

NASA

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Office of Inspector General

Office of Audits

AUDIT OF NASA'S COOPERATIVE AGREEMENTS AWARDED TO WISE COUNTY CIRCUIT COURT

July 16, 2015

Report No. IG-15-022





Office of Inspector General

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RESULTS IN BRIEF

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IG-15-022 (A-14-021-00)

WHY WE PERFORMED THIS AUDIT

NASA awards approximately \$846 million in grants and cooperative agreements annually and faces the ongoing challenge of ensuring these awards are administered appropriately and accomplish their stated goals and objectives. In 2008 and 2014, NASA awarded cooperative agreements worth a combined \$8.08 million to the Wise County Clerk of Circuit Court (Wise County) in Wise, Virginia, in support of the Agency's DEVELOP National Program. DEVELOP is a capacity building program that seeks to address environmental management and public policy issues through interdisciplinary research projects that apply NASA Earth observations to community concerns around the globe. DEVELOP participants conduct applied science research projects under the guidance of science advisors from NASA and partner organizations. Projects funded through the Wise County agreements include a study of the weather in southwest Virginia, an aerosol climatology project, and using data obtained by NASA's Gravity Recovery and Climate Experiment Mission to help water managers in North Africa measure ground water storage.

We performed an audit of NASA's awards to Wise County to determine whether the County used NASA funds for their intended purpose and whether costs claimed by the County were allowable, reasonable, and in accordance with applicable laws, regulations, guidelines, and the terms and conditions of the awards. Specifically, we reviewed the County's program performance and accomplishments, accounting and internal control environment, budget management and control, and reporting. We also reviewed NASA's administration of the agreements.

WHAT WE FOUND

Although Wise County satisfied the overall performance goals and objectives of its cooperative agreements with NASA, we identified substantial deficiencies in the County's management of award funds that caused us to question the total amount of the awards. Specifically, for the 2008 cooperative agreement, Wise County improperly combined cooperative agreement revenues and expenditures with those relating to other County business in its accounting records. As a result, the County's accounting system could not identify transactions by award, impairing the audit trail required to ensure the County spent cooperative agreement funds appropriately. In addition, the County failed to disclose in required financial reports unexpended funds and improperly retained and used those funds to pay for activities carried out pursuant to subsequent agreements. Moreover, we identified \$65,446 in unallocable, unallowable, or unsupported expenses, including tuition payments for courses not related to DEVELOP and extermination fees. We also found \$165,325 in award funds Wise County spent outside approved budget periods. Further, without prior NASA approval, Wise County reprogrammed \$540,000 of the 2014 award budget for program support purposes, reducing the amount of funds available for actual research projects. Finally, we identified areas in which NASA could improve its policies and procedures for managing grant and cooperative agreement awards to ensure awards are competed and the proper award instrument is selected. For example, NASA awarded the 2008 and 2014 cooperative agreements to Wise County without soliciting the work to the public. We believe awarding grants and cooperative agreements based on unsolicited proposals has hindered the Agency from maximizing the competitive process and made it difficult to ensure it is receiving the best value for the U.S. taxpayer.

WHAT WE RECOMMENDED

To strengthen NASA's controls over the management of DEVELOP awards, we made seven recommendations to the NASA Shared Services Center Executive Director and the Associate Administrator for the Science Mission Directorate, including ensuring Wise County strengthens internal controls over financial management to comply with NASA and Office of Management and Budget requirements; remedying unallocable, unallowable, or unsupported expenses and funds carried over from previous awards; and ensuring DEVELOP-related cooperative agreements are competitively awarded.

In response to a draft of this report, NASA acknowledged that Wise County commingled non-NASA expenditures with cooperative agreement transactions in its accounting system and charged unallowable or unallocable expenses to the 2008 award, but took issue with our recommendation to remedy the full amount of the 2008 award and the expended portion of the 2014 agreement. Specifically, the Agency claimed that questioning \$3.7 million in award funds improperly discounts the value to the DEVELOP National Program of the work performed by Wise County-funded participants. As noted in the Agency response, we acknowledged that Wise County satisfied the overall performance goals and objectives of the cooperative agreements. Nevertheless, in accordance with auditing procedures, we could not rely on Wise County's flawed accounting system to substantiate the validity of the transactions we tested. Consequently, following standard practice, we questioned the entire amount of the award to the County and recommended NASA review the County's expenditures to determine whether taxpayer funds were used appropriately. Despite its disagreement with parts of our audit findings and methodology, the Agency concurred or partially concurred with our seven recommendations and proposed corrective actions that are generally responsive. The recommendations are therefore resolved and will be closed upon verification of the completed actions.

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Acronyms

CFR	Code of Federal Regulations
OIG	Office of Inspector General
OMB	Office of Management and Budget
SEFA	Schedule of Expenditures of Federal Awards

INTRODUCTION

NASA awards approximately \$846 million in grants and cooperative agreements annually and faces the ongoing challenge of ensuring these awards are administered appropriately and accomplish their stated goals and objectives. In September 2011, the NASA Office of Inspector General (OIG) reported that the Agency did not have an adequate system of controls to ensure proper administration and management of NASA's grant program and, as a result, some grant funds had not been used as intended.¹ Following publication of that report, we initiated a series of audits examining specific NASA grants and cooperative agreements. In this report, we present the results of our review of two cooperative agreements totaling \$8.08 million NASA awarded to the Wise County Clerk of Circuit Court (Wise County) in Wise, Virginia, as part of the Agency's DEVELOP National Program.

Our overall objective was to determine whether Wise County used NASA funds for their intended purpose and whether associated costs were allowable, reasonable, and in accordance with applicable laws, regulations, and guidelines, and the award's terms and conditions. Specifically, we reviewed the County's (1) program performance and accomplishments, (2) accounting and internal control environment, (3) budget management and control, and (4) reporting. We also reviewed NASA's administration of these agreements. See Appendix A for details on the audit's scope and methodology, our review of internal controls, and a list of prior coverage.

Background

Initiated in 1999 at NASA's Langley Research Center (Langley), DEVELOP is a capacity building program that seeks to address environmental management and public policy issues through interdisciplinary research projects that apply NASA Earth observations to community concerns around the globe. DEVELOP participants conduct applied science research projects under the guidance of science advisors from NASA and partner organizations. NASA funds DEVELOP-related operations and activities through cooperative agreements with Wise County and through a contract with Science Systems and Applications, Inc., a contractor at Langley. Initially focused at Langley, DEVELOP has gradually expanded into a nationwide program that now supports more than 200 participant opportunities each year.²

Located in southwest Virginia, Wise County has a population of approximately 40,000 and is home to the University of Virginia's College at Wise. Since fiscal year 2003, NASA has awarded three cooperative agreements to Wise County in support of DEVELOP. The initial \$2.6 million agreement – awarded in fiscal year 2003 – was based on an unsolicited proposal from the County.³ NASA subsequently awarded two noncompetitive agreements in fiscal years 2008 and 2014 as follow-ons to the original award.

¹ NASA OIG, "NASA's Grant Administration and Management" (IG-11-026, September 12, 2011).

² As of January 2015, NASA was partnering with seven organizations in addition to Wise County: the Mobile County Health Department (Alabama), University of Georgia, International Centre for Integrated Mountain Development, International Research Institute for Climate and Society, North Central Climate Science Center, Virginia Governor's Office, and the National Oceanic and Atmospheric Administration's National Center for Environmental Information.

³ NASA's record retention policy requires the Agency and award recipients to retain records for 6.25 years after expiration of the period of performance of an award. In accordance with this policy, the records related to the first award to Wise County were destroyed prior to the start of our audit and we therefore did not include it in our review.

Projects funded through these agreements include a study of the weather in southwest Virginia, an aerosol climatology project, and using data obtained by NASA’s Gravity Recovery and Climate Experiment Mission to help water managers in North Africa measure ground water storage.⁴ In addition to funding participants to conduct rapid feasibility applied Earth science projects, the cooperative agreements funded two personnel for the 2008 award and three personnel for the 2014 award working in the DEVELOP National Program office who managed all DEVELOP projects, including reviewing proposals, project execution, and maintaining DEVELOP’s project portfolio. See Table 1 for a list of the Wise County cooperative agreements.

Table 1: NASA Cooperative Agreements Awarded to Wise County

Award Number	Fiscal Year	Start Date	End Date	Award Amount	Total Paid to Wise County
NCC1-03001 ^a	2003	12/1/2002	12/1/2007	\$2,600,000	\$2,447,382
NNX08AC47A	2008	12/2/2007	12/1/2013	3,082,500	3,071,248
NNX14AB60A	2014	12/3/2013	12/2/2018	5,000,000	600,000 ^b
Total				\$10,682,500	\$6,118,630

Source: NASA Enhanced Procurement Data Warehouse and NASA’s enterprise accounting system, SAP.

^a We excluded this award from our review based on its age.

^b This amount is as of May 20, 2014.

Grants, Cooperative Agreement, and Contract Guidance

According to NASA officials, the Agency makes awards based on the best proposals in light of the funding available and chooses a grant, cooperative agreement, or contract as the applicable vehicle depending on the nature of the activities covered by the award. Grants and cooperative agreements provide financial assistance for activities that benefit the public. Grants are used when the awardee independently performs the activities with minimal NASA involvement, while cooperative agreements are used when substantial involvement is anticipated between NASA and the recipient during performance of the award. In contrast, contracts are used to acquire specific goods or services needed to accomplish a NASA mission or project for the direct benefit or use of NASA.⁵ Contracts, unlike grants and cooperative agreements, are generally subject to Federal Acquisition Regulation requirements that govern competition and provide for other controls regarding costs.

Federal regulations require agencies to encourage competition when awarding grants and cooperative agreements, and the Office of Management and Budget (OMB) and individual agencies, including NASA, provide guidance on managing grants and cooperative agreements.

⁴ Launched in March 2002 in partnership with the German Space Agency, the Gravity Recovery and Climate Experiment Mission uses twin satellites to map variations in Earth’s gravity field.

⁵ 14 CFR 1260.12, "Choice of Award Instrument."

Federal Guidance

OMB has issued three circulars that provide guidance relevant to examining the Wise County cooperative agreements: Circular A-87, Circular A-102, and Circular A-133.

Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments*.⁶ Circular A-87 establishes cost principles related to allowable costs incurred by state, local, and federally recognized Indian tribal governments under grants, cost reimbursement contracts, and other agreements with the Federal Government. These cost principles are designed to ensure Federal agencies and recipients

- are responsible for the efficient and effective administration of Federal awards through the application of sound management practices;
- assume responsibility for administering Federal funds in a manner consistent with underlying agreements, program objectives, and the terms and conditions of the Federal award; and
- are responsible for employing organization and management techniques necessary to assure proper and efficient administration of Federal awards.

Circular A-87 requires that costs associated with a grant or cooperative agreement be necessary and reasonable for the proper and efficient performance and administration of an award. In addition, any charges for salaries and wages are required to be supported by periodic certifications that the associated employees worked solely on that program for the period covered by the certification. These certifications must be prepared at least semiannually and signed by the employee or supervisory official with firsthand knowledge of the work performed by the employee.

Circular A-102, *Grants and Cooperative Agreements with State and Local Governments*.⁷ Circular A-102 directs Federal agencies to rely on readily available sources of information when assessing the adequacy of a potential recipient's financial management system and provides that agencies require grantees to use Financial Status Reports to report the status of funds for all nonconstruction projects or programs.

Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.⁸ Circular A-133 requires recipients that expend more than \$500,000 in Federal funds in any given year to obtain an outside audit of their operations – known as a Single Audit. These audits include a review of recipients' financial statements, internal controls, and compliance with laws and regulations and may identify questioned costs and make recommendations for corrective action. Circular A-133 also requires the audit determine if the Schedule of Expenditures of Federal Awards (SEFA) prepared by the recipient is presented fairly in all material respects in relation to the financial statements taken as a whole. The SEFA lists individual programs by Federal agency, provides total Federal awards expended for each Federal program, and includes notes that describe the significant accounting policies used in preparing the schedule.

⁶ OMB Circular A-87, "Cost Principles for State, Local, and Indian Tribal Governments," August 31, 2005.

⁷ OMB Circular A-102, "Grants and Cooperative Agreements with State and Local Governments," August 29, 1997.

⁸ OMB Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations," June 26, 2007. Circular A-133 is applicable for awards, renewed awards, and supplements dated prior to December 26, 2014. For awards made after this date, Title II, 2 CFR Part 200, "Uniform Administrative Requirements, Cost Principles, & Audit Requirements for Federal Awards," (Omniscircular) is the applicable criteria.

NASA Grant and Cooperative Agreement Handbook

The NASA Grant and Cooperative Agreement Handbook (Handbook) contains policies and procedures NASA procurement, technical officers, and award recipients must follow.⁹ The Handbook serves as a reference manual and assists recipients in meeting their fiduciary responsibility to ensure award funds are used appropriately and consistently with the terms and conditions of the award. By accepting a NASA award, recipients agree to comply with the financial and administrative requirements in the Handbook. The Handbook provides guidance on grant and cooperative agreement management in several areas: award competition, choice of award instrument, financial management, budget management and control, budget adjustments, and award reporting.

Award Competition. The Handbook states that unsolicited proposals should be for new and innovative ideas.¹⁰ Further, NASA’s “Guidance for the Preparation and Submission of Unsolicited Proposals” provides that a valid unsolicited proposal must be innovative and unique, independently originated and developed, and not designed to satisfy a known Agency requirement that can be acquired by competitive methods. This guidance also requires NASA to provide a justification for accepting unsolicited proposals.

Choice of Award Instrument. When awarding a grant or cooperative agreement, it must be determined whether the Government is the direct beneficiary for the services. If NASA provides the specifications for the project or is having the work completed based on its own identified needs then, in most cases, the principal purpose is to acquire property or services for the direct benefit or use by NASA and thus a contractual relationship exists. Awarding a grant or cooperative agreement is appropriate when (1) NASA will not be directly harmed in furthering a specific Agency mission requirement if the effort is not accomplished and (2) the work being performed by the recipient is primarily for its own purposes that NASA is merely supporting with financial or other assistance.

Financial Management. Recipients of NASA grant funds are required to maintain sufficient fiscal control and accounting procedures to ensure Agency funds are properly spent. In addition, recipients are responsible for minimizing the time between the receipt of award funds and the expenditure of funds.¹¹ Further, a recipient’s financial management system should provide accurate, current, and complete disclosure of financial results and records that adequately identify the source and application of funds.¹² Lastly, recipients should have effective controls over and accountability for all funds, property, and other assets and adequately safeguard and ensure such assets are used solely for authorized purposes and accounting records should be supported by source documentation.

⁹ NASA’s Grant and Cooperative Agreement Handbook is codified in 14 CFR Part 1260, 1273, and 1274. However, on December 16, 2014, NASA issued the Grant and Cooperative Agreement Manual that supersedes 14 CFR Parts 1260 and 1273 for all new grant and cooperative agreement awards, except cooperative agreements with commercial firms subject to 14 CFR 1274 awarded after December 26, 2014.

¹⁰ 14 CFR 1260.17, “Evaluation and Selection of Unsolicited Proposals.”

¹¹ 14 CFR Part 1273.20, “Standards for Financial Management Systems.”

¹² 14 CFR Part 1260, “Grants and Cooperative Agreements.”

Budget Management and Control. Although NASA assumes no responsibility for budget overruns, recipients are not required to adhere to individual allocations within proposed budgets, except when they relate to the acquisition of property, award of subcontracts, or certain revisions to budget and program plans. In addition, NASA may, but is not required to, restrict a recipient's ability to transfer more than \$100,000 between budget categories or when the cumulative amount of such transfers exceeds or is expected to exceed 10 percent of the total NASA-approved budget.

Budget Adjustments. Recipients are permitted to move funds between approved direct cost budget categories to meet unanticipated requirements; however, post-award changes to the approved budget require prior written authority from NASA when cumulative transfers among direct cost categories exceed or are expected to exceed 10 percent of the current total approved budget when the Agency's funding exceeds \$100,000.¹³

Award Reporting. Recipients are required to submit quarterly and final Federal Financial Reports and performance and inventory reports. Federal Financial Reports show recipient expenditures and drawdowns for the reporting period, performance reports provide information on the progress of the work effort, and inventory reports document NASA-provided equipment and property valued at more than \$5,000.

¹³ 14 CFR 1273.30, "Changes."

WISE COUNTY SATISFIED PROGRAM OBJECTIVES, BUT SUBSTANTIAL DEFICIENCIES FOUND IN MANAGEMENT OF AGREEMENTS

Although Wise County satisfied the overall performance goals and objectives of the cooperative agreements we reviewed, we identified substantial deficiencies in the County's management of award funds that caused us to question the total amount of the awards. Specifically, Wise County improperly combined cooperative agreement revenues and expenditures with those relating to other County business in its accounting records. As a result, the County's accounting system could not identify transactions by award, impairing the audit trail required to ensure Wise County spent cooperative agreement funds appropriately. In addition, Wise County failed to disclose in required financial reports unexpended funds from two cooperative agreements and improperly retained and used those funds to pay for activities under subsequent agreements. Moreover, we identified \$65,446 in unallocable, unallowable, or unsupported expenses, including tuition payments for courses not related to DEVELOP and extermination fees. We also found \$165,325 in award funds Wise County spent outside the approved budget periods. In addition, without prior NASA approval, Wise County reprogrammed \$540,000 of the 2014 award budget for program support purposes, reducing the amount of funds available for actual research projects. Finally, we identified areas in which NASA can improve its policies and procedures for managing grant and cooperative agreement awards to ensure awards are competed and the proper award instrument is selected.

Award Performance and Accomplishments

NASA's cooperative agreements with Wise County were intended to demonstrate how new, unique, and innovative applications of NASA Earth observations can benefit society while enhancing workforce development for program participants, exploring collaborative new strategic initiatives, and providing business support services to the DEVELOP National Program and its participants. To ensure projects funded by the awards stayed on track, project teams submitted status reports and held teleconferences weekly with DEVELOP staff at Langley. Each project had deliverables, such as the communication of project results to the project sponsor, science community, and public, and final products, including technical papers and project summaries. According to the DEVELOP technical officer, 466 participants completed 120 projects during the 5 years of the 2008 award and 48 participants have completed 11 projects during the first 9 months of the 2014 award. DEVELOP officials informed us they were satisfied with all of these projects. In addition to projects, the cooperative agreements funded two positions for the 2008 award and three positions for the 2014 award in the DEVELOP National Program office.

Accounting and Internal Controls

Grant recipients are required to establish and maintain accounting and internal control systems to properly account for award funds. We found Wise County staff to be knowledgeable and experienced about DEVELOP Program goals and objectives and that staff and management openly communicated regarding Wise County's mission and goals in using the NASA funds. We also found that financial duties were generally properly segregated among Wise County staff and that the County had formally documented many of its financial operating procedures. However, we identified instances where Wise County failed to maintain an adequate accounting for NASA award funds; multiple instances in which Wise County personnel prepared, reviewed, and approved invoices that were paid through the Wise County accounts payable process without proper review; and multiple instances in which Wise County utilized NASA award funds for the payment of expenditures outside the scope of the awards.

Further, we found the Single Audit report for fiscal year 2013 identified a material weakness in the County's financial statement reporting, indicating a potential risk to the financial management of the awards. Wise County's financial statements are audited annually, and in 2013 were subject to OMB reporting requirements for entities that expend more than \$500,000 in Federal funds.¹⁴ We reviewed the Single Audit report for 2013 and noted the 2008 award was not listed in the associated SEFA even though the County reported \$677,933 in expenditures to NASA on its Federal Cash Transactions Reports for the period July 2012 through June 2013. Because the award was excluded from the SEFA, it is unlikely NASA award expenditures were included in the universe of transactions eligible for testing during the Single Audit. Furthermore, the NASA award would have qualified in 2013 as a high risk, major Federal program given the value of expenditures (in excess of \$300,000) and that it had not been tested in a prior audit. As such, the award expenditures would have likely been selected for testing had the recipient properly disclosed the award in the SEFA.

Financial Management

We reviewed the County's accounting system and found that the County had established general ledger accounts for the 2008 and 2014 awards. Within each account, we found expenditure categories such as professional support; contract work, which included payment for program interns; travel; taxes; workmen's compensation; and benefits. However, we also found that Wise County recorded non-NASA related transactions in the general ledger account for the 2008 award, including payments made on behalf of the County's capital improvement program for converting County court paper records into electronic documents, payment for dining services, and payment for a County computer server. Wise County officials confirmed that transactions unrelated to the NASA awards were recorded in the 2008 account and they could not accurately identify in many instances which transactions were award-related. While the County stated it also maintained a "subsidiary ledger" that appropriately identified the award-related transactions, we found the ledger was not a part of the County's accounting system but rather was an Excel spreadsheet that also contained incomplete transaction details and could not be relied upon.

While the County recognized this issue and made a conscious effort to ensure the 2014 account did not include transactions unrelated to the NASA award, it did not consistently record expenditures for the 2014 agreement within this ledger account, and rather commingled 2014 expenditures within the general ledger account established for the now closed 2008 award. Specifically, the County incurred at

¹⁴ OMB Circular A-133.

least \$80,068 in expenditures between December 2013 and July 2014 that were recorded in the general ledger account for the 2008 award rather than the general ledger account for the 2014 award. Wise County personnel told us they recorded these transactions in the 2008 award general ledger account because they were unexpended funds carried over from original 2003 award. Further, the County also used at least \$80,697 in unexpended funds from the 2003 award to pay for expenditures associated with the 2008 award. As a result of these issues, we were unable to validate the accuracy and completeness of award related expenditures in support of the County's request and receipt of the nearly \$3.7 million in NASA funding paid as of May 2014 for the 2008 and 2014 awards.¹⁵ In addition, current controls within the County's financial management environment are not adequate to ensure the remaining \$4.4 million on the 2014 award is appropriately accounted for and expended. Consequently, we recommend NASA remedy the \$3,671,248 in award funds that are unsupported due to insufficient accounting of funds for the 2008 and 2014 awards, and put the \$450,000 in outstanding obligations as of May 2014, along with the \$3,950,000 in committed funds for the 2014 award to better use (see Appendix B for a Schedule of Dollar-Related Findings).

According to the Handbook and OMB guidance, recipients must minimize the time between the receipt of Federal funds and expenditure of those funds. The Handbook also states that NASA reserves the right to remove unexpended balances from awards when insufficient efforts have been made by the grantee to liquidate funding balances in a timely manner.¹⁶ In addition, the Handbook stipulates that a recipient may charge to the award only costs resulting from obligations of the funding period unless carryover of unobligated balances is permitted, in which case the carryover balances may be charged for costs resulting from obligations of the subsequent funding period. A recipient must liquidate all obligations incurred under the award no later than 90 days after the end of the funding period to coincide with the submission of the annual financial status report. Accordingly, any unexpended funds from the 2003 and 2008 awards should have been reported in Wise County's final Federal Financial Report for each award and returned to NASA. We reviewed the award proposal documentation for both the 2008 and 2014 awards and the final Federal Financial Report for the 2008 award, none of which mentioned the unexpended funds.

Federal Financial Reports

We attempted to reconcile the total expenditures reported by Wise County in its Federal Financial Reports to identify variances between the amounts reported and the amounts recorded in the general ledger and external records. As a result of this analysis and examination of other financial documents, we determined Wise County carried over approximately \$80,697 in funds from the 2003 award and approximately \$84,629 of funds from the 2008 award. The County subsequently informed us that as of January 2015 it had about \$1,020 remaining from the 2008 award. However, for the reasons discussed above, the County's records did not provide a reliable accounting of award revenues and expenditures and the accounting system did not reflect the amount of the unexpended funds at the end of either the 2003 or 2008 award periods. While Wise County's subsidiary ledger (Excel spreadsheet) did reflect unexpended funds for the 2008 award at the close of the award period, the Federal Financial Reports provided to NASA that were certified to be complete and accurate reflected the \$3,071,248 paid to Wise County as fully disbursed.

¹⁵ The total of \$3.7 million is comprised of the \$3.1 million paid to the County under the 2008 award and the \$600,000 paid to the County under the 2014 award as of May 2014.

¹⁶ 14 CFR 1260.26, "Financial Management."

During subsequent discussions, a Wise County official stated they were unaware that unexpended funds from one award could not be used on the next award. NASA DEVELOP officials informed us that they were aware of the unspent funds from the 2008 award and that the carryover funds were used to cover the first 3 months of expenses under the 2014 award. However, the DEVELOP officials did not formally approve the carryover and could not provide documentation to support the total value of that funding. Further, NASA DEVELOP officials could not recall what occurred with regard to the 2003 award.

We take issue with the DEVELOP National Program office not having documentation on the amount of funds carried over because, according to the DEVELOP technical officer, the County provided the DEVELOP office with a monthly record of expenditures which, if accurate, should have reflected the excess funding. A Wise County official provided us an example of the monthly expenditure sheets submitted to the Langley DEVELOP office and confirmed that they reconcile the records to the DEVELOP office's records each month. Further, since NASA has closed out the 2003 and 2008 awards, we question how the Agency completed its closeout process without understanding the amount of unspent funding on each award. In any event, the NASA personnel responsible for these awards should have required Wise County to refund the unspent award dollars or include in its next proposal a request to use the unspent funds on the follow-on award. If information on the unspent funds was in the proposal, NASA could have reduced subsequent funding levels accordingly. Consequently, we are questioning the carryover award funds spent outside the approved budgets for both the 2008 and 2014 awards in the amount of \$165,326.

Award Expenditures

Because Wise County failed to properly segregate award-related transactions, we could not choose a reliable sample of transactions to test the accuracy and allowability of costs the County charged to the 2008 and 2014 awards. Instead, we tested \$182,837 in transactions that according to County officials were award-related, or 5 percent of the total amount NASA paid the County under the 2008 and 2014 awards.

Personnel Expenditures

OMB guidance states that charges to Federal awards for salaries and wages, whether treated as direct or indirect costs, will be based on payroll documented in accordance with the generally accepted practice of the governmental unit and approved by a responsible official of that governmental unit and be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification. These certifications will be prepared at least semiannually and be signed by the employee or supervisory official having firsthand knowledge of the work performed by the employee.¹⁷

¹⁷ OMB Circular A-87.

We tested personnel transactions for four nonconsecutive pay periods totaling \$30,103 for compliance with OMB requirements. We found Wise County employees prepared time and attendance reports in support of the hours charged to the awards and consistently documented the total number of hours worked each day. We also found the reports were signed by the preparer and responsible supervisory official and that employees prepared monthly activity reports describing their work activities. While the activity reports did not specify the hours worked for DEVELOP-related efforts funded under the awards, the positions charged were for full-time, DEVELOP-focused positions, and nothing in the reports indicated work was performed outside of their intended duties.

We did not identify any issues regarding support for the payroll transactions tested. However, we selected the payroll transactions from incomplete and commingled system records and, although this testing did give us a sense of the appropriateness of selected transactions, we could not independently identify or verify the total population or value of transactions from which to test.

Non-Personnel Expenditures

We reviewed 90 non-personnel transactions totaling approximately \$152,734, or 4 percent of the total amount paid by NASA under the 2008 and 2014 awards. These transactions included computer support and maintenance services, participant wages, office supplies, travel, and training. We traced the transactions to supporting documentation to determine whether they were properly authorized, classified, and supported.

Out of the \$152,734 in judgmentally-selected transactions we tested, we identified a total of 40 transactions through which Wise County inappropriately charged \$32,223 (21 percent) in questioned costs as well as \$33,223 (22 percent) in unsupported transactions.¹⁸ Charges for flowers, training courses unrelated to the award's performance such as Introduction to Painting, payments to the American Bar Association, bonuses, and extermination fees constitute unallowable expenses in accordance with OMB guidance.¹⁹ Additionally, we identified nine books purchased using NASA award funds that do not support the objectives of the award and appear to be of a personal nature. Titles of the books included "American Torture: From the Cold War to Abu Ghraib and Beyond" and "China's First Emperor." Unsupported costs identified included \$6,610 in credit card payments for miscellaneous purchases such as rental cars and hotel bills, a \$2,500 payment to Wise County for "auto and observatory time," and a \$700 cash payment to a DEVELOP participant, none of which had supporting documentation that validated the expenditure with the terms of the award. According to Wise County, these expenditures were, in their opinion, within the scope of the awards. However, we believe these expenditures were clearly unallowable or unsupported under OMB and Agency requirements. Further, given the high percentage of unallowable and unsupported costs we identified in our sample, we are concerned that additional, questionable costs may exist in the remaining universe of award transactions. See Table 2 for a complete list of the questioned costs we identified.

¹⁸ Questioned costs are expenditures we questioned because of an alleged violation of legal, regulatory, or contractual requirements; because they appeared unallowable, unnecessary, or unreasonable; or because they lacked adequate supporting documentation.

¹⁹ OMB Circular A-87.

Table 2: Questioned Expenditures

Types of Cost	Number of Transactions	Questioned Amount
Unsupported/Inadequately Supported Transactions	15	\$33,223
Unallowable/Unallocable Transactions		
Training, Textbooks, and Fees	9	21,247
Bonuses	5	1,900
Rental Fees/Purchasing of Bunk Beds	3	3,616
Rental Prepayments Not Reimbursed	1	3,007
Extermination Fees	1	1,305
American Bar Association Dues	2	613
Books	2	189
Flowers	1	291
Dues to Virginia Coalition for Open Government	1	55
Total Amount Questioned		\$65,446

Source: Wise County Expenditures.

Included in these questioned costs are \$3,007 in rent prepayments Wise County made for housing for primarily international participants. According to County officials, housing in the area can be difficult to obtain, particularly on a short term basis, and because it anticipated a greater than usual level of participation in the 2011 spring and summer DEVELOP Programs, the County opted to arrange for apartments in anticipation of participants' arrival. In response to an inquiry from the DEVELOP National Program office, on November 17, 2010, Langley's Office of Chief Counsel issued a legal opinion stating that the prepayment of rent was a reasonable, temporary expense to carry out the terms of Wise County's award. However, counsel advised that it would be prudent for the County to ensure participants signed proper documents indicating they are obligated to repay the rental costs incurred by the County. Based on our analysis of the County-prepared documentation for prepaid rental expenses and subsequent participant reimbursements, Wise identified \$3,007 in rent payments for which the County was not reimbursed. Although a Wise County official subsequently informed us that the participants reimbursed the County for these rental payments, we were unable to verify this statement due to the record keeping concerns previously discussed. We were advised by a County official that Wise County has ceased the prepayment of rent for DEVELOP participants.

Budget Management and Control

As we noted in our September 2011 report, NASA permits grant recipients broad discretion to deviate from approved budgets, a practice we believe increases the risk of unauthorized or unallowable costs or expenditures.²⁰ In this audit, we examined Wise County's adherence to NASA approved budgets by comparing the amounts the County expended in each general ledger category with the approved budgets.

²⁰ NASA OIG, Grant Administration and Management.

NASA requires recipient financial management systems be capable of comparing actual expenditures to budgeted amounts. Although we attempted to compare Wise County’s budgeted costs to its actual expenditures, a side-by-side comparison could not be accomplished for two reasons: (1) most expenditure categories in the accounting system were different than those approved in the award budget and (2) the record keeping concerns previously discussed. See Table 3 for a comparison of the budget cost categories versus Wise County’s accounting system expense categories.

Table 3: Budget Cost Category Title versus Accounting System Expense Titles

General Budget Cost Category Title	Accounting System Expense Titles for 2008 Award	Accounting System Expense Titles for 2014 Award
Participants	Professional Services Other and Salary and Wages Part-time	Contract Work Pay
Travel	Travel	Travel
Program Support (office supplies, equipment, software, membership fees)	Professional Services Other	Professional Services Other and Office Supplies
Business Support Services (payroll processing, travel, procurements)	Professional Services Other	Professional Services Other
Contractor Support (people to assist students)	Professional Services Other	Professional Services Other
Program Support Key Personnel (people supporting DEVELOP National Program office)	Wages Part Time ^a	Salary and Wages, Retirement, Unemployment Insurance, FICA Tax, Workman’s Compensation, Group Insurance, and Disability Insurance
Workforce Development (advanced training in remote sensing technology)	N/A	Professional Services Other
Membership Fees and Publications	N/A	Professional Services Other

Source: NASA’s approved budget and Wise County’s general ledger.

^a The 2008 award budget did not include funds for the two employees hired to work in the DEVELOP National Program office until after the award was issued.

Budget Adjustments

In July 2014, Wise County hired a new employee to support both the County and the DEVELOP National Program office. Although this individual’s salary and benefits are funded through the 2014 award, the County’s approved budget made no mention of this hire. NASA requires Agency approval of post-award changes to the approved budget when cumulative transfers among direct cost categories exceed or are expected to exceed 10 percent of the current total approved budget when NASA’s share of the budget exceeds \$100,000.²¹ Although the new hire triggered this threshold, a County official said they were not aware of the requirement and therefore did not seek Agency approval until we inquired about the matter.

²¹ 14 CFR 1273.30, “Changes.”

In January 2015, Wise County submitted a revised budget for the 2014 award proposing to reallocate more than 10 percent of the total award funds originally slated for participants, travel, workforce development, and memberships and publications into the Program Support Key Personnel line item. We are concerned that this budget adjustment reflects either an excessive original request in the categories from which the money was reallocated or a large reduction in overall performance of the work originally proposed. See Table 4 for a complete listing of Wise County’s original and amended 5-year budget amounts.

Table 4: Wise County’s 2014 Amended Budget Amounts

Budget Line Item	Originally Approved 5-Year Budget Amount	Amended 5-Year Budget Amount	Difference
Business Support Key Personnel	\$275,000	\$275,000	\$0
Program Support Key Personnel	750,000	1,290,000	540,000
Participants	3,600,000	3,095,000	(505,000)
Travel	200,000	180,000	(20,000)
Workforce Development	75,000	65,000	(10,000)
Supplies and Equipment	50,000	50,000	0
Memberships/Publications	50,000	45,000	(5,000)
Total	\$5,000,000	\$5,000,000	\$0

Source: Wise County’s approved and amended 2014 award budget proposals.

While NASA acknowledged receipt of the revised budget, a Program official in the DEVELOP National Program office incorrectly informed the County that formal approval of the requested adjustment was not required. This misunderstanding of the requirement regarding approval or revised budgets illustrates the need for periodic refresher training on award management. The Agency is currently implementing refresher training in response a recommendation in our 2011 report.²²

Award Reporting

NASA requires recipients to submit quarterly and final Federal Financial Reports and annual and final performance and final inventory reports to NASA showing expenditures and drawdowns for the reporting period and providing information on the progress of the work effort and documenting NASA provided equipment and property, as well as equipment and property purchased by the recipient.

Financial Reports

The 2008 award required the recipient to submit quarterly Federal Cash Transaction Reports within 15 days after the end of each Federal fiscal quarter and a final report for the entire award period within 90 days after the end of the award.²³ For the 2014 award, neither the quarterly nor the final Federal Cash Transaction Report was required.

²² NASA OIG, NASA’s Grant Administration and Management.

²³ On October 27, 2009, NASA issued Grant Information Circular 09-04 authorizing the substitution of Standard Form 425 (Federal Financial Report) for the Standard Form 272 (Federal Cash Transactions Report). The reporting timeframe also changed, allowing recipients to submit reports within 30 days after the end of each Federal fiscal quarter.

Our analysis of Wise County's Federal Cash Transaction Reports for the 2008 award showed the reports were generally submitted in a timely manner, with the County submitting 22 of the 23 required quarterly reports and the final report. Wise County did not submit one quarterly report in 2008 and another quarterly report was submitted 79 days late on the due date for the following quarterly report. The County employee we interviewed could not recall and had no documentation concerning the reasons behind the missing and late reports.

While the reports were generally submitted in a timely manner, we found inaccuracies in the quarterly and final financial reports on the 2008 award. Specifically, the beginning balances in some of the reports were incorrect, therefore carrying errors forward into the following reports. As of the last quarterly report, we calculated that Wise County's total expenditures were at least \$3,151,518. However, this amount conflicts with the total expenditures in the final report, which the County valued at \$3,071,248 – a difference of \$80,270.

We also found that NASA financial management officials did not have copies of all financial reports submitted by Wise County. Consequently, we were unable to obtain evidence that NASA had reviewed these reports. According to NASA officials, the Agency does not require financial reports when payments are made to the recipient via an invoicing process.²⁴ However, in this case, the reports were a required term of the 2008 award. In our view, these reports are a valuable tool for reviewing the recipient's financial management and determining the appropriateness of payments made to the recipient.

Performance Reports

Both the 2008 and 2014 awards required Wise County to submit annual progress or performance reports to NASA 60 days prior to the award anniversary date and a final summary of research reports within 90 days after the period of performance has ended. Collectively, we found the County submitted five of the six annual progress reports in a timely manner and one 2008 reward report 5 months late. Wise County officials did not have documentation regarding the late submission and could not recall why the report was late. The final report for the 2008 award was submitted timely.

Inventory Reports

According to the 2008 award documents, Wise County was required to submit a final inventory report to NASA 60 days after the completion of the award. The County provided a final inventory report timely and in accordance with award requirements.

²⁴ In lieu of an invoicing process, recipients may be granted a letter of credit through which they are capable of drawing down funds automatically from the related financial account. However, in such instances, financial reports serve as a control measure for ensuring the award funding is being appropriately managed, and funding can be withheld if these reports are delinquent.

Choice of Award Instrument

Our prior work identified several instances in which NASA has used the incorrect procurement instrument, thereby circumventing Federal acquisition regulations for contracts.²⁵ In this review, we found the Wise County cooperative agreements included tasks that directly benefitted NASA's DEVELOP office at Langley and if NASA chose not to use civil servants to perform these duties, a contract would have been the more appropriate vehicle to obtain these services.

Both the 2008 and 2014 awards funded employees to manage NASA's DEVELOP National Program office, including the National Lead and Deputy National Lead. These individuals manage the various DEVELOP project portfolios, including reviewing proposals, project execution, and deliverables, and provide strategic direction and leadership support to all of DEVELOP's locations. During the exit conference for this audit, NASA representatives stated these individuals were responsible only for Wise County-related projects; however, this representation is not consistent with the information DEVELOP National Program officials provided to us during multiple interviews. The 2014 award also funded a new position, the National Technical Lead, that supports project office information technology needs, maintains the database of project results, and recruits military personnel and veterans to volunteer to help DEVELOP teams complete projects. The cost of these employees for the 5 years of the 2014 award is budgeted at \$1.3 million or approximately 26 percent of the total award value. We were not able to determine the actual costs for these individuals for the 2008 award due to the inaccuracies in Wise County's accounting records.

Because these employees are performing tasks that directly impact the progress and performance of the DEVELOP National Program office, NASA is receiving a distinct, direct benefit and these positions should have been filled through a competitively awarded contract rather than through the cooperative agreements. Procurement contracts are subject to statutory and regulatory requirements that generally do not apply to cooperative agreements, such as specific competition requirements, the ability to submit bid protests, and a different jurisdiction to resolve contract disputes. Use of an incorrect procurement instrument could intentionally or inadvertently bypass competition and other legal provisions.

Award Competition

We found NASA awarded the cooperative agreements to Wise County without soliciting the work to the public. Specifically, NASA did not maximize use of the competitive award process as encouraged by Federal regulations. NASA's policy is to use competitive procedures to award grants and cooperative agreements whenever possible and those awarded on a noncompetitive basis should be the exception rather than the rule. While the initial 2003 award was brought to NASA by Wise County and apparently deemed "new and unique" by the Agency, it nevertheless supported NASA's existing DEVELOP Program and the subsequent awards in 2008 and 2014 are believed to be for essentially the same work. The recipient's tasks included such routine activities as recruiting and training participants, preparing project reports, and facilitating the implementation of new DEVELOP project locations.

²⁵ Reports include NASA OIG, "Audit of NASA Grants Awarded to the Alabama Space Science Exhibit Commission's U.S. Space and Rocket Center" (IG-12-016, June 22, 2012) and NASA's Grant Administration and Management.

In a previous audit, we identified two recipients who were awarded grants based on unsolicited proposals for work that was repetitive and for a known NASA requirement that should have been awarded using competitive processes.²⁶ We believe NASA's practice of awarding grants and cooperative agreement based on unsolicited proposals for a known requirement limits its ability to maximize the competitive process and makes it difficult for the Agency to ensure it is receiving the best value for the U.S. taxpayer.

Award Documentation

We identified errors in NASA's administration of the cooperative agreements, including incorrect references to Federal regulations in award documents and an inconsistent application of reporting requirements. However, none of these errors had a material effect on the outcome of the award. We brought these issues to management's attention and were informed the Agency was already working to address them.

²⁶ NASA OIG, NASA's Grant Administration and Management.

RECOMMENDATIONS, MANAGEMENT'S RESPONSE, AND OUR EVALUATION

To strengthen NASA's controls over the management of DEVELOP Program awards, we made the following recommendations to the NASA Shared Services Center Executive Director and the Associate Administrator for the Science Mission Directorate:

1. ensure Wise County strengthens internal controls over financial management to comply with NASA and OMB requirements and enable the County to produce an accurate accounting of its awards to support future Single Audit requirements;
2. remedy the \$3.7 million in unsupported expenditures charged to the 2008 and 2014 awards due to the insufficient accounting of funds in the County's accounting system;
3. with regard to the 2014 award, work with Wise County to ensure controls are established that enable proper management and reporting of the Agency's award funding, and if the deficiencies identified in this report are not promptly corrected, cancel the remaining \$4.4 million on the award;
4. remedy the \$165,326 in funds carried over from previous awards and spent outside the approved budgets;
5. remedy the \$33,223 in unsupported expenditures;
6. remedy the \$32,223 in unallocable or unallowable expenditures; and
7. ensure cooperative agreements under DEVELOP are competitively awarded and do not include terms that are primarily of direct benefit to NASA.

In response to a draft of our report, NASA acknowledged that Wise County commingled non-NASA expenditures with cooperative agreement transactions in its accounting system and charged unallowable or unallocable expenses to the 2008 award. However, the Agency took issue with the OIG's recommendation to remedy the full 2008 award and the expended portion of the 2014 agreement. Specifically, the Agency claimed that questioning \$3.7 million in award funds improperly discounts the value to the DEVELOP National Program of the work performed by Wise County-funded participants.

As noted in the Agency response, we acknowledged that Wise County satisfied the overall performance goals and objectives of the cooperative agreements. Nevertheless, in accordance with auditing procedures we could not rely on Wise County's flawed accounting system to substantiate the validity of the transactions we tested. Consequently, following standard practice we questioned the entire amount of the award to the County and recommended NASA review the County's expenditures to determine whether taxpayer funds were used appropriately.

Although NASA took issue with parts of our audit findings and methodology, the Agency concurred or partially concurred with the seven recommendations and proposed corrective actions that are generally responsive. Specifically, the Agency concurred with recommendations 5 and 6 and partially concurred with recommendations 1, 2, 3, 4, and 7. Planned corrective actions include the NASA Shared Services

Center evaluating the results of a forthcoming Wise County incurred cost audit, performing additional analysis as necessary to ensure costs attributed to the cooperative agreements are allocable and allowable consistent with applicable OMB circulars and the NASA Grants and Cooperative Agreements Handbook, and remedying any resulting questioned costs. Further, the NASA Shared Services Center will monitor the results of future Wise County audits conducted in accordance with OMB Uniform Guidance 2 CFR 200, Subpart F – Audit Requirements and other financial related audits for indications of internal control weaknesses over financial management that might impact the current cooperative agreement. Lastly, the Agency stated that it will determine the best method to continue to fulfill the purpose of the DEVELOP National Program and to ensure the public receives value for its investment, including consideration of a competitive award process. Because we consider the proposed actions responsive, the recommendations are resolved and will be closed upon verification of the completed actions.

Management's full response to our report is reproduced in Appendix C, and Wise County's response is reproduced in Appendix D. Technical comments provided by the Agency and Wise County have also been incorporated, as appropriate.

Major contributors to this report include, Laura B. Nicolosi, Mission Support Director; Joseph A. Shook, Project Manager; Carol St. Armand, Lead Auditor; Lynette Westfall, Auditor; Sarah McGrath and Ben Patterson, Editors; and Frank Mazurek, Attorney-Advisor.

If you have questions about this report or wish to comment on the quality or usefulness of this report, contact Laurence Hawkins, Audit Operations and Quality Assurance Director, at 202-358-1543 or laurence.b.hawkins@nasa.gov.

A handwritten signature in black ink, appearing to read 'PKMA'.

Paul K. Martin
Inspector General

APPENDIX A: SCOPE AND METHODOLOGY

We performed this audit from August 2014 through June 2015 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Our overall audit objective was to determine whether cooperative agreement funds were being used for their intended purpose and whether costs claimed were allowable, reasonable, and in accordance with applicable laws, regulations, guidelines, and terms and conditions of the award. We also reviewed internal controls as they relate to the management of the cooperative agreements. To accomplish our objective, we interviewed key personnel at the Wise County Clerk of Court, DEVELOP, and the NASA Shared Services Center involved in the cooperative agreement administration, management, and award processes. We also identified and reviewed relevant Federal laws and regulations and NASA policies, procedures, and requirements. The methodology we used for the review is described below.

Award Selection. We judgmentally selected the 2008 and 2014 cooperative agreements awarded to Wise County for substantive testing based on the dollar value and the number of supplements awarded. Both awards were awarded by the NASA Shared Services Center.

Award File Documentation. We reviewed 2008 and 2014 award documentation, including proposal, budget, technical review reports, and summary financial reporting documentation. We interviewed NASA officials responsible for the Wise County awards.

Recipient Site Visits. We visited the award recipients' location in Wise, Virginia. We interviewed recipient officials and performed the substantive transaction testing necessary to validate whether NASA cooperative agreement funds were used for their intended purpose while assessing the sufficiency of the recipients' performance.

Testing Conducted. We tested compliance with what we considered the most important conditions of the cooperative agreement. Unless otherwise stated in our report, the criteria we audited against included Federal requirements, the NASA Grant Handbook, and the terms and conditions of the awards. In conducting our audit, we employed judgmental sampling designed to obtain broad exposure to numerous facets of the cooperative agreements reviewed, such as dollar amounts or expenditure category. This nonstatistical sample design does not allow projection of the test results to the universes from which the samples were selected.

Specifically, we tested the recipient's:

- *Program performance and accomplishments* to determine whether the recipient met or is capable of meeting the award objectives and whether the recipient collected data and developed performance measures to assess accomplishment of the intended objectives.
- *Accounting and internal controls* to determine whether the recipient had sufficient accounting and internal controls to identify and report expenditures and reimbursements. This included testing:

- award invoices and payments to determine whether award invoices and payments were adequately supported and whether the recipient was managing award funds in accordance with Federal requirements and
- award expenditures to determine the accuracy and allowability of costs charged to the award.
- *Budget management and control* to determine the amounts budgeted and the actual costs for each approved cost category and to determine whether the recipient deviated from the approved budget and, if so, whether the recipient received the necessary approval.
- *Award reporting* to determine whether the required reports were submitted on time and accurately reflected award activity.

We also performed limited work and confirmed that Wise County did not generate or receive program income, did not have any Government issued property or equipment that was reportable to NASA, was not required to contribute any local matching funds, did not have any subgrantees to monitor, and did not have any indirect costs associated with the cooperative agreements we reviewed. We therefore performed no testing in these areas.

Laws, Regulations, Policies, and Requirements

We identified and reviewed all applicable Federal, Agency, and Center level regulations and guidance.

Federal Laws, Regulations, Policies, and Guidance

- Public Law 95-224, "Federal Grant and Cooperative Agreement Act of 1977," February 3, 1978
- 14 C.F.R. Part 1274, "Cooperative Agreements with Commercial Firms," January 1, 1999
- 14 C.F.R. Part 1273, "Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments," January 1, 1999
- 14 C.F.R. Part 1260, "Grants and Cooperative Agreements," January 1, 2010
- OMB Circular A-87, "Cost Principles for State, Local, and Indian Tribal Governments," August 31, 2005
- OMB Circular A-102, "Grants and Cooperative Agreements with State and Local Governments," August 29, 1997
- OMB Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations," June 26, 2007

NASA Policies and Procedures

- NASA Policy Directive (NPD) 1440-6I, "NASA Records Management," September 10, 2014
- NPD 5101.1E, "Requirements for Legal Review of Procurement Matters," September 15, 1997
- NPD 5101.32D, "Procurement," April 3, 2003
- NPD 5101.32E, "Procurement, Grants, and Cooperative Agreements," July 28, 2013
- NASA Procedural Requirements 1441.1D, "NASA Records Retention Schedules," June 26, 2009

- Grant Information Circular 14-01, "Guidance for the Closeout of Grants and Cooperative Agreements," April 15, 2014
- Grant Information Circular 11-02A, "Requirements for Non-Competitive Agency Grant and Cooperative Agreement Actions, Exclusive of those actions prescribed by 14 CFR 1260.17, Evaluation and Selection of Unsolicited Proposals," March 22, 2012
- Procurement Information Circular 12-05, "Authorized Promotional and Personal Use Items," June 25, 2012
- NASA "Guidance for the Preparation and Submission of Unsolicited Proposals," February 10, 2000

Use of Computer-Processed Data

We relied on NASA computer-processed data to determine the NASA grant and cooperative agreement universe used to select the awards to be examined and to provide financial data. While we also obtained award data and information from NASA's enterprise accounting system SAP, we did not perform any substantive testing of SAP to validate the completeness or accuracy of the data. As a result, we placed limited reliance on the accuracy of the data obtained from SAP. Further, we also placed limited reliance on the information obtained from the recipient's financial system to perform detailed transaction testing on the recipient's financial records.

Review of Internal Controls

We reviewed internal controls for the grantee's administration and management of grants, including the adequacy of Wise County's policies and procedures. The control weaknesses we identified are discussed in this report. Our recommendations, if implemented, should correct the identified control weaknesses.

Prior Coverage

During the last 5 years, the NASA Office of Inspector General (OIG) and the Government Accountability Office (GAO) have issued 13 reports and testimonies of significant relevance to the subject of this report. Unrestricted reports can be accessed at <http://oig.nasa.gov/audits/reports/FY15> and <http://www.gao.gov>, respectively.

NASA Office of Inspector General

Audit of NASA's Cooperative Agreement with BioServe Space Technologies - University of Colorado at Boulder (IG-14-028, August 4, 2014)

Audit of Grant Awarded to North Carolina State University (IG-14-027, July 23, 2014)

Audit of NASA's Cooperative Agreement Awarded to Rockwell Collins (IG-14-025, July 14, 2014)

NASA's Award Closeout Process (IG-14-014, February 12, 2014)

Audit of NASA Grant Awarded to HudsonAlpha Institute for Biotechnology (IG-12-019, August 3, 2012)

Audit of NASA Grants Awarded to the Philadelphia College Opportunity Resources for Education (IG-12-018, July 26, 2012)

Audit of NASA Grants Awarded to the Alabama Space Science Exhibit Commission's U.S. Space and Rocket Center (IG-12-016, June 22, 2012)

NASA's Grant Administration and Management (IG-11-026, September 12, 2011)

Audit of NASA's Recovery Act Procurement Actions at Johnson Space Center, Goddard Space Flight Center, Langley Research Center, and Ames Research Center (IG-10-017, July 27, 2010)

Government Accountability Office

Health Resources and Services Administration: Action Taken to Train and Oversee Grantee Monitoring Staff, but Certain Guidance Could Be Improved (GAO-14-800, September 23, 2014)

Federal Grants: Agencies Performed Internal Control Assessments Consistent with Guidance and Are Addressing Internal Control Deficiencies (GAO-14-539, July 30, 2014)

State Department: Implementation of Grants Policies Needs Better Oversight (GAO-14-635, July 21, 2014)

Grants Management: Improved Planning, Coordination, and Communication Needed to Strengthen Reform Efforts (GAO-13-383, May 23, 2013)

Grants Management: Improving the Timeliness of Grant Closeouts by Federal Agencies and Other Grants Management Challenges (GAO-12-704T, July 25, 2012)

Federal Grants: Improvements Needed in Oversight and Accountability Processes (GAO-11-773T, June 23, 2011)

Iraq and Afghanistan: Agencies Face Challenges in Tracking Contracts, Grants, Cooperative Agreements, and Associated Personnel (GAO-10-509T, March 23, 2010)

APPENDIX B: SCHEDULE OF DOLLAR-RELATED FINDINGS

Table 5 shows the dollar-related findings identified during our audit and discussed in this report.

Table 5: 2008 and 2014 Award Questions Costs

Dollar-Related Findings	Amount	Page
Questioned Costs ^a		
Unsupported Costs – Insufficient Accounting of Funds	\$3,671,248	8
Unsupported Costs – Unauthorized Use of Funds	\$165,325	6
Unsupported Costs – Tested Transactions	\$33,223	10
Unallowable/Unallocable Costs – Tested Transactions	\$32,223	10
Gross Questioned Costs	\$3,902,019	
Less Duplicative Costs^b	(\$230,771)	
Net Questioned Costs	\$3,671,248	
Funds to Better Use – Outstanding Obligations on 2014 Award ^c	\$450,000	8
Funds to Better Use – Balance of Committed Funds on 2014 Award	\$3,950,000	8
Total Funds Put to Better Use	\$4,400,000	

Source: NASA Office of Inspector General analysis.

^a Questioned costs are expenditures that are questioned by the Office of Inspector General because of an alleged violation of legal, regulatory, or contractual requirements, are not supported by adequate documentation at the time of the audit, or are unallowable, unnecessary, or unreasonable.

^b Some costs were questioned for more than one reason. Net questioned costs excludes the duplicate amount and is the maximum questioned costs reimbursable to NASA.

^c As of May 20, 2014.

APPENDIX C: MANAGEMENT'S COMMENTS

National Aeronautics and Space Administration
 Headquarters
 Washington, DC 20546-0001



July 10, 2015

Reply to Attn of: NASA Shared Services Center

TO: Assistant Inspector General for Audits

FROM: Executive Director, NASA Shared Services Center
 Associate Administrator, Science Mission Directorate

SUBJECT: Response to the OIG's Draft Audit Report, "NASA's Cooperative Agreements Awarded to the Wise County Circuit Court" (OIG Assignment No. A-14-021-00)

NASA appreciates the opportunity to review and comment on the Office of Inspector General's (OIG) draft report entitled, "NASA's Cooperative Agreements Awarded to the Wise County Circuit Court" (OIG Assignment No. A-14-210-00) dated June 15, 2015. NASA also appreciates the OIG's intent to ensure the U.S. taxpayer receives value for its investment.

While NASA concurs or partially concurs with the recommendations in the draft report, the OIG arrives at certain conclusions with which NASA disagrees. Specifically, NASA disagrees with the OIG's approach to question the total amount of the awards of the 2008 and 2014 cooperative agreements. In addition, NASA disagrees with the OIG's conclusion that NASA improperly awarded the cooperative agreements to Wise County. The following expands on our position relative to the questioned expenditures and cooperative agreement award process:

Questioned Expenditures:

NASA agrees with the OIG's finding that Wise County comingled non-NASA expenditures with NASA cooperative agreement transactions in their accounting system. NASA also agrees that Wise County charged some unallowable or unallocable expenses to the 2008 cooperative agreement. The total value of the expenses the OIG identified as unallowable or unallocable is less than 2 percent of the total amount on the 2008 and 2014 cooperative agreements. Additionally, in the draft report, the OIG confirms that Wise County satisfied the overall performance goals and objectives of the cooperative agreements reviewed, while at the same time questioning the total amount of the awards. Therefore, it is unreasonable for the OIG to reach the conclusion that the entire \$3.7 million is unsupported. The OIG's conclusion and the table of dollar related findings in Appendix B of the draft report present an inaccurate assessment of value of work completed and associated costs incurred. The questioned amounts do not properly acknowledge or reflect that there has been substantial societal benefit from project outcomes that were conducted through the cooperative

agreements between NASA and Wise County. Even if qualified accordingly, the OIG should acknowledge the value received by the public from work performed by Wise County-funded participants supporting the DEVELOP National Program.

In addition, NASA disagrees with the OIG's inconsistent approach in terms of its reliance on accounting records provided by Wise County. The OIG relied on Wise County accounting records for purposes of identifying \$165,326 in questioned costs relating to funds spent outside of approved budget periods. However, the OIG rejected Wise County records (or other reasonable estimating methods) which tend to support the assertion that substantial value was provided under the cooperative agreements.

Consistent with the OIG's approach in determining the amount of questioned costs associated with carryover funds, the OIG could have reasonably estimated the amount of allowable costs incurred under the cooperative agreements, rather than questioning the entire \$3.7 million. Of the \$3.7 million in questioned costs, \$3.45 million are justifiably documented under the cooperative agreements. Wise County provided documentation to support \$2.85 million of charges for personnel expenditures, participant wages, and travel on the 2008 cooperative agreement. Additionally, NASA has confirmed that upon receipt of the 2014 award, Wise County properly segregated cooperative agreement transactions in their accounting system; therefore, we believe \$600,000 (approximate amount received as of May 20, 2014,) from this award should be excluded from questioned costs. To accurately represent the unsupported costs, we believe the OIG should re-evaluate its decision to question the total amount of the awards.

Furthermore, the OIG specifically states that the 2003 Wise County cooperative agreement was excluded from the scope of its review because records were properly destroyed consistent with NASA record retention policies. Yet the OIG includes \$80,697 of funds from the 2003 cooperative agreement in the total questioned carryover of \$165,326. Absent official records of the 2003 cooperative agreement, neither NASA nor Wise County can verify the questioned carryover amount. Therefore, we contend that the \$80,697 should be excluded from costs questioned in the report.

Finally, regarding the OIG's determination that, due to the insufficient accounting of funds, the remaining \$4.4 million of funding available under the 2014 cooperative agreement should be put to "better use," we agree with the OIG's underlying assertion that it is incumbent upon Wise County to maintain an adequate accounting system; however, we believe that the OIG's conclusion that the entire value of the award is not being put to good use is inaccurate in light of the fact that the DEVELOP Program continues to express satisfaction with Wise County's contributions under the existing cooperative agreement. NASA recognizes that Wise County has enabled research with state and local governments nationally and internationally, demonstrating prudent use of funds.

Cooperative Agreement Award Process:

The OIG states that NASA improperly awarded the 2008 and 2014 cooperative agreements to Wise County due to a lack of competition in the award process; NASA disagrees with this statement. The Federal Grant and Cooperative Agreements Act of 1977 (FGCAA) was

enacted to give agencies better understanding of the types of instruments executive agencies may award by characterizing the relationship between executive agencies and contractors, states, local governments, and other recipients in acquiring property and services and in providing Federal assistance. The FGCAA differentiates between contract and cooperative agreement in regard to competition. It states that competition should be maximized in the award of contracts but only encouraged, when deemed appropriate, in the award of grants and cooperative agreements. The OIG correctly recognized that NASA deemed the 2003 Wise County award as “new and unique.” However, the OIG incorrectly concluded that the 2008 and 2014 awards were for the same work. From a technical perspective, the 2008 and 2014 awards offered new, unique, and innovative applications of NASA Earth science addressing environmental challenges of state and local governments. Furthermore, the cooperative agreements brought a new and innovative emphasis on expanded engagement with local, state, and international project partners. This was different work, which met unsolicited proposal requirements as defined in the NASA Grants and Cooperative Agreements Handbook. We believe NASA properly awarded this effort as a cooperative agreement consistent with regulation and policy and that the decision to enter into cooperative agreements with Wise County should not be characterized as improper.

NASA understands the OIG’s desire that the Agency maximize the competitive process to ensure the best value for the taxpayer. Prior to awarding the 2014 cooperative agreement to Wise County, the DEVELOP National Program Office worked with the Langley Office of Procurement and the Langley Office of Chief Counsel to develop a competitive Cooperative Agreement Notice (CAN) for the DEVELOP National Program to pursue state and local government participation (DEVELOP is a dual capacity building program that builds skills of participants and state/local governments to use Earth observations to improve their decision-making). During the development of the CAN, which included consideration of DEVELOP’s significant market research of state and local governments over the lifetime of the program, it was determined that the narrow scope would likely result in few (if any) viable and/or meritorious proposals from state and local government entities. Consequently, the decision was made to end the development of the CAN in early 2013.

Subsequently, NASA received an unsolicited proposal from Wise County. In accordance with regulation and NASA policy, the DEVELOP National Program Technical Official prepared a Justification for Acceptance of an Unsolicited Proposal (JAUP). The Langley Science Directorate leadership and Office of Chief Counsel concurred on the JAUP. Based on the JAUP and the NSSC grants officer’s evaluation of the unsolicited proposal, the NSSC awarded a cooperative agreement to Wise County.

While the OIG may not agree with NASA policy permitting awards in response to unsolicited proposals, we believe the decision to enter into cooperative agreements with Wise County was proper.

In the draft report, the OIG makes seven recommendations addressed to the Executive Director, NASA Shared Services Center (NSSC) and the Associate Administrator, Science Mission Directorate (SMD) intended to strengthen NASA’s controls over the management of DEVELOP National Program awards. NASA’s response to the OIG’s recommendations, including planned corrective actions follows:

Recommendation 1: Ensure Wise County strengthens internal controls over financial management to comply with NASA and Office of Management and Budget (OMB) requirements and enable the County to produce an accurate accounting of its awards to support future Single Audit requirements.

Management's Response: Partially concur. Wise County has indicated in their response to the OIG's report that they have requested an incurred cost audit of the questioned expenditures. In order to address concerns with internal controls and specific questioned costs, NSSC will assess the adequacy of the Wise County incurred cost audit, evaluate the results to ensure costs attributable to the cooperative agreement are allocable and allowable consistent with applicable OMB circulars and the NASA Grants and Cooperative Agreements Handbook, and will remedy any resulting questioned costs. NSSC will also monitor the results of future Wise County audits conducted in accordance with OMB Uniform Guidance 2 CFR 200, Subpart F – Audit Requirements, and other financial-related audits for indications of internal control weaknesses over financial management that might impact the current cooperative agreement. However, NASA disagrees with the recommendation that NASA “ensure” the County strengthens its internal controls, as overseeing or developing another governmental entity's controls exceeds the requirements of 2C.F.R. 1.100 et seq. and purposes of NASA's funding.

Estimated Completion Date: NSSC will seek to remedy any resulting questioned costs within 60 days of receipt of Wise County's incurred cost audit results. After evaluating the results of the Wise County audits, if further audit coverage is deemed prudent, NSSC will request additional audits in a timely manner and seek to remedy any subsequent audit findings.

Recommendation 2: Remedy the \$3.7 million in unsupported expenditures charged to the 2008 and 2014 awards due to the insufficient accounting of funds in the County's accounting system.

Management's Response: Partially concur. While NASA recognizes it is incumbent upon Wise County to properly account for costs incurred on the cooperative agreements, we believe the OIG's questioning the total amounts on the cooperative agreements is inaccurate and not supported by the facts. If NASA believed sufficient evidence existed to substantiate the OIG's assertion that \$3.7 million of award funds were unsupported or unallowable, we would take appropriate remedial action. However, we feel there is substantial evidence of work performed by Wise County under the cooperative agreement, which is echoed by the OIG's conclusion that “Wise County satisfied the overall performance goals and objectives of its cooperative agreements with NASA.” Wise County could not have satisfied the overall performance goals and objectives without incurring substantial costs to date (which include personnel expenditures, participant wages, and travel costs for over 500 participants across the two agreements). Therefore, NASA does not plan to seek collection of the \$3.7 million in questioned costs.

However, subsequent to the completion of the requested Wise County incurred cost audit, NSSC will assess the adequacy of the audit coverage, evaluate the results to ensure costs attributable to the cooperative agreement are allocable and allowable, consistent with applicable OMB circulars and the NASA Grants and Cooperative Agreements Handbook, and will remedy any resulting questioned costs.

Estimated Completion Date: NSSC will seek to remedy any resulting questioned costs within 60 days of receipt of Wise County's incurred cost audit results. After evaluating the results of the Wise County audits, if further audit coverage is deemed prudent, NSSC will request additional audits in a timely manner and seek to remedy any subsequent audit findings.

Recommendation 3: With regard to the 2014 award, work with Wise County to ensure controls are established that enable proper management and reporting of the Agency's award funding, and if the deficiencies identified in this report are not promptly corrected, cancel the remaining \$4.4 million on the award.

Management's Response: Partially concur. NSSC will evaluate the results of the requested Wise County incurred cost audit to ensure costs attributable to the cooperative agreement are allocable and allowable, consistent with applicable OMB circulars and the NASA Grants and Cooperative Agreements Handbook. Additionally, NSSC will amend term and condition 1800.919, Cooperative Agreement-Special Condition, of the 2014 cooperative agreement to require a quarterly detailed financial report from Wise County documenting expenditures. NSSC will also monitor the results of future Wise County audits conducted in accordance with OMB Uniform Guidance 2 CFR 200, Subpart F – Audit Requirements, and other financial-related audits for indications of internal control weaknesses over financial management that might impact the current cooperative agreement. However, NASA disagrees with the recommendation that NASA “ensure” the County strengthens its internal controls, as overseeing or developing another governmental entity's controls exceeds the requirements of 2 C.F.R. 1.100 et seq. and purposes of NASA's funding.

Estimated Completion Date: The supplement to amend the term and condition of the 2014 cooperative agreement will be awarded within 30 days from the date of this final OIG audit report. NSSC and SMD will determine whether canceling the remaining performance period of the award is deemed an appropriate course of action after receipt and assessment of the Wise County incurred cost audit results and the results of any subsequent audits of Wise County financial information.

Recommendation 4: Remedy the \$165,326 in funds carried over from previous awards and spent outside the approved budgets.

Management's Response: Partially concur. The \$165,326 of questioned costs is comprised of: 1) \$80,697 of funds from a 2003 cooperative agreement, and 2) \$84,629 of funds from the 2008 cooperative agreement.

NASA agrees that \$84,629 of questioned costs may have been inappropriately carried over from a prior to a subsequent agreement. However, the usage of inappropriately carried over funds did not harm the Government, and seeking to remedy the carryover amounts will serve no purpose to NASA or the taxpayer. NSSC will evaluate the results of the Wise County incurred cost audit to ensure costs attributable to the cooperative agreement are allocable and allowable consistent with applicable OMB circulars and the NASA Grants and Cooperative Agreements Handbook, and will remedy any resulting questioned costs.

However, NASA disagrees with the OIG's determination with respect to \$80,697 of the questioned costs associated with funds carried over from previous awards and spent outside the approved budgets. In the draft report, the OIG states that the 2003 Wise County cooperative agreement was excluded from the scope of its review based on applicable record retention policies; therefore, \$80,697 should be excluded from costs questioned in the audit report. In addition, the \$165,326 in questioned costs was arrived at by the OIG using the same Wise County accounting data that the OIG declined to accept in arriving at its conclusion to question the total amount of \$3.7 million under the 2008 and 2014 agreements. Therefore, we believe the OIG's method in arriving at the amount of questioned costs associated with the carryover over of funds from the 2003 cooperative agreement is inconsistent and contradictory.

Estimated Completion Date: NSSC will seek to remedy any resulting questioned costs within 60 days of receipt of Wise County's incurred cost audit results. After evaluating the results of the Wise County audits, if further audit coverage is deemed prudent, NSSC will request additional audits in a timely manner and seek to remedy any subsequent audit findings.

Recommendation 5: Remedy the \$33,223 in unsupported expenditures.

Management's Response: NASA concurs with the recommendation. NSSC will evaluate the results of the Wise County incurred cost audit to ensure costs attributable to the cooperative agreement are allocable and allowable consistent with applicable OMB circulars and the NASA Grants and Cooperative Agreements Handbook, and will remedy any resulting questioned costs.

Estimated Completion Date: NSSC will seek to remedy any resulting questioned costs within 60 days of receipt of Wise County's incurred cost audit results. After evaluating the results of the Wise County audits, if further audit coverage is deemed prudent, NSSC will request additional audits in a timely manner and seek to remedy any subsequent audit findings.

Recommendation 6: Remedy the \$32,223 in unallocable or unallowable expenditures.

Management's Response: Concur. NSSC will evaluate the results of the Wise County incurred cost audit to ensure costs attributable to the cooperative agreement are allocable and allowable consistent with applicable OMB circulars and the NASA Grants and Cooperative Agreements Handbook and will remedy any resulting questioned costs.

Estimated Completion Date: NSSC will seek to remedy any resulting questioned costs within 60 days of receipt of Wise County's incurred cost audit results. After evaluating the results of the Wise County audits, if further audit coverage is deemed prudent, NSSC will request additional audits in a timely manner and seek to remedy any subsequent audit findings.

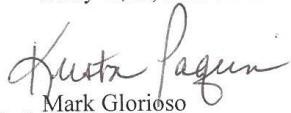
Recommendation 7: Ensure cooperative agreements under DEVELOP are competitively awarded and do not include terms that are primarily of direct benefit to NASA.


Management's Response: Partially concur. NASA believes the cooperative agreements in question were awarded properly, consistent with regulation and policy. Before the end of the 2014 cooperative agreement, the DEVELOP National Program Office Technical Official, NSSC, and Langley Office of Procurement and Office of Chief Counsel commit to work together to determine the best method to continue to fulfill the purpose of the program and to ensure the public receives value for its investment, including consideration of a competitive award process. As with the current cooperative agreement, NASA will comply with all regulation and policy requirements.

Estimated Completion Date: Upon consideration of future awards for the DEVELOP program.

We have reviewed the draft report for information that we believe should not be publicly released. We have not communicated any concerns regarding the public release of information contained in your report.

Thank you for the opportunity to review and comment on the subject draft report. If you have any questions or require additional information regarding this response, please contact Kelly Wise, NSSC Audit Liaison Representative, at (228) 823-5439.

 Associate Administrator Mission Support
Mark Glorioso

 cc: Langley Research Center/Dr. Bowles

APPENDIX D: RECIPIENT'S COMMENTS

Response to June 15, 2015 Draft Report A-14-021-00

MEMORANDUM

Date: June 22, 2015

To: NASA Office of Inspector General
Office of Audits
Suite 8U71, 300 E St SW
Washington, DC 20546-0001

James L. Morrison, Assistant Inspector General for Audits
James.l.morrison@nasa.gov

Gail Henderson, Audit Liaison Representative for NASA's LARC
Gail.l.henderson@nasa.gov

Paul Roberts, Audit Liaison Team Lead, Mission Support Directorate
Paul.roberts@nasa.gov

From: J. Jack Kennedy, Jr.
206 E Main Street
PO Box 1248
Wise, VA 24293



Subject: Response to Draft Report A-14-021-00

Wise County has reviewed the draft report prepared by the NASA Office of Inspector General (OIG) and provides its response to the findings and recommendations below. While we appreciate the audit process, we respectfully disagree with several of the findings and recommendations of the OIG. Furthermore, we regret that during the ten (10) month audit the OIG miscommunicated procedures regarding the submission of supporting documentation for expenditures.

However, we are pleased that the OIG found the overall performance goals and objectives of the cooperative agreements with NASA were satisfied. Specifically, the nationwide capacity building program supports in excess of two hundred (200) participant opportunities each year. We are further pleased to acknowledge the fact that previous state audits have found no issues with our financial management and that previous county audits found no award findings or questioned costs to report.

Based upon the recommendations to the NASA Shared Services Center Executive Director and the Associate Administrator for the Science Mission Directorate, we submit the following responses.

1 of 4

Response to June 15, 2015 Draft Report A-14-021-00

Response to Recommendation 1: ensure Wise County strengthens internal controls over financial management to comply with NASA and OMB requirements and enable the County to produce an accurate accounting of its awards to support future Single Audit requirements.

Wise County does not concur with the recommendation.

Wise County has strengthened the internal controls over financial management and does comply with NASA and OMB requirements. Wise County can produce, and did provide the OIG, an accurate accounting of its awards to support future Single Audit requirements. Furthermore, in December 2013, upon receipt of the 2014 award, a separate account was established in the County's accounting system for the revenues and expenses which meets this recommendation. Additionally, a subsidiary ledger approved by the County Chief Financial Officer has been maintained for both awards which meets this recommendation (Attachment 1).

Response to Recommendation 2: remedy the \$3.7 million in unsupported expenditures charged to the 2008 and 2014 awards due to the insufficient accounting of funds in the County's accounting system.

Wise County does not concur with this recommendation.

The \$3.7 million in expenditures have been fully supported, documented and accounted for through the County's accounting system and subsidiary ledgers. The subsidiary ledgers were maintained and reconciled against the general ledger to provide an adequate accounting of funds that meet NASA and OMB requirements. Furthermore, the 2014 award funds have been maintained in a separate account used solely for the award revenues and expenses.

Additionally, the 2008 award subsidiary ledger provides that in excess of \$2.3 million, or 74% of the total 2008 expenditures, were expended for direct costs associated with personnel expenditures and participant wages. Furthermore, as of May 2015 a total of \$854,405.07, or approximately 93% of the 2014 award expenditures, have been expended for direct costs associated with personnel expenditures and participant wages. The draft report issued by OIG states that no issues were identified with the personnel expenditure supporting documentation. Therefore, it is incorrect to state that there are \$3.7 million in unsupported expenditures to remedy, and we question the OIG's mathematical calculation and methods used in making this recommendation.

Furthermore, the OIG Draft Report states that award funds were not listed on the Schedule of Expenditures of Federal Awards (SEFA) for the fiscal year 2013 and concludes that the universe of award expenditures were not tested during the A-133 Single Audit. In 2013, Wise County hired the accounting firm of Robinson, Farmer Cox Associates to conduct the outside County audit. This firm contacted NASA for instruction regarding the Single Audit requirement of the award funds. NASA informed the firm that a Single Audit was not required. Therefore, the firm did not list the award funds on the SEFA. However, the firm did include the funds in the transaction testing universe and found no issues. Therefore, it is incorrect to conclude that the funds were not audited. Additionally, Wise County has contacted the accounting firm of Robinson, Farmer Cox Associates to ensure the questioned expenditures are sufficiently accounted for and that the 2014 award funds are tested and listed on the SEFA in future Single Audits.

Response to Recommendation 3: with regard to the 2014 award, work with Wise County to ensure controls are established that enable proper management and reporting of the Agency's award

Response to June 15, 2015 Draft Report A-14-021-00

funding, and if the deficiencies identified in this report are not promptly corrected, cancel the remaining \$4.4 million on the award.

Wise County does not concur with this recommendation.

Wise County has ensured controls are established that enable proper management and reporting of the 2014 award funding. As stated previously, a separate account in the County's accounting system was established in December 2013 upon receipt of the 2014 award. The accounting titles are consistent with the proposed budget accounting titles and monthly reconciliations are prepared to track the line item expenditures. Additionally, a subsidiary ledger is maintained and reported to NASA on a monthly basis along with supporting documentation for all expenditures.

Furthermore, Wise County is prepared to submit quarterly financial reports, if instructed. However, by an email dated January 14, 2014 and again in November 2014, the NSSC instructed that the financial reports are not required for the 2014 award. Wise County complies with the requirements based on the 2014 cooperative agreement following the invoice process.

Response to Recommendation 4: remedy the \$165,326 in funds carried over from previous awards and spent outside the approved budgets.

Wise County concurs with this recommendation.

Wise County was unaware and uninformed by NASA of the policies regarding the use of carried over funds. The funds carried over were used to close out obligations on the award and to fund activities under the subsequent award. Now aware of the requirements, proper controls are in place to ensure correct action is taken regarding unexpended funds at the conclusion of the 2014 award performance period.

Response to Recommendation 5: remedy the \$33,223 in unsupported expenditures.

Wise County does not concur with this recommendation.

The OIG tested ninety (90) judgmentally selected non-personnel transactions. Wise County fully cooperated in providing supporting documentation of these transactions to the OIG. The supporting documentation was rapidly provided to the OIG with the understanding that some of the original receipts may not be attached to the scanned documents and those documents would need to be pulled from the archived records. The OIG stated complete understanding of this fact and further stated, on numerous occasions, that requests would be made for additional documentation, if necessary. In fact, several requests for additional documentation and justification were received and accepted.

However, the OIG did not afford Wise County the opportunity to provide the additional documentation for the unsupported expenditures identified in the draft report as they previously suggested they would do. The OIG provided the listing to Wise County on the evening of June 9, 2015 after multiple requests and after the statement of facts had been issued.

On June 11, 2015, Wise County provided additional documentation from the archives to negate over \$26,000 of these "unsupported expenditures" with the understanding the documents

Response to June 15, 2015 Draft Report A-14-021-00

would be reviewed and the draft report updated. However, the OIG did not update the draft report to reflect the supporting documentation. Therefore, Wise County does not concur with this finding.

However, in order to remedy this recommendation to the satisfaction of NASA, NSSC and the OIG, Wise County has requested the accounting firm of Robinson, Cox Farmer Associates perform an incurred cost audit on the \$33,223 in unsupported expenditures identified by the OIG.

Response to Recommendation 6: remedy the \$32,223 in unallocable or unallowable expenditures.

Wise County partially concurs with this recommendation.

Wise County has reviewed the unallocable or unallowable expenditures and concurs that \$1,148 should have been paid from different sources. Accounting transactions have been made to correct the expenditures.

NASA attorneys concluded that it was allowable to prepay participant housing costs. Therefore, Wise County does not concur with the \$3,007 in unreimbursed rent prepayments and the \$4,921 in costs associated with the housing of participants.

Wise County does not concur with the \$1,900 paid to 5 DEVELOP participants as “bonus” pay. These participants were paid a consulting fee for additional work completed outside their normal scope. The use of the term “bonus” was incorrect; however, the reason for payment was allowable pursuant to OMB guidelines.

Wise County does not concur with the \$21,247 in questioned training, textbooks and fees. These costs were associated as part of training and workforce development.

However, in order to remedy this recommendation to the satisfaction of NASA, NSSC and the OIG, Wise County has requested the accounting firm of Robinson, Cox Farmer Associates perform an incurred cost audit on the \$32,223 in unallocable or unallowable expenditures identified by the OIG.

In conclusion, as indicated above corrective action has been taken to remedy recommendations 1 through 6. We continuously navigate the complexities of changing circulars, their contradictory statements and incorrect guidance to meet all NASA requirements. We consistently strive to improve ourselves and our processes, and we thank you for the opportunity to provide a response to the draft report.

Attachment 1



Wise County Board of Supervisors

Office of County Administrator

TELEPHONE 276-328-2321
FAX 276-328-9780

COURTHOUSE

P.O. BOX 570
206 E. MAIN STREET

WISE, VIRGINIA 24293

June 10, 2015

To Whom It May Concern:

The DEVELOP Fund on the Wise County General Ledger contains federal funds and funds reimbursed from the Wise County General Fund for activities performed by DEVELOP participants.

There has been a subsidiary ledger maintained by staff officials and I have been aware that it has been maintained for both the 2008 and 2014 awards. The subsidiary ledger is an additional official document providing details from the general ledger.

I do feel comfortable based upon the subsidiary ledger that funds have been segregated and can be readily identifiable as such. Furthermore, the revenues and expenses are reconciled monthly from the subsidiary ledger to the general ledger.

My opinion is that funds have been properly segregated and Wise County has no reason to believe there is any material deficiency. Please feel free to contact me with any questions.

Respectfully,

A handwritten signature in blue ink, appearing to read "David Cox". The signature is fluid and cursive.

David Cox
Chief Financial Officer

APPENDIX E: REPORT DISTRIBUTION

National Aeronautics and Space Administration

Administrator
 Deputy Administrator
 Associate Administrator
 Chief of Staff
 Chief Financial Officer
 Deputy Chief Financial Officer for Finance
 Assistant Administrator for Procurement
 Executive Director, NASA Shared Services Center
 Associate Administrator, Science Mission Directorate
 Associate Administrator, Mission Support Directorate
 Director, Langley Research Center

Non-NASA Organizations and Individuals

Wise County Clerk of Circuit Court
 Office of Management and Budget
 Deputy Associate Director, Energy and Space Programs Division
 Branch Chief, Science and Space Programs Branch
 Government Accountability Office
 Director, Office of Acquisition and Sourcing Management

Congressional Committees and Subcommittees, Chairman and Ranking Member

Senate Committee on Appropriations
 Subcommittee on Commerce, Justice, Science, and Related Agencies
 Senate Committee on Commerce, Science and Transportation
 Subcommittee on Science and Space
 Senate Committee on Homeland Security and Governmental Affairs
 House Committee on Appropriations
 Subcommittee on Commerce, Justice, Science, and Related Agencies
 House Committee on Oversight and Government Reform
 Subcommittee on Government Operations
 House Committee on Science, Space, and Technology
 Subcommittee on Oversight
 Subcommittee on Space