT TITLE: DoD Charges to National Aeronautics and Space Administration for Contract Administration Services (Project No. 2CK-5011)

FINDING A: Reimbursement for Contract Administration Services. DoD did not bill National Aeronautics and Space Administration (NASA) for all contract administration services (CAS) provided. This occurred because the Agreement covering CAS did not specify a methodology for NASA to reimburse DoD for nonprogram hours. Also, DoD procedures were not clear about the circumstance under which supervisors could charge NASA for direct hours of CAS worked. As a result, DoD underbilled NASA an estimated $12.5 million ($7.8 million for nonprogram hours and $4.7 million for unbilled direct hours) for the period of July 1990 through September 1993.

DLA COMMENTS: The policy for reporting supervisory reimbursable CAS hours has been under management review and negotiation with NASA for more than two years. During that time, conflicting supervisory policy guidance has been issued to various field activities causing inconsistent implementation. The supervisory policy is now outlined in the draft DLA Directive 8000.5, Defense Contract Management Command (One Book), December 1993, Part II, Chapter 6: "Supervisors may bill direct hours performed on a delegation (non-supervisory effort only), provided the time billed is labor excepted in the accounting system to a non-supervisory cost code." Implementation of the policy will be promulgated via a DLA policy letter requiring supervisors to report direct hours into the reimbursable reporting system and labor exception into the accounting system. Documentation will be maintained supporting the hours worked, the individual performing the work, and the labor exception. The implementation letter will be issued by 30 April 1994.

INTERNAL MANAGEMENT CONTROL WEAKNESSES:
(X) Concur; however, weakness is not considered material
( ) Concur; weakness is material and will be reported in DLA Annual Statement of Assurance.

DLA COMMENTS: While this finding concerning internal control weaknesses does not specifically address monetary savings, the overall finding on supervisory direct hour charges reports a $4.7 million underbilling. In recommendation l.b. the Comptroller of the Department of Defense is directed to recover the $4.7 million from NASA for the underbillings. The information presented in the audit report is not sufficient to verify the accuracy of the projected underbillings. It appears, however, that the majority of the monetary benefits cited and the number of underbilled hours are based upon a statement from some unnamed employee of the DoD Comptroller office concerning which
personnel are included in the hourly rate and application of the 18.5 percent surcharge. Per the report: "Comptroller of the Department of Defense personnel stated that supervisory quality assurance specialists at DPROs and their equivalents in other areas should be considered direct labor and should be allowed to bill directly".

We completely nonconcur with this statement and the use of this statement as a basis for the finding. All supervisory personnel in DLA are coded to an indirect cost code in the payroll and accounting system. The rate is computed based upon the cost data contained in this accounting system. Costs for indirect personnel are 100 percent included in the calculation of the overhead portion of the hourly rate. These personnel (supervisors and clerical) are therefore indirect personnel and are generally prohibited from charging hours for reimbursement with the exception of supervisors charging those direct hours worked with a corresponding labor exception into the accounting system. Unless the auditors can specifically identify some supervisory individuals that were incorrectly coded in the accounting system this finding should be revised accordingly.

Our nonconcurrence with the 18.5 percent surcharge rate is stated in response to recommendation A.2.a.

MONETARY BENEFITS:
ESTIMATED REALIZATION DATE: NA
AMOUNT REALIZED: NA
DATE BENEFITS REALIZED: NA

ACTION OFFICER: Ms Betty Mills, FOX
COORDINATION: FOB, AQCCB, AQCCOC
A. Broadway, DDAI, X49607, 3/10/94

DLA APPROVAL: HELEN T. McCcOY
Acting, Chief Financial Officer
Defense Logistics Agency
PURPOSE OF INPUT: INITIAL POSITION DATE OF POSITION: 8 MAR 1994

AUDIT TITLE: DoD Charges to National Aeronautics and Space Administration for Contract Administration Services (Project No. 2CK-5011)

RECOMMENDATION A.2.a: Recommend that the Director, Defense Logistics Agency, develop a method for DoD to recoup the National Aeronautics and Space Administration share of contract administration services nonprogram hours worked and negotiate the method developed with the Comptroller, National Aeronautics and Space Administration.

DLA COMMENTS: Nonconcur with the stated recommendation. The DLA reimbursement policy is to recover all marginal costs resulting from performing CAS in support of non-DoD and FMS/FCAS customers with the exception of those foreign countries and international organizations with which DoD has reciprocal agreements to perform CAS support on a non-reimbursable basis. DLA's method of recouping reimbursable CAS costs is consistent with this policy. Nonprogram hours worked in support of a reimbursable CAS customer that result in costs that are in addition to the costs that would have been incurred by DoD for DoD mission work at the plant are charged to the customer. Nonprogram hours that are worked that do not result in any additional costs to DoD are not charged to the customer. Letters of delegation from customers that result in nonprogram costs that are in addition to what would be incurred for the DoD mission work are rejected if the customer does not agree to fund the additional nonprogram costs. Based on the above, developing a method to recoup nonprogram costs is not necessary since a method already exists. However, training and oversight must be performed on a regular basis to ensure that field activities understand the policy and are conducting business accordingly.

INTERNAL MANAGEMENT CONTROL WEAKNESSES:
( ) Nonconcur
( ) Concur; however, weakness is not considered material
( ) Concur; weakness is material and will be reported in DLA Annual Statement of Assurance.

MONETARY BENEFITS: NA

DLA COMMENTS: No monetary benefits are specifically attributed to this finding, however, the finding attributes $7.8 million to nonprogram hours and recommends that the Comptroller of the Department of Defense recover this amount from NASA. This monetary amount is based upon an 18.5% surcharge that the DoD IG could not confirm as to the appropriateness, yet the DoD IG uses it as a basis for estimating savings and to use for obtaining reimbursement from NASA. It does not seem appropriate for the DoD IG to use a monetary estimate that cannot be documented or confirmed for appropriateness for this purpose. In our opinion, this monetary estimate should be removed from the report.
and the DoD IG should drop its recommendation for the Comptroller to recover costs from NASA based upon this surcharge.

ESTIMATED REALIZATION DATE: NA
AMOUNT REALIZED: NA
DATE REALIZED: NA

ACTION OFFICER: Ms Betty Mills, FOX
COORDINATION: FOB, ACQBB, ACQC
Anthony Broadnax, DDAI, x49607, 3/10/94

DLA APPROVAL:

HELEN T. McCOY
Acting, Chief Financial Officer
Defense Logistics Agency
PURPOSE OF INPUT: INITIAL POSITION DATE OF POSITION: 18 MAR 1994

AUDIT TITLE: DoD Charges to National Aeronautics and Space Administration for Contract Administration Services (Project No. 2CK-5011)

RECOMMENDATION A.2.b: Recommend that the Director, Defense Logistics Agency, incorporate the method agreed upon into the billing system.

DLA COMMENTS: Nonconcur. See response to finding A.2.a. DLA nonconcur with the finding to develop a method with NASA to recover nonprogram costs since a satisfactory method already exists.

INTERNAL MANAGEMENT CONTROL WEAKNESSES:
(X) Nonconcur
( ) Concur; however, weakness is not considered material
( ) Concur; weakness is material and will be reported in DLA Annual Statement of Assurance.

DLA COMMENTS: NA. See response to finding A.2.a.

MONETARY BENEFITS:
ESTIMATED REALIZATION DATE: NA
AMOUNT REALIZED: NA
DATE REALIZED: NA

ACTION OFFICER: Ms Betty Mills, FOX
PSE REVIEW/APPROVAL: Ms. Helen T. McCoy, Acting Chief Financial Officer, x46201, 3/11/94
COORDINATION: FOB, AQCBG, AQCOC
Anthony Broadnax, DDAI, x49607, 3/10/94

DLA APPROVAL: HELEN T. McCoy
Acting, Chief Financial Officer
Defense Logistics Agency
PURPOSE OF INPUT: INITIAL POSITION

DATE OF POSITION:

AUDIT TITLE: DoD Charges to National Aeronautics and Space Administration for Contract Administration Services (Project No. 2CK-5011)

RECOMMENDATION A.2.C: Recommend that the Director, Defense Logistics Agency, revise the DLAM 7000.4, "Reimbursable Man-Hour Reporting System User's Manual," September 1987, to include an auditable system for coding each position as supervisory, administrative or productive employee. The coded positions should be identified as being in the direct or indirect portion of the National Aeronautics and Space Administration hourly labor rate.

DLA COMMENTS: Nonconcur. The DLAM 7000.4 is an ADP users manual not an accounting or payroll policy manual. Additionally, all positions are already coded as either direct or indirect in the DLA payroll and accounting system, DBMS. This system is used by DLA to compute the hourly rate so, by definition the positions are already identified as either being in the direct or indirect portion of the rate. Therefore no action is required.

INTERNAL MANAGEMENT CONTROL WEAKNESSES:

(X) Nonconcur

( ) Concur; however, weakness is not considered material

( ) Concur; weakness is material and will be reported in DLA Annual Statement of Assurance.

DLA COMMENTS: NA

MONETARY BENEFITS:

ESTIMATED REALIZATION DATE: NA

AMOUNT REALIZED: NA

DATE REALIZED: NA

ACTION OFFICER: Ms Betty Mills, FOX

PSE REVIEW/APPROVAL: Ms. Helen T. McCoy, Acting Financial Officer, FO,

x46201, 3/4/94

COORDINATION: FOB, AQCBB, AQCOC

Anthony Broadnax, DDAI, x49607, 3/10/94

DLA APPROVAL:

HELEN T. MCCOY

Acting, Chief Financial Officer

Defense Logistics Agency
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Joseph Doyle             Audit Program Director
Carolyn Milbourne       Audit Project Manager
James Wingate           Senior Auditor
Galfrid Orr             Senior Auditor
Veronica Gamble          Auditor
Patricia Crumm           Auditor
Christine Mossner       Auditor
Frank Ponti              Technical Director, Quantitative Methods Division
Robin Hysmith           Administrative Support