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MISSION IMPOSSIBLE? FIXING NASA'S FINANCIAL MANAGEMENT

HEARING

BEFORE THE

SUBCOMMITTEE ON GOVERNMENT EFFICIENCY AND FINANCIAL MANAGEMENT

OF THE

COMMITTEE ON GOVERNMENT REFORM

HOUSE OF REPRESENTATIVES

ONE HUNDRED EIGHTH CONGRESS

SECOND SESSION

MAY 19, 2004

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MISSION IMPOSSIBLE? FIXING NASA'S FINANCIAL MANAGEMENT

WEDNESDAY, MAY 19, 2004

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON GOVERNMENT EFFICIENCY AND FINANCIAL MANAGEMENT,
COMMITTEE ON GOVERNMENT REFORM,
Washington, DC.

The subcommittee met, pursuant to notice, at 3 p.m., in room 2247, Rayburn House Office Building, Hon. Todd R. Platts (chairman of the subcommittee) presiding.

Present: Representatives Platts, Towns, Blackburn, Turner and Harris.

Staff present: Mike Hettinger, staff director; Larry Brady and Tabetha Mueller, professional staff members; Amy Laudeman, legislative assistant; Sara D'Orsie, clerk; Adam Bordes, minority professional staff member; Earley Green, minority chief clerk; and Jean Gosa, minority assistant clerk.

Mr. PLATTS. This hearing of the Subcommittee on Government Efficiency and Financial Management regarding NASA will come to order.

I appreciate everyone's attendance here today and also appreciate your patience both with the Murphy's law of the vote schedule delaying the start of our mark up and thus pushing back the start of this hearing as well. I appreciate your indulgence. We are glad to be here today and begin this hearing regarding the financial management of NASA.

As part of our ongoing oversight of financial management at all Federal agencies, the subcommittee will discuss today the business and accounting processes at the National Aeronautics and Space Administration and the findings of its fiscal year 2003 financial audit. The audit raised some very serious concerns, but it also provided important recommendations, all of which we will discuss today.

Administrator Sean O'Keefe has made financial management a top priority at NASA. With his leadership, NASA has begun the process of re-engineering the way it does business by implementing a more effective accounting system, the Integrated Financial Management Program. The functioning of this new system will be enhanced by NASA's plan to consolidate financial services at one center in the near future. The process of converting data from 145 different financial management systems into one core data base has not been easy. In fact, the enormous number of adjustments that

had to be made, and that have been widely reported in the media, came about largely because of this data conversion.

We have to make sure that we understand exactly what this number represents, and, more important, we need to make sure it does not obscure the fact that other serious problems were identified, such as a failure to comply with Federal accounting standards. That is why this hearing today is so important. We need to get the facts behind what the audit showed, and we need to examine the recommendations that were made. We also need to make sure that NASA is managing the implementation of its new system properly. The IFMP is a huge investment, and it is our hope that it will bring great returns.

We are honored to have before the subcommittee, Mr. Robert Cobb, NASA's Inspector General; Ms. Gwendolyn Brown, Chief Financial Officer for NASA; and Mr. Gregory Kutz, Director of Financial Management and Assurance at the U.S. General Accounting Office. I certainly thank each of you for your attendance and participation here today. The written testimony you submitted ahead of time was, as I call in my hearings, my homework that you gave me in preparation for today's hearing, and I look forward to our interaction with each of you as part of this hearing.

I would now like to yield to our Vice Chair, the gentlelady from Tennessee, Mrs. Blackburn, for purposes of making an opening statement.

[The prepared statement of Hon. Todd Russell Platts follows:]

COMMITTEE ON GOVERNMENT REFORM

SUBCOMMITTEE ON GOVERNMENT EFFICIENCY AND FINANCIAL MANAGEMENT
TODD RUSSELL PLATTS, CHAIRMAN

STATEMENT OF REP. TODD RUSSELL PLATTS
MAY 19, 2004

As part of our ongoing oversight of financial management at Federal agencies, the Subcommittee will discuss today the business and accounting processes at the National Aeronautics and Space Administration (NASA) and the findings of its FY2003 financial audit. The audit raised some very serious concerns, but it also provided important recommendations, all of which we will discuss today.

Administrator Sean O'Keefe has made financial management a top priority at NASA. With his leadership, NASA has begun the process re-engineering the way it does business by implementing a more effective accounting system, the Integrated Financial Management Program (IFMP). The functioning of this new system will be enhanced by NASA's plan to consolidate financial services at one center in the near future. The process of converting data from 145 different financial management systems into one core database has not been easy. In fact, the enormous number of adjustments that had to be made – and that have been widely reported in the media – came about largely because of this data conversion.

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We are honored to have before the Subcommittee Mr. Robert Cobb, NASA's Inspector General, Ms. Gwendolyn Brown, Chief Financial Officer for NASA, and Mr. Gregory Kutz, Director of Financial Management and Assurance at the U.S. General Accounting Office. I would like to thank each of you for being here today, and I look forward to hearing your testimony.

Mrs. BLACKBURN. Thank you, Mr. Chairman.

In your opening statement, you outlined some of the concerns with NASA's financial management and one specific persistent problem that is of concern to me is that NASA fails to keep proper records which provide the key information for auditors and investigators to track financial transactions.

First, NASA's own financial statements cannot be supported or varied due to lack of proper documents. As information for these financial statements was entered through its data conversion process, NASA posted numerous adjustments as the chairman mentioned outside its financial system and could not provide documentation that would validate those adjustments.

Second, NASA is unable to support the amounts it has obligated for the Space Station and the Space Shuttle support. Even its new Core Financials module will not correct this problem as it cannot provide cost information to Congress or program managers to generate reliable data for daily operations and decisionmaking. This new financial management system does not even comply with the requirements of FFMIA where again no audit trail will exist to support future financial statements.

Fourth, its own internal control weaknesses continue to produce major errors in reporting property and materials for financial statements. Mr. Chairman, I am distressed at how the agency has failed to use best practices and has repeatedly denied the existence of many of its financial management problems that have been reported for many years by GAO and NASA's Inspector General.

Mr. Chairman, I believe this agency will waste billions of taxpayers' dollars in this new financial system and until they transform its financial management organization, NASA will continue to face the same financial management problems it has for the last two decades.

I look forward to the hearing today and to having more information and understanding of their financial situation.

Mr. PLATTS. Thank you, Mrs. Blackburn.

I would now like to swear in our witnesses. I understand Mr. Ciganer and Mr. Li are going to be sworn in with you as well.

[Witnesses sworn.]

Mr. PLATTS. The clerk willl note that all witnesses affirmed the oath. The subcommittee certainly appreciates the substantive written testimonies that each of you have provided for the record. We now move on to your oral testimony. We will try to stay to about 5 minutes, not a hard and fast rule, but if you can stay as close to 5 minutes with your opening statement, then we will get to questions and answers.

First, we will begin with Ms. Brown and then we will follow with Mr. Cobb and then Mr. Kutz. Ms. Brown, if you would like to begin.

STATEMENTS OF GWENDOLYN BROWN, CHIEF FINANCIAL OFFICER, NATIONAL AERONAUTICS AND SPACE ADMINISTRATION, ACCOMPANIED BY PATRICK CIGANER, PROGRAM EXECUTIVE OFFICER FOR INTEGRATED FINANCIAL MANAGEMENT, NASA; ROBERT COBB, INSPECTOR GENERAL, NATIONAL AERONAUTICS AND SPACE ADMINISTRATION; AND GREG KUTZ, DIRECTOR, FINANCIAL MANAGEMENT AND ASSURANCE, U.S. GENERAL ACCOUNTING OFFICE, ACCOMPANIED BY ALLEN LI, NASA PROGRAM DIRECTOR

Ms. BROWN. Mr. Chairman and members of the subcommittee, I am here this afternoon to report on the current state of NASA's effort to improve its financial management capabilities. As stated during my confirmation hearing last November, I accepted the appointment of Chief Financial Officer to specifically focus on enhancing NASA's financial management operation and to help restore fiscal discipline and credibility to our agency. NASA was implementing in planned phases, the Core Financials module throughout fiscal year 2003. This is a commercial, off the shelf, agency-wide accounting module which is part of the Integrated Enterprise Resource Planning Software Suite of applications acquired from SAP.

The implementation of the Core Financials module and other related software applications is part of the agency's Integrated Financial Management Program. In fiscal year 2000, NASA initiated a 7-year agency-wide effort aimed at providing a single integrated suite of financial project, contract and human capital management tool. Mr. Patrick Ciganer, NASA's Program Executive Officer for Integrated Financial Management, manages this effort. Mr. Ciganer and I report directly to the NASA Administrator. I thank you for allowing him to join me at this hearing and to provide his insight on the deployment of the Core Financials module during 2003 and the overarching Innovative Financial Management Program.

As mentioned earlier, our Core Financials modules replaced 10 main disperate center accounting systems and over 120 ancillary subsystems in operation through NASA for the past two decades. This conversion effort required some very complex data cleanup, in addition to increased adjustments and reporting work at the end of the fiscal year 2003. These activities significantly impacted the timeliness and the initial quality of the information required in preparing NASA's interim and year-end financial statements.

NASA underestimated the amount of data that had to be identified, validated and documented and adjusted during our fiscal year-end closing process. Additionally, many of NASA personnel were faced with the task of creating and processing those adjustments in a new environment within a very short timeframe. The result was a $565 billion in posted adjustments to the new module. This figure reflects a year-end, absolute dollar value adjustment to our records which we processed and gave to the auditors. This amount is the sum of many consequent correcting entries often for a single posting logged by the internal tracking control function of our new system.

In the past, the agency had been cited for failing to implement adequate internal controls in its contract management activities. The new system is configured not to allow direct reversal or era-

sures on our wrongly posted entries but rather requires the usual use of a formal accounting series of steps, e.g., credits and debits and debits and credits for any reversal and logs for every single step in an absolute value running total.

As has been promulgated by my colleagues here at the table, NASA does have a significant challenge ahead. I am now leading the financial management community in developing and implementing standardized policies, processes and procedures that will support the financial system and improve the financial operations of NASA for the long run. We have the NASA Financial Improvement Plan which is our overall, get well plan for charting the course for improving financial management operations. I have a long road to haul and I accept the challenge willingly. I appreciate the support and the insight that I have received from the IG and the GAO and many other entities that have provided guidance which has been instrumental in helping NASA to get it right in financial management for the long term.

Thank you.

[The prepared statement of Ms. Brown follows:]

Hold For Release
Until Presented by Witness
May 19, 2004

Statement
of
Gwendolyn Sykes Brown
Chief Financial Officer
National Aeronautics and Space Administration

before the

Subcommittee on Government Efficiency and Financial Management
Committee on Government Reform
U. S. House of Representatives

. Chairman and Members of the Subcommittee, I am here this afternoon to report on the curr
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.SA was implementing, in planned phases, the Core Financials module throughout
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Fiscal Year 2000 NASA initiated a seven year agency-wide effort aimed at providing a single
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. Patrick Ciganer, NASA's Program Executive Officer for Integrated Financial Management,
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ıwing him to join me at this hearing and to provide his insights on the deployment of the Core
ancials module during 2003 and the overarching Integrated Financial Management Program.

ılementation of the Core Financials module in Fiscal Year 2003 enabled our adoption of full
t accounting for Fiscal Year 2004. During this process the Agency converted many disparate
:tle and often incompatible accounting systems and sub-systems into a single financial execut
tem. Nevertheless, implementation of the Core Financials module was only the first step in o
ırt to build an integrated budget planning and execution environment and improve our overall
ıncial management practices. Development and testing of a single budget formulation tool du
final deployment at the end of this calendar year is also part of the Integrated Financial
nagement Program. These two new tools, coupled with our forthcoming planned

plementations of Integrated Project and Asset Management, Contract Management, Human pital, and enhanced, real-time, web-based internal reporting and analytical capabilities, will g ASA the ability to better manage, track and report not only on its finances, but its projects and ograms, assets and human capital resources.

ould like to also mention that external recognition of our current progress in improving overa nagement performance was acknowledged a short time ago when NASA was selected as one ly two Agencies in the Federal Government to receive an award under the President's nagement Agenda (PMA) for its achievements in Budget and Performance Integration. NAS o made significant advances in regards to human capital, competitive sourcing and e-Gov tiatives. Unfortunately, due to the transition to our new accounting system, and the migration l validation of twelve years of accounting data, the Agency was unable to prepare timely ancial statements; therefore, under the PMA financial management performance rating, NAS not yet achieved any progress.

mentioned earlier, our Core Financials module replaced 10 disparate main Center accounting tems and over 120 ancillary subsystems in operation throughout NASA for the past two deca is conversion effort required some very complex data cleanup in addition to increased ustment and reporting work at the end of fiscal year 2003. These activities significantly pacted the timeliness and initial quality of the information required in preparing NASA's inte l year-end financial statements.

en the conversion to the Core Financials system, and based on "best practices" lessons learne SA had anticipated that its fiscal year 2003 audit was going to be an especially challenging ti its external financial reporting activities. The conversion required the Agency to use "blende a from each Center's legacy accounting system and the new SAP Core Financials system to pare its consolidated Fiscal Year 2003 financial statements for its auditors.

at conversion was far from straightforward. The volume (in some contractual instances, verting 12 years worth of data) and the quality of the legacy data to be converted and upgrad much higher level of detail for future financial analysis and planning purposes, was very nificant. The closing of our Fiscal Year 2003 books was a process that required our auditors t iew data existing in both our legacy accounting systems and its individual "crosswalk" to our v integrated system. This was due to our selected conversion approach that divided the new tem rollout in three "waves" to mitigate the initial deployment risks that were identified in the ency's two prior failed attempts by creating more manageable set of system conversion tasks. s meant that a significant portion of the information to be audited per individual center had to tured, stored, reported and reviewed from a combination of old and new systems.

en with this phased conversion approach, NASA underestimated the amount of data that had t identified, validated, documented and adjusted during our fiscal year end closing process. ditionally, many NASA personnel were faced with the task of creating and processing those ustments in a new environment within a very short time frame. The result was $565 billion in ted adjustments to the new module. This figure reflects year-end "absolute" dollar value ustment records, which we processed and gave to the auditors. This amount is the sum of ma sequent-correcting entries, often for a single posting, logged by the internal tracking control

ıction of our new system. In the past, the Agency had been cited for failing to implement ›quate internal controls in its contract management activities. The new system is configured r ıllow direct reversal and erasure on wrongly posted entries, but rather requires the use of a mal accounting series of steps (e.g., Credit-Debit, Credit-Debit) for any reversal and logs ever gle step in an absolute value running total.

· example, early in the year, a very large (>$30 billion total to date), multi-center, eleven year ıtract was initially booked in the wrong center. Reversing this posting, in addition to the initi dit of $30 billion to the wrong center, required debiting that account for $30 billion, and diting the $30 billion amount to the correct center. The system correctly recorded and reporte ɜe $30 billion entries, totaling in this instance $90 billion in our running total adjustment log. fortunately, in a system conversion of this magnitude you will encounter mispostings to your v environment. However, SAP's new internal control subsystem provided us with a tracking chanism for accurately identifying and correcting those mispostings. A combination of huma ɔr and complex conversion procedures resulted, in several instances, in multiple re-postings, ich was exacerbated by poor subsequent documentation. Additionally, the production of our ency Financial Statements was based upon a significant volume of adjustments, which our litors were not able to satisfactorily review before the Audit opinion was required to be issued

ɜummary, our new system incorporates a series of internal controls that, for all adjustments, ether caused by a mathematical mistake, a fact-of-life programmatic change, or a mistake whi ɪning how to use the new system, requires numerous additional transactions to undo and corre ded to the equation in deploying a new system throughout most of FY 2003 was the conversic 12 previous years of data plus the addition of new financial details related to contracts not ıtained in the legacy financial systems. Thus, the multiple entries required by a newly deploy tem to post the past 12 years of data and meet all current auditing and financial management uirements, resulted in large dollar adjustment totals for Fiscal Year 2003.

emphasize the accounting nature of the $565 billion issue, and to put it in perspective, NASA ıl appropriations since inception in 1959 through 2003 were $227 billion.

were aware of the added complexities of deploying the Core Financial module and initially ›fed the OIG and its auditors, PriceWaterhouseCoopers, in early March 2003, on our strategy plans for supporting the forthcoming 2003 audit effort and preparing our consolidated financ ements. To better support the unique legacy/new system integration requirement for ɜal Year 2003, NASA needed to replace its existing manual reporting environment for the paration of its consolidated financial statements, which simply extracted data from various ıcy systems, and instead selected to use consolidated financial statement templates consistent h guidance issued by the Department of the Treasury and the Office of Management and Bud

SA had hoped to produce its Financial Statements as close to November 15th as possible. Thi ɜ to be a "dry run" for us in preparation of the mandatory OMB requirement to produce a set c ements each year by that date, beginning with fiscal year 2004. However, operating our new tem for the first time so close to our fiscal year end, surfaced several software, adjustment and ɪrnal control issues that did not appear in our previous yearlong pre-conversion and operating environment. Best practices indicate that no matter how long you test a system in simulated

nditions, nothing replaces the knowledge and experience you gather once you deploy and use
w system under real operating conditions. We could have waited another one or two years to
preemptively identify and correct more weaknesses and issues. The Agency made the decisio
move forward sooner rather than later and we believe that this decision, in retrospect, was stil
: correct one even if it resulted in an audit disclaimer. The Agency needed to take its first bol
p now towards improving its long-term financial management health.

though it resulted in an audit disclaimer, the conversion and related data validation and clean-
ocess was one of the anticipated long-term benefits of migrating to a new, single, integrated
ancial execution system. Our long-term financial management improvement plan has to start
th the generation and access to transparent, reliable and accurate financial information. The p
ar's effort in this arena is a significant step in the right direction.

: continue to appreciate the efforts of the Office of Inspector General (OIG) working with thei
:ernal Auditors and the General Accounting Office in guiding the Agency towards improved
ancial management. As the Chief Financial Officer (CFO) of NASA it is disturbing to receiv
claimer of an audit opinion. However, it helps underscore the significant amount of work and
allenges facing my financial management team in 2004 - a challenge we accept willingly.

r colleagues from GAO, sitting with me at this table, produced several reports last year
scribing in detail some of those challenges and provided their recommendations to meet them.
ASA unconditionally endorsed those recommendations and is, as we speak, implementing then
:h and every one of them. Some will take longer than others to be fully implemented, but, we
wavering in our commitment to the long-term financial health of our Agency

ally, I would like to state that our recent disclaimer was a much-needed wake-up call for man
ancial managers at NASA. It emphasized the fact that people, not automation alone make the
ference in moving forward and that aiming at garnering clean opinions rather than addressing
g-term financial management issues besetting us is not the right way to move forward. In the
:t the Agency has been adept at solving individual audit issues rather than focusing on providi
olid financial management policy and implementing durable processes and procedures which
l reform the Agency's financial management practices for the long run. In my view, a clean
nion should reflect a reliable, transparent and efficient set of financial management practices.
uld not, in itself, be a goal, but rather a reflection of those practices. This past audit reinforce
need to further improve not only our processes and the integrity of our existing data, but also
internal controls, structure, and organization.

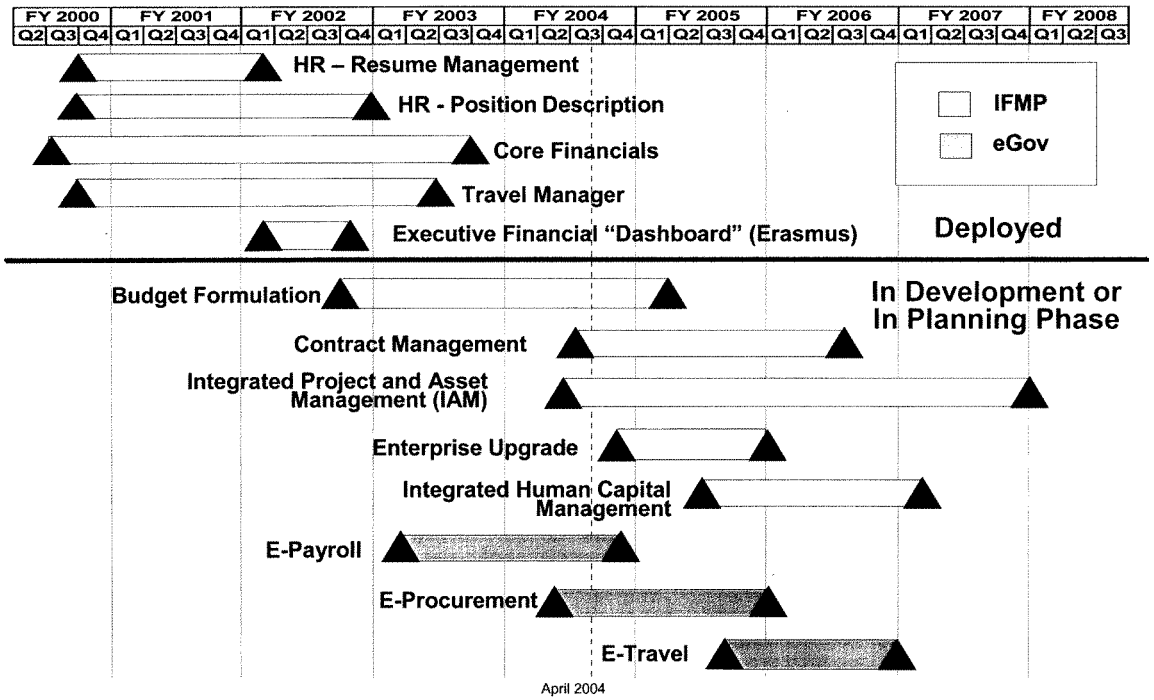
r financial remediation plan and the recent formation of an external Audit committee, compos
experts from outside the Agency, are some of the immediate measures we have already taken
lress and implement the recommendations from our audit and oversight community.

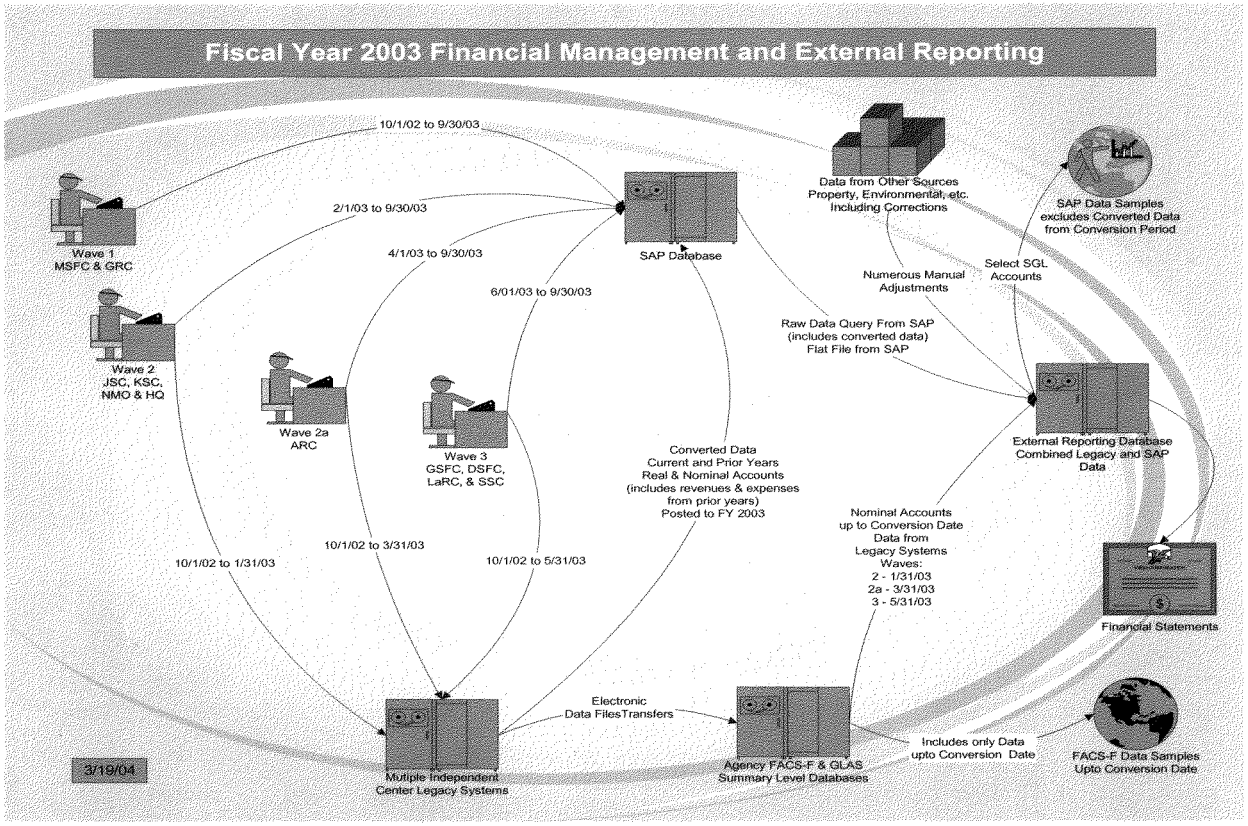
I stated in the beginning, we are on the road to improved financial management but, are by nc
ans, anywhere near the end of that journey.

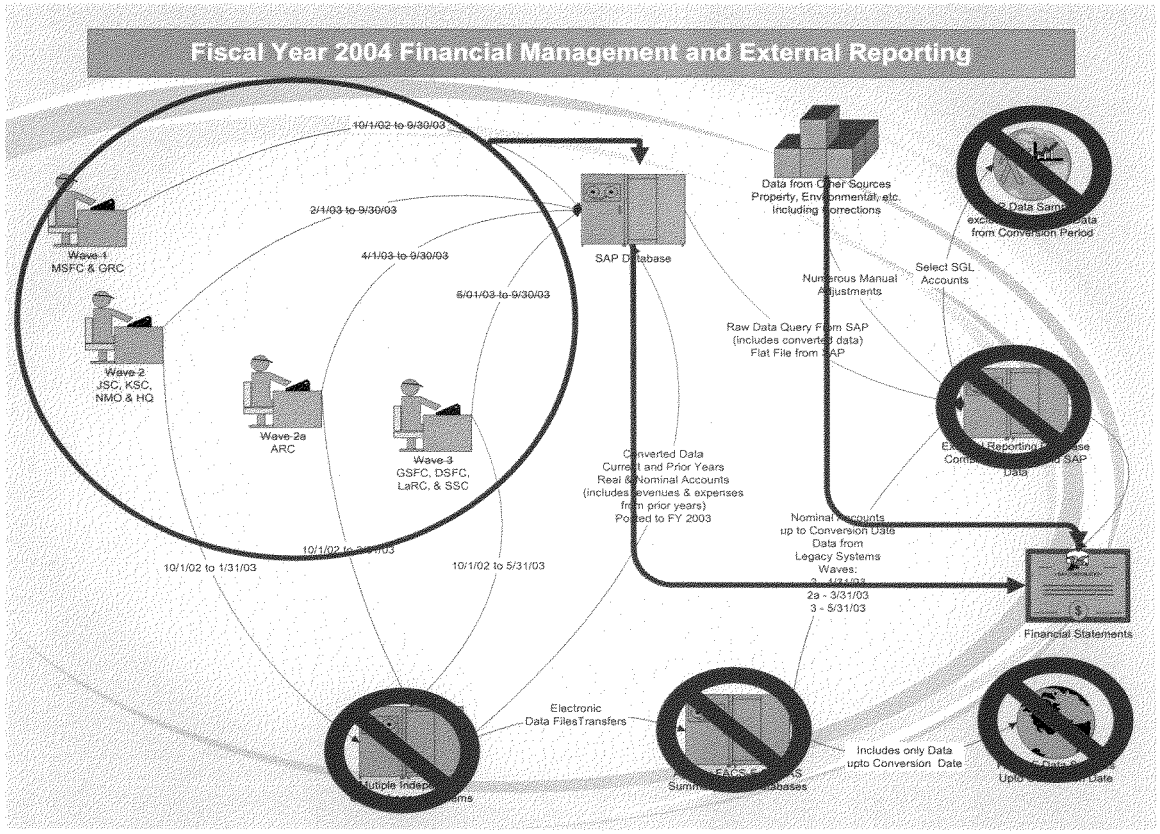
ank you for the opportunity to present to you our financial status and am ready to address the
ocommittee's questions.

IFMP and eGov Business Systems Implementation Schedule

As of April 28, 2004




Fiscal Year 2003 Financial Management and External Reporting
10/1/02 to 9/30/03
2/1/03 to 9/30/03
4/1/03 to 9/30/03
6/01/03 to 9/30/03
Wave 1
MSFC & GRC
Wave 2
JSC, KSC,
NMO & HQ
Wave 2a
ARC
Wave 3
GSFC, DSFC,
LaRC, & SSC
SAP Database
Data from Other Sources
Property, Environmental, etc.
Including Corrections
SAP Data Samples
excludes Converted Data
from Conversion Period
Numerous Manual
Adjustments
Select SGL
Accounts
Raw Data Query From SAP
(includes converted data)
Flat File from SAP
External Reporting Database
Combined Legacy and SAP
Data
Converted Data
Current and Prior Years
Real & Nominal Accounts
(includes revenues & expenses
from prior years)
Posted to FY 2003
Nominal Accounts
up to Conversion Date
Data from
Legacy Systems
Waves:
2 - 1/31/03
2a - 3/31/03
3 - 5/31/03
Financial Statements
10/1/02 to 1/31/03
10/1/02 to 3/31/03
10/1/02 to 5/31/03
Electronic
Data FilesTransfers
Mutiple Independent
Center Legacy Systems
Agency FACS-F & GLAS
Summary Level Databases
Includes only Data
upto Conversion Date
FACS-F Data Samples
Upto Conversion Date
3/19/04


Fiscal Year 2004 Financial Management and External Reporting
10/1/02 to 9/30/03
2/1/03 to 9/30/03
4/1/03 to 9/30/03
5/01/03 to 9/30/03
Wave 1
MSFC & GRC
Wave 2
JSC, KSC,
NMO & HQ
Wave 2a
ARC
Wave 3
GSFC, DSFC,
LaRC, & SSC
10/1/02 to 1/31/03
10/1/02 to 5/31/03
SAP Database
Data from Other Sources
Property, Environmental, etc.
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from Conversion Period
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(includes converted data)
Flat File from SAP
Converted Data
Current and Prior Years
Real & Nominal Accounts
(includes revenues & expenses
from prior years)
Posted to FY 2003
Nominal Accounts
up to Conversion Date
Data from
Legacy Systems
Waves:
2a - 3/31/03
3 - 5/31/03
Financial Statements
Electronic
Data FilesTransfers
Includes only Data
upto Conversion Date

Mr. PLATTS. Thank you, Ms. Brown.

Mr. Cobb.

Mr. COBB. Chairman Platts, members of the subcommittee, in the interest of time, with the committee's permission, I will summarize my written testimony.

Mr. PLATTS. Thank you.

Mr. COBB. Thank you for the opportunity to discuss financial management at NASA. The Office of Inspector General has identified NASA's efforts to improve financial management as one of the most serious management and performance challenges facing agency leadership. We think the attention this committee is giving to the issue will help ensure the agency's commitment to fixing its financial management problems.

As requested in your letter of April 26, my testimony addresses the findings of NASA's fiscal year 2003 financial audit and reviews the efforts to improve overall financial management at the agency. First, the fiscal year 2003 audit disclaimer. In January 2004, the independent auditor PriceWaterhouseCoopers conducted NASA's audit pursuant to the Chief Financial Officer's Act and under the direction of the Office of Inspector General and determined that it could not render an opinion on NASA's financial statements for fiscal year 2003. Generally speaking, the reason for the disclaimer is that NASA cannot produce timely and accurate financial statements. PriceWaterhouseCoopers, found that NASA lacked an audit trail to show that its fiscal year 2003 financial statements were presented fairly. They found that NASA made inadequately documented adjustments of $2 billion net to its fund balance with Treasury and found that NASA still lacked adequate controls to reasonably assure that Government-owned contractor-held property was accurately presented.

A major factor that contributed to NASA's inability to provide sufficient evidence to support its statements was the agency's conversion during fiscal year 2003 from 10 legacy accounting systems to a single integrated financial management system called the IFMP. The conversion led to significant problems with data quality and accuracy that NASA was unable to resolve. NASA management has not yet demonstrated that it can produce quarterly financial statements from the Core Financial Module of the IFMP.

Another factor is NASA's inadequate policies and procedures to ensure accurate financial reporting such as appropriate reviews and approvals of transactions and accounting entries. I note that implementing agencywide internal controls is particularly difficult where the 10 NASA Center Chief Financial Officers report to Center Directors rather than the CFO.

Now I would like to describe NASA's efforts to improve overall NASA financial management. This year NASA management has taken initial steps toward improving financial management by developing an improvement plan to address internal control weaknesses. The high level goals of the NASA improvement plan appear to be appropriate given the state of NASA's financial systems and underlying records. The plan is designed to improve the organization of the CFO's office and financial policies and procedures. The plan also calls for the establishment of an audit committee.

However, there are significant challenges to the success of the improvement plan. For example, the Office of Inspector General believes NASA has insufficient Civil Service staff to carry out its plan. Heavy use of contractor personnel is not a long-term solution to staffing shortages. Also, without successful implementation of NASA's IFMP, NASA's high level goals of its improvement plan will be difficult, if not impossible, to achieve.

To date, there have been problems with IFMP. The data conversion problems and the inability to generate accurate financial statements impacted the financial audit. The Office of Inspector General has found other problems with IFMP planning, testing and reporting. The results of these problems are bugs in the system and output that is not user friendly and requires significant manual manipulation.

What is the outlook for the future? The pervasiveness of NASA's control weaknesses and the inability to produce complete and accurate financial data will most likely result in a disclaimer of opinion on the fiscal year 2004 audit. Because of the Government-owned, contractor-held property issue, it may be years before NASA can achieve an unqualified or clean audit. But getting clean audits should not be the priority. Fixing NASA's internal controls and getting the IFMP to fulfill its potential are critical. Fix those, and clean audits will follow.

The Office of Inspector General is closely monitoring NASA's efforts to improve financial management through oversight of the financial audit being conducted by NASA's new independent public accountant, Ernst & Young. We will be conducting other activities to assess financial management including auditing the overall status of IFMP.

The Office of Inspector General believes it is important that NASA get its financial management in order so that Congress and the public can have full confidence in agency expenditure of taxpayer dollars.

Thank you.

[The prepared statement of Mr. Cobb follows:]

Before the Government Reform Subcommittee on Government Efficiency and Financial Management

U.S. House of Representatives

For Release on Delivery
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Wednesday
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NASA Financial Management

Statement of

The Honorable Robert W. Cobb

Inspector General

National Aeronautics and Space Administration

Mr. Chairman, Ranking Member, and Members of the Subcommittee:

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

As requested in your letter of April 26, 2004, my statement addresses the findings of NASA's FY 2003 financial audit and reviews the efforts to improve overall financial management at the Agency.

OVERALL SUMMARY

In January 2004, the independent auditor—PricewaterhouseCoopers—conducting NASA's audit pursuant to the Chief Financial Officers Act and under the direction of the Office of Inspector General, determined that it could not render an opinion on NASA's financial statements for FY 2003. The disclaimer resulted from NASA's inability to provide the auditor with sufficient evidence to support the financial statements and complete the audit within time frames the Office of Management and Budget established.

The disclaimer on the FY 2003 financial statements followed an unqualified[1] FY 2002 audit opinion and a disclaimed audit opinion in FY 2001. The FY 2002 unqualified opinion was the consequence of a so-called "heroic" effort of the independent auditor PricewaterhouseCoopers. A heroic audit effort occurs where assurance on the financial statements is established through substantially expanded transaction testing rather than the auditor placing reliance on systems of internal control. Such a heroic effort was not possible in FY 2003 because of dependency on a new automated financial management system.

The reports that the independent auditor submitted identified instances of non-compliance with generally accepted accounting practices, material weaknesses in internal controls, and non-compliance with the Federal Financial Management Improvement Act. Many of the weaknesses the audit disclosed resulted from a lack of effective internal control procedures and problems with NASA's conversion during FY 2003 from 10 separate systems to a new single integrated financial management program (IFMP).

NASA management recognizes that it faces enormous challenges in improving financial management and has developed an improvement plan—the NASA Financial Management Improvement Plan. The plan is designed to ensure that the IFMP provides accurate, timely, and consistent information. The plan's high-level goals appear appropriate for the task but will require a commitment of sufficient resources and the establishment of reasonable time frames to achieve them. This will be a challenge given NASA's decentralized organizational structure, the limited human capital resources in the

[1]An unqualified opinion means that the financial statements are presented fairly, in all material respects in conformity with accounting principles generally accepted in the United States.

Chief Financial Officer's organization, and the ongoing development and deployment of key components of the IFMP.

In the near term, the pervasiveness of NASA's control weaknesses and the inability to produce complete and accurate financial data will most likely result in a disclaimer of opinion in the FY 2004 audit. The outlook for financial statement audits is highly dependent on whether an independent auditor can rely on NASA's system of internal controls and its ability to generate complete and accurate financial statements from its Core Financial Module,[2] a key component of the IFMP. Additionally, establishing reliable internal controls will be a particular challenge with respect to NASA-owned, contractor-held assets, a significant balance sheet item.

Internal control weaknesses from FY 2003 and prior years still exist. Data conversion issues also have not been fully resolved. NASA has already operated for the first seven months of FY 2004 under key internal controls that could not be relied on. However, in order to improve internal controls, NASA is in the process of developing and documenting uniform policies and procedures that will be disseminated to all NASA installations. NASA must ensure that these policies and procedures are strictly and consistently followed by installations in order to improve overall financial management and remove barriers to an unqualified or clean financial statement opinion.

NASA also is experiencing great difficulty in generating complete and accurate financial data. Quarterly financial statements that the Office of Management and Budget require for the periods ending December 31, 2003, and March 31, 2004, were not prepared from the Core Financial Module. Those interim financial statements were based entirely on estimated amounts. While accounting standards and Office of Management and Budget guidance allow for the use of estimates, the wholesale use of estimates was not contemplated or considered acceptable by these guidelines. NASA management has not demonstrated whether quarterly financial statements for June 30, 2004, will be produced from the Core Financial Module.

NASA management is currently performing intense efforts to fully define and implement all required components (programming changes) that will enable the Core Financial Module to produce the financial statements. However, because accurate and complete financial statements have never been produced by the Core Financial Module and data conversion problems are extensive, the Office of Inspector General is skeptical that the Core Financial Module will be able to deliver accurate and complete financial statements for June 30, 2004.

If NASA is unable to receive an opinion on its financial statements in FY 2004, there will be an impact on subsequent audits. The auditor's ability to opine on all the principal

[2]The Core Financial Module consists of the standard general ledger, accounts receivable, accounts payable, budget execution, purchasing, fixed assets, cost management, and general systems management.

statements[3] in FY 2005 is highly dependent on determining whether balances from the FY 2004 statements are reliable. While the auditor could in theory perform audit procedures to establish opening FY 2005 balances, this would be impractical considering the time limitations imposed by the new accelerated reporting deadlines and the scope of work that would be required. In the view of the Office of Inspector General, the best result NASA could expect in FY 2005 is an opinion only on its Balance Sheet.[4]

Although NASA may be able to receive an opinion on its Balance Sheet, a reasonable possibility exists that the FY 2005 opinion would have to be qualified[5] because of contractor-held property. NASA reported that contractors held approximately $7.8 billion (net) in property in FY 2003, and NASA remains highly dependent on its contractors to provide them with property information. Internal controls must be improved to provide assurance that accurate and reliable property information is provided on an ongoing basis. A qualification would, on the FY 2005 opinion, in turn affect the FY 2006 audit and delay the possibility of receiving an unqualified opinion on all the financial statements until FY 2007 at the earliest.[6]

FY 2003 AUDIT DISCLAIMER

The independent auditor conducting the audit of the FY 2003 financial statements, PricewaterhouseCoopers, disclaimed from rendering an opinion based on its determination that NASA did not provide sufficient documentary evidence to support the statements. A major factor that contributed to NASA's inability to provide sufficient evidence to support its statements was the Agency's conversion during FY 2003 from 10 legacy accounting systems to the Core Financial Module of the new single integrated financial management system. The conversion led to significant problems with data quality and accuracy that NASA was unable to resolve. Ultimately, the Agency delivered inaccurate and incomplete FY 2003 third quarter financial statements to PricewaterhouseCoopers—statements that were critical for achieving the accelerated reporting deadline. Subsequently, year-end financial statements were delivered to PricewaterhouseCoopers late and in a similar condition. That situation resulted in PricewaterhouseCoopers's inability to complete the audit by the January 30, 2004, deadline.

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[3]The five principal financial statements are the Balance Sheet, Statement of Net Cost, Statement of Net Position, Statement of Budgetary Resources, and Statement of Financing.

[4]Such an opinion would not cover the other four principal financial statements.

[5]A qualified opinion means that, except for certain line items, the financial statements are presented fairly, in all material respects in conformity with accounting principles generally accepted in the United States.

[6]Generally, a clean opinion must be rendered on the prior year's Balance Sheet for an organization to receive a clean opinion on all of the financial statements in the subsequent year. This is because reliable opening balances from the previous year are necessary to opine on the current year.

Implementation of IFMP Was Key to Preparing Auditable Financial Statements

In FY 2003, NASA undertook an ambitious plan to implement the Core Financial Module of the IFMP and accelerate the preparation and audit of its financial statements by two and one-half months to November 15, 2003. The Office of Management and Budget encouraged agencies to meet a November 15 reporting deadline in FY 2003 even though the November 15 deadline was not required by the Office of Management and Budget to be met until FY 2004. NASA and PricewaterhouseCoopers developed an agreed-upon plan to achieve the accelerated date in FY 2003. The success of the plan was highly dependent on successful implementation of the Core Financial Module as well as accurate and complete conversion of legacy accounting system data.

NASA attempted to establish a single integrated system twice before.[7] In its third attempt to implement an integrated financial system—the IFMP—NASA used lessons learned from its two prior efforts. NASA benchmarked other successful business systems and developed a new strategy. The goal of the latest effort is to modernize and improve the Agency's business processes by implementing eight individual projects (or modules) in the areas of financial management, procurement, human resources, and logistics.

Using a pilot center and wave approach (implementing Centers in stages), NASA implemented the Core Financial Module at Headquarters and the Centers. The Marshall Space Flight Center was the pilot Center, and the Core Financial Module was implemented at Marshall in October 2002. The Core Financial Module was then rolled out in three waves at the remaining NASA Centers:

- Wave 1 (October 2002) – Glenn Research Center
- Wave 2 (February 2003) – Headquarters, Johnson Space Center, Kennedy Space Center and Wave 2A (April 2003) – Ames Research Center
- Wave 3 (June 2003) – Langley Research Center, Goddard Space Flight Center, Dryden Flight Research Center, Stennis Space Flight Center

During the Agency rollout, the Core Financial Module replaced the legacy financial systems at each of the NASA Centers, building on the results of the previous waves and the pilot Center implementation at Marshall.

Conversion to the Integrated System Created Complex Accounting Problems

Conversion of legacy accounting data into the Core Financial Module significantly impacted the quality and timeliness of financial information and created complex accounting problems. In NASA's data conversion implementation process, transaction data from prior fiscal years were entered into the new financial system as though that data

[7]NASA's first effort—NASA Accounting and Financial Information System (NAFIS)—started in 1989 and was cancelled in early 1995. The second effort started in early 1995 and was cancelled in early 2000.

were current year activity. As a result, current year activity was immediately and significantly overstated. Transaction populations provided to PricewaterhouseCoopers for statistical sample testing could not be easily used. NASA could not present the data in a form that would allow PricewaterhouseCoopers to select appropriate samples for testing of FY 2003 transactions. Furthermore, NASA did not provide sufficient documentation that would support identification, resolution, and correction of those transactions.

The PricewaterhouseCoopers review and testing of June 30, 2003, interim statements was critical in determining whether NASA could produce auditable statements and meet the planned accelerated reporting schedule for FY 2003. The most significant errors included:

- The inability to reconcile the amount reported as Fund Balance with the Treasury (cash) to the general ledger;
- A $204 million line item in a principal financial statement (Consolidated Statement of Financing) that could not be explained or supported; and
- The inability to properly classify transactions for presentation on key financial statements (Balance Sheet and Statement of Net Cost).

Although management identified the errors noted above, they were unable to resolve them in a timely manner and, therefore, testing of June 30, 2003, account balances by PricewaterhouseCoopers was deferred to testing September 30, 2003, account balances. Those errors were symptomatic of more pervasive issues that were to become evident at year-end.

NASA management asserted that errors in the June 30, 2003, financial statements would be corrected in the September 30, 2003, year-end financial statements. However, when NASA first attempted to prepare the year-end financial statements, it concluded that significant problems still existed with the accuracy of the statements. NASA's efforts to correct those problems led to significant delays in its completion of the financial statements and compilation of documentation that supported the amounts and disclosures in the financial statements, including the support for resolution of the June 30, 2003, financial statement errors.

Due to the delays, NASA management delivered the year-end financial statements to the Office of Inspector General and PricewaterhouseCoopers on December 10, 2003, rather than on October 22, 2003, as originally planned. During the period of delay, the Office of Inspector General and PricewaterhouseCoopers requested information about the delays, but NASA management demurred and would not discuss the extent or nature of the problems in detail and suggested that disclosure would not further (and could interfere with) the efforts they were making to solve the problems in generating statements.

During its audit testing and review of the year-end financial statements, PricewaterhouseCoopers noted significant adjustments and differences. PricewaterhouseCoopers found that in preparing the statements, NASA posted numerous adjustments outside of the IFMP system. In its review of these adjustments, PricewaterhouseCoopers noted that the value of 87 adjustments was approximately $582 billion. Of the $582 billion in adjustments, nearly $565 billion was related to data conversion errors, and NASA could not provide for nearly the entire amount documentary evidence that would support the purpose and the validity of the adjustments.

Because of the magnitude of the adjustments and the inability of NASA to readily provide adequate supporting documentation, PricewaterhouseCoopers was unable to complete the audit even within the non-accelerated Office of Management and Budget due date of January 30, 2004. PricewaterhouseCoopers issued its disclaimer of opinion and cited in its Report on Internal Controls five reportable conditions,[8] including four conditions considered material weaknesses.[9]

PricewaterhouseCoopers Audit Identified Significant Weaknesses in NASA's Internal Controls

NASA continues to have weaknesses in internal controls. Internal controls are the policies and procedures an organization uses to safeguard assets and ensure accurate financial reporting. Examples of internal controls include appropriate reviews and approvals of transactions, accounting entries, and systems output; timely reconciliations; accurate recording of transactions; and adequate supervision. PricewaterhouseCoopers reported five significant weaknesses in internal controls:

- The first condition, and perhaps the most serious material weakness, was that NASA lacked a sufficient audit trail to support that its FY 2003 financial statements were presented fairly. That condition was a direct result of significant problems NASA encountered with conversion of data from its legacy systems to its IFMP financial systems. During testing, PricewaterhouseCoopers found that NASA did not maintain or have readily available—as the General Accounting Office and Office of Management and Budget guidance require—sufficient documentation to support its financial statements.

- The second condition, also a material weakness, was that NASA lacked effective internal controls surrounding its *Fund Balance with Treasury* (cash)

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

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

reconciliations.[10] Reconciliations of cash are critical and necessary to ensure that transactions are completely and accurately recorded and that the reported balances are correct. To correct cash imbalances between NASA and Treasury, NASA made adjustments of $2 billion, net, to its *Fund Balance with Treasury* to agree with Treasury's reported balance at September 30, 2003. Sufficient documentary evidence could not be provided to explain the adjustments. Such an unexplained adjustment to cash means that other accounts within the financial statements could have been significantly misstated, leading to incorrect and inaccurate reporting. The lack of effective reconciliations increases the risk of fraud, waste, abuse, and mismanagement.

- The third material weakness, which was a repeat condition, was that NASA's procedures for preparing its financial statements still needed improvement. In its FY 2002 Report on Internal Controls, PricewaterhouseCoopers found significant weaknesses in the compilation of NASA's financial statements and recommended that NASA improve its overall financial reporting procedures. While NASA demonstrated some progress in implementing PricewaterhouseCoopers's recommendation in FY 2003, significant weaknesses in the compilation of the financial statements remained. The delays in generating the FY 2003 financial statements were one example cited by PricewaterhouseCoopers. In addition, upon review of the financial statements, PricewaterhouseCoopers noted inconsistencies that should have been identified and corrected by NASA management through its internal quality control review of the financial statements.

- The fourth material weakness, also a repeat condition, was that NASA still lacked adequate controls to reasonably assure that property, plant, and equipment and materials were accurately and completely presented in its financial statements. PricewaterhouseCoopers reported a material weakness in this area during the FY 2002 audit. The weakness was primarily as a result of the lack of internal controls within NASA and at NASA contractors to ensure proper reporting and resulted in net errors of $2.8 billion. During FY 2003, NASA management created an overall corrective action plan designed to remedy deficiencies communicated within the FY 2002 audit report. However, problems remained after implementation.

- The fifth reportable condition related to the IFMP computing environment, which was responsible for processing NASA's significant financial applications. PricewaterhouseCoopers identified improvements needed to strengthen the design and implementation of NASA's information security program for the IFMP system. PricewaterhouseCoopers suggested improvements in IFMP security design and implementation, security controls over access to systems, general

[10]In its report titled, "Financial Audit, Issues Regarding Reconciliations of Fund Balances with Treasury Accounts," the General Accounting Office notes that the reconciliation process that agencies perform between their Fund Balances and Treasury accounts is an important tool in ensuring that the federal government is able to accurately measure the full cost of its programs.

controls in the distributed client server, and clarification of oversight functions supporting IFMP's security program.

EFFORTS TO IMPROVE OVERALL NASA FINANCIAL MANAGEMENT

This year NASA management has taken initial steps toward improving financial management by developing an improvement plan to address the reported internal control weaknesses and to strengthen internal controls related to the business processes within the Agency. Similarly, the Office of Inspector General and the General Accounting Office have identified significant findings and have provided recommendations to NASA management to address its concerns.

NASA's Corrective Action Plans

NASA asserts that successful completion of the NASA Financial Management Improvement Plan will provide accurate, timely, and consistent financial management information; deliver tools to efficiently manage resources; and provide stewardship of NASA's budgetary resources. The NASA Financial Management Improvement Plan is designed also to address: budget and financial policies and procedures, property accountability, erroneous payments, travel and purchase card delinquency, data stabilization, standards management reporting, the NASA working capital fund, and establishing an audit committee.

The high-level goals of the NASA Financial Management Improvement Plan master schedule appear to be appropriate given the state of NASA's financial systems and underlying records. However, because of the magnitude of the problems and the shortfalls in human resources, how the critical actions can be completed by the early to mid-Summer 2004 planned due date is unclear. While the intent may be to set stretch goals and keep individuals intensely focused on achieving these goals, setting realistic goals and meeting those goals is crucial to restoring NASA's credibility in financial management.

NASA faces significant challenges in each of the key areas of the improvement plan. The Office of Inspector General believes that NASA has insufficient civil service staff to carry out its plan. NASA management has responded to this challenge by establishing a hiring plan and extensive use of contractor personnel. While heavy reliance on contractor support is necessary to get NASA financial management through the transition, the contractors are not planned to be a lasting part of the solution. The use of contractor support raises several concerns including: the role of contractors involved in the development of written policies and procedures; the transfer of knowledge and continuity of operations when civil service staff is left with the workload; and the ability of civil service staff to assume the role and workload of the contractors. The Office of Inspector General also questions whether the Chief Financial Officer organization has sufficient senior staff to meet the significant challenges.

Office of Inspector General and General Accounting Office Oversight

The Office of Inspector General has completed several audits of NASA's IFMP that found problems associated with NASA plans to test transactions before full implementation of the Core Financial Module and support full cost accounting. The audits also found significant problems with resolving data conversion and processing issues, schedule slippage, travel module reporting and interface, and information technology security planning and implementation.

In our completed Core Financial Module audits,[11] the Office of Inspector General reported that NASA did not develop a plan that resolved complex accounting issues and did not configure the Core Financial Module to adequately support full cost accounting. The Office of Inspector General also reported that the Agency did not plan to test and resolve any transactions, reports, and testing discrepancies before the full NASA-wide implementation of the Core Financial Module. In addition, the Agency did not use the contractor-developed IFMP Knowledge Sharing System to document and disseminate lessons learned. The Agency has accepted our recommendations and has taken appropriate remedial actions.

The Agency is facing serious challenges in implementing the remainder of the IFMP. As of May 5, 2004, the eight IFMP projects and their actual or scheduled completion dates are:

- Resume Management (completed in March 2002)
- Position Description Management (completed in October 2002)
- Travel Management (completed in May 2003)
- Core Financial (completed in June 2003)
- Budget Formulation (January 2005)
- Procurement Management (Fiscal Year 2006)
- Human Capital (Fiscal Year 2007)
- Integrated Asset Management (Fiscal Year 2008)

The Office of Inspector General audit of the Budget Formulation Module[12] noted that the scheduled implementation date had slipped from February 2004 to January 2005. Because of that slippage, NASA's planned use of the IFMP to implement cost-based budgeting—the final component necessary for full cost management—will be delayed until FY 2006. The module is experiencing significant processing performance problems. NASA did not include the input of critical users when developing the system

[11] "IFMP Core Financial Management Data Conversion Procedures" (Report No. IG-03-028, September 29, 2003); "IFMP Core Financial Testing Procedures" (Report No. IG-03-028, September 29, 2003); and "Integrated Financial Management Program Core Financial Module Conversion to Full Cost Accounting" (Report No. IG-03-015, May 30, 2003).

[12] "Integrated Financial Management Program Budget Formulation Module (BFM)" (Report No. IG-04-017, March 30, 2004).

and initially did not include five key requirements.[13] Only through successful implementation of the Budget Formulation Module will NASA be able to use IFMP to implement full cost management.

The Integrated Asset Management (Asset) Module, used to account for the Agency's contractor-held assets and its property, plant, and equipment, is scheduled to be implemented in FY 2008. Until that time, NASA must account for its contractor-held assets using alternative methods outside of the IFMP. The last three financial statement audits that the Office of Inspector General conducted reported material weaknesses in contractor-held property. Without a viable Asset Module, formidable challenges will remain.

NASA is currently responding to the Office of Inspector General draft audit report on the Travel Module[14] that found that the Travel Module was not in compliance with Federal travel system requirements in two key areas: (1) required reporting capabilities, and (2) interface with the Core Financial Module. The lack of compliance with Federal requirements in those two areas creates a management control weakness in which NASA management is unable to monitor and document Agency travel expenditures and transactions from initiation through final posting to Agency accounting records.

The Office of Inspector General also performed a limited scope audit of Information Technology (IT) security planning and implementation for the Core Financial Module. That audit was coordinated with PricewaterhouseCoopers to avoid duplication of efforts. The audit report makes several recommendations that are designed to improve segregation of duties, controls over locally developed programs, and the investigation of IFMP security-related incidents. Those control improvements should reduce the risk of financial system compromise and the processing of unauthorized transactions. The Agency concurred with the recommendations and is in the process of taking corrective actions.[15] The General Accounting Office also issued four reports in November 2003 detailing weaknesses in IFMP.[16]

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[13]The requirements were (1) data integrity business checks that would ensure that budget planners do not assign the wrong appropriation to a project, (2) full system traceability (audit trail), (3) restricted access to embargoed budget data, (4) acceptable system response time, and (5) an on-line quick reference tool. Those five key system requirements were critical to Center program and project staff in developing their bottoms-up budget data and is the primary reason that NASA needed those requirements included in the initial release.

[14] "IFMP Travel Module" (Assignment No. A-01-061-04. Draft report issued April 15, 2004).

[15] Integrated Financial Management Program Core Financial Project Information Technology Security Planning and Implementation (Assignment No. A-02-024-00, Report No. IG-04-016, March 31, 2004).

[16] General Accounting Office (GAO) reports are: "Business Modernization – NASA's Challenges in Managing Its Integrated Financial Management Program" (Report No. GAO-04-255, November 2003); "Business Modernization – Disciplined Processes Needed to Better Manage NASA's Integrated Financial Management Program" (Report No. GAO-04-118, November 2003); "Information Technology – Architecture Needed to Guide NASA's Financial Management Modernization" (Report GAO-04-43, November 2003); and "Business Modernization – NASA's Integrated Financial Management Program Does Not Fully Address Agency's External Reporting Issues" (Report No. GAO-04-151, November 2003).

OUTLOOK FOR THE FUTURE

The future of financial management at NASA is at a crossroads. Accurate, complete, and timely financial information is critical for the successful and effective management of NASA's programs and projects. Sound internal controls and accounting practices will facilitate a successful independent financial audit. Without successful implementation of NASA's IFMP, those goals will be difficult, if not impossible, to achieve. NASA must resolve long-standing weaknesses and address data integrity problems associated with the conversion.

The Office of Inspector General is closely monitoring NASA's efforts to improve financial management through oversight of the financial audit being conducted by NASA's new independent public accountant, Ernst & Young. The Office of Inspector General also will be conducting other activities to assess financial management including auditing the overall status of IFMP. The Office of Inspector General believes it is important that NASA gets its financial management in order so that the Congress and the public can have full confidence in Agency expenditures of taxpayer dollars.

Mr. PLATTS. Thank you, Mr. Cobb.

Mr. Kutz.

Mr. KUTZ. Chairman Platts and Representative Blackburn, thank you for the opportunity to discuss NASA financial management.

Since its inception in 1958, NASA has made incredible scientific and technological advances that have enhanced the quality of life on Earth. However, that same level of excellence is not evident in NASA's financial management, the topic of today's hearing. My testimony has two parts, first, NASA's history of financial management problems and second, efforts to implement a new financial system.

First, our reports have shown that NASA's financial management problems impact its ability to manage its contractors and major programs. NASA has a long history of schedule problems and cost overruns with its programs such as the space station. Our reports have highlighted NASA's problems overseeing its contractors and their financial performance, controlling program costs, producing credible cost estimates and supporting reports to the Congress related to spending limits for the Space Station and related Shuttle support. In fact, since 1990, we have reported NASA contract management as an area of high risk in part due to the financial management problems. However, a series of failed financial audits served to mask NASA's problems, specifically from 1996 to 2000, Arthur Anderson issued unqualified opinions on NASA's financial statements, reporting no material weaknesses and systems that complied with Federal standards. During that time, we reported that Arthur Anderson's 1999 audit did not meet professional standards and we questioned NASA management and its auditors' conclusion that its systems complied with Federal standards. Recent audit reports confirm the prior audit failures and NASA's serious problems. Nonetheless, the misleading prior audit reports fueled NASA's optimistic views of its financial operations.

My second point is that NASA is implementing a system intended to address both program management and external reporting needs. We agree with NASA's goal for the new system, however, in 2003, we issued five reports expressing our concerns that the new system as implemented will not meet NASA's stated goal. For example, the system does not fully address NASA's external reporting needs. NASA continues to represent that the Core Financial module was fully implemented in June 2003. However, we reported that significant capabilities for external reporting were not implemented. More importantly, we reported that the new system is not being used to manage NASA's programs. We found that program managers and cost estimators were not involved in developing requirements for the system. As a result, they continued to use hard copy reports, spreadsheets and other labor intensive means to monitor contractor performance.

Historically, finance has not been viewed as an integral part of NASA's program management decision process. Thus, it is not surprising that the new system was not designed or implemented with program managers or cost estimators in mind. If program managers do not use the new system and continue using their ad hoc systems, then NASA will continue to have two sets of books.

In conclusion, it is clear that NASA has significant financial challenges. However, as noted by Representative Blackburn, NASA in many cases has denied the existence of its problems and has attributed its difficulties to the auditors sampling methodology or the lack of understanding of its operations. Unfortunately, GAO and NASA have generally agreed to disagree on many of the facts.

For reform to succeed, management must acknowledge the serious nature of its problems and take action to address the people, process and system challenges. Consistent congressional oversight of NASA's financial management is also needed for reform to succeed. We look forward to working with the Inspector General and NASA management on solutions to these challenges.

Mr. Chairman, this ends my testimony. Mr. Allen Li, the Director in charge of our NASA program work is with me to answer questions.

[The prepared statement of Mr. Kutz follows:]

United States General Accounting Office

GAO

Testimony

Before the Subcommittee on Government Efficiency, Financial Management, and Intergovernmental Relations, Committee on Government Reform, House of Representatives

For Release on Delivery
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NATIONAL AERONAUTICS AND SPACE ADMINISTRATION

Significant Actions Needed to Address Long-standing Financial Management Problems

Statement of Gregory D. Kutz, Director, Financial Management and Assurance and Allen Li, Director, Acquisition and Sourcing Management

GAO-04-754T

GAO
Accountability·Integrity·Reliability

Highlights

Highlights of GAO-04-754T, a testimony before the Subcommittee on Government Efficiency, Financial Management, and Intergovernmental Relations, Committee on Government Reform, House of Representatives

Why GAO Did This Study

The Subcommittee asked GAO to testify on the status of the National Aeronautics and Space Administration's (NASA) financial management reform efforts. NASA faces major challenges that if not addressed, will weaken its ability to manage its highly complex programs. NASA has been on GAO's high-risk list since 1990 because of its failure to effectively oversee its contracts and contractors, due in part to the agency's lack of accurate and reliable information on contract spending. GAO's statement focused on (1) how NASA's history of clean audit opinions served to mask the true extent of the agency's financial management difficulties; (2) the results of NASA's fiscal year 2003 financial statement audit, which are a departure from the fiscal year 2002 results; (3) NASA's effort to implement an integrated financial management system; and (4) the challenges NASA faces in reforming its financial management organization.

Although GAO does not make specific recommendations in this statement, GAO previously made several recommendations to improve NASA's acquisition and implementation strategy for its financial management system. While NASA ultimately agreed to implement all of the recommendations, it disagreed with most of the findings—stating that its acquisition and implementation strategy had already addressed GAO's concerns.

www.gao.gov/cgi-bin/getrpt? GAO-04-754T.

To view the full product, including the scope and methodology, click on the link above. For more information, contact Gregory D. Kutz at (202) 512-9095 or kutzg@gao.gov.

May 19, 2004

NATIONAL AERONAUTICS AND SPACE ADMINISTRATION

Significant Actions Needed to Address Long-standing Financial Management Problems

What GAO Found

NASA faces major challenges in fundamentally reforming its financial management organization and practices. While some areas needing reform relate to automated systems, automation alone is not sufficient to transform NASA's financial management culture. Specifically, NASA needs to fully integrate its financial management operations with its program management decision-making process. Until that occurs, NASA risks addressing the symptoms of its problems without resolving the underlying causes. These causes include an agency culture that has not fully acknowledged the nature and extent of its financial management difficulties and does not link financial management to program implications. Historically, NASA management has downplayed the severity of its problems and has viewed the agency's financial operation as a function designed to produce clean financial audit opinions instead of viewing it as a tool that supports program managers in making decisions about program cost and performance.

GAO's work has identified several areas of concern:

- **Clean financial audit opinions masked serious financial management problems.** Financial audits of NASA during the late 1990s did not provide an accurate picture of the agency's financial management operations, and instead masked serious problems that continue to exist today, including significant internal control weaknesses and systems that do not comply with federal standards.
- **The new financial management system did not address all key stakeholder needs.** GAO reported in April 2003 that NASA designed and implemented the new system's core financial module without involving key stakeholders, including program managers, cost estimators, and the Congress.
- **NASA did not follow key best practices in implementing its new financial management system.** GAO reported in April 2003 and again in November 2003 that the new system may do less and cost more than NASA expects because the agency did not follow key best practices for acquiring and implementing the system. For example, NASA acquired and deployed system components without an enterprise architecture and lacked discipline in its cost estimating processes.
- **The new financial management system did not provide key external reporting capabilities.** GAO reported in November 2003 that the system would not generate complete and accurate information necessary for external reporting of NASA property and budgetary data.

Finally, if NASA is to reap significant benefits from its new financial management system, it must transform its financial management organization into a customer-focused partner in program results. This will require sustained top leadership attention combined with effective organizational alignment, strategic human capital management, and end-to-end business process improvement.

Mr. Chairman and Members of the Subcommittee:

Thank you for the opportunity to discuss the financial management challenges facing the National Aeronautics and Space Administration (NASA). Since its inception in 1958, NASA has undertaken numerous programs—involving earth and space science, aerospace technology, human space flight, and biological and physical research—that have resulted in significant scientific and technological advances, enhancing the quality of life on earth. In recent years, NASA has experienced a number of setbacks with its programs and operations, including massive cost overruns associated with the International Space Station and, with the Columbia tragedy, the need for the agency to develop return-to-flight strategies and mitigate the impact of the loss of the shuttle on the construction of the space station.

On January 14, 2004, President Bush outlined a bold new vision for U.S. space exploration that will set a new course for NASA. However, to successfully execute this new vision, NASA must address a number of long-standing financial management challenges that threaten NASA's ability to manage its programs, oversee its contractors, and effectively allocate its budget across its numerous projects and programs. In fact, since 1990 we have identified NASA's contract management as an area of high risk, in part because the agency lacked effective systems and processes for overseeing contract spending and performance. NASA has begun taking action to address many of these challenges through its effort to implement a new integrated financial management system; however, many of NASA's financial management problems are deeply rooted in an agency culture that has not fully acknowledged the nature and extent of its financial management difficulties and does not view finance as intrinsic to the agency's program management decision process.

My testimony today will focus on the results of our recent work related to NASA's financial management challenges and the agency's efforts to implement an integrated financial management system. Specifically, I will discuss (1) how NASA's history of clean audit opinions served to mask the true extent of the agency's financial management difficulties; (2) the results of NASA's fiscal year 2003 financial statement audit, which are a departure from the fiscal year 2002 results; (3) NASA's current effort to implement an integrated financial management system; and (4) the challenges NASA faces in reforming its financial management organization. We have performed work and issued several reports in response to legislative mandates and at the request of other interested committees. We also reviewed the reports of NASA's Office of Inspector General and the independent public accounting firms that audited NASA's financial statements for fiscal year 2003 and for several previous years. With the exception of NASA's financial statements for fiscal year 2002, in which we performed a limited-scope review of the financial statement audit performed by NASA's contracted independent public accountant (IPA), we did not review the IPA's underlying audit work. We performed all work in accordance with generally accepted government auditing standards. My statement today is drawn from the findings and conclusions in GAO's, NASA's Office of Inspector General's, and the independent auditors' reports.

Summary

NASA has fundamental problems with its financial management operations that not only affect its ability to externally report reliable information, but more important, hamper its ability to effectively manage and oversee its major programs, such as the space station and the shuttle program. NASA's financial audits during the 1990s masked serious problems with its financial management operations that continue today. Specifically, from 1996 through 2000, NASA was one of the few agencies to be judged by its independent auditor at the time, Arthur Andersen, as meeting all of the federal financial reporting requirements. However, our work at NASA during this same period told a different story. During this period, we issued a wide range of reports that detailed the agency's difficulties associated with (1) overseeing its contractors and their financial and program performance, (2) controlling program costs and producing credible cost estimates, and (3) supporting the amounts that it had reported to the Congress as obligated against statutory spending limits for the space station and related space shuttle support. We also concluded, based on work we performed related to a misstatement in NASA's fiscal year 1999 financial statements, that Arthur Andersen's work did not meet professional standards, and we questioned NASA management's and its auditor's determination that the agency's systems substantially complied with federal standards.

The results of NASA's fiscal year 2003 financial statement audit confirm that NASA's financial management problems continue today. NASA's independent auditor, Pricewaterhouse Coopers (PwC), disclaimed an opinion on NASA's fiscal year 2003 financial statements; reported material weaknesses in internal controls; and for the third straight year, concluded, just as we reported in November 2003,[1] that the agency's new financial management system did not comply with the requirements of the Federal Financial Management Improvement Act of 1996 (FFMIA).[2] Although NASA attributed the auditor's disclaimer of opinion to the agency's implementation of a new financial management system, many of the reported problems were long-standing issues not related to implementation of the new system.

Recognizing the importance of successfully implementing an integrated financial management system, in April 2000, NASA began an effort known as the Integrated Financial Management Program (IFMP). Through IFMP, NASA has committed to modernizing its business processes and systems in a way that if implemented properly, will introduce interoperability and thereby improve the efficiency and effectiveness of its operations as well as bring the agency into compliance with federal system requirements. NASA has also committed to implementing IFMP within specific cost and schedule constraints. In 2003, we issued five reports[3] outlining the

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[1] U.S. General Accounting Office, *Business Modernization: NASA's Integrated Financial Management Program Does Not Fully Address Agency's External Reporting Issues*, GAO-04-151 (Washington, D.C.: Nov. 21, 2003).

[2] FFMIA requires auditors to report whether agencies' financial management systems comply with federal financial management systems requirements, applicable federal accounting standards (U.S. generally accepted accounting principles), and the *U.S. Government Standard General Ledger* at the transaction level.

[3] U.S. General Accounting Office, *Business Modernization: Improvements Needed in Management of NASA's Integrated Financial Management Program*, GAO-03-507 (Washington D.C.: Apr. 30, 2003); *Information Technology: Architecture Needed to Guide NASA's Financial Management Modernization*, GAO-04-43 (Washington, D.C.: Nov. 21, 2003); *Business Modernization: Disciplined Processes Needed to Better Manage*

considerable challenges NASA faces in meeting its IFMP commitments and providing NASA the necessary tools to oversee its contracts and manage its program. For example, in April 2003, we reported that NASA had deferred addressing the needs of key system stakeholders,[4] including program managers and cost estimators, and was not following key best practices for acquiring and implementing the system. We also reported that NASA lacked the disciplined requirements management and testing processes needed to reduce the risk associated with its effort to acceptable levels. Therefore, NASA did not have reasonable assurance that the program would meet its cost, schedule, and performance objectives. Then, in November 2003, we reported that NASA (1) acquired and deployed IFMP system components without an enterprise architecture, or agencywide modernization blueprint, to guide and constrain program investment decisions; (2) did not use disciplined cost estimating processes or recognized best practices in preparing its life cycle cost estimates; and (3) had delayed implementation of many key external reporting capabilities. We made a number of recommendations in these reports to improve NASA's acquisition and implementation strategy for IFMP. While NASA ultimately agreed to implement all of our recommendations, it disagreed with most of our findings—stating that its acquisition and implementation strategy had already addressed many of our concerns.

Finally, NASA faces significant challenges in overcoming its financial management difficulties and reforming its financial management operations. For example, NASA's independent auditor, PwC, attributed many of the agency's financial management problems to a lack of understanding by NASA's staff of federal reporting requirements. In addition, over the past 4 years, we have issued numerous reports highlighting NASA's financial management difficulties and making recommendations for improvement. However, NASA management has been slow to implement these recommendations and in many cases has denied the existence of the problems we and others have identified—instead attributing the agency's difficulties to the auditor's sampling methodology or the auditor's lack of understanding of NASA's overall operations. Until NASA fully acknowledges the nature and extent of its financial management difficulties and better integrates the agency's financial management operation with its program management decision process, NASA will continue to face many of the same financial management problems discussed in my testimony today.

Clean Financial Audit Opinions Masked Serious Financial Management Problems

NASA's financial audits during the 1990s masked serious problems with its financial management operations that continue today. Specifically, from 1996 through 2000, NASA was one of the few agencies to be judged by its independent auditor, Arthur Andersen, as meeting all of the federal financial reporting requirements. That is, NASA was one of the few agencies to

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NASA's Integrated Financial Management Program, GAO-04-118 (Washington, D.C.: Nov. 21, 2003); *Business Modernization: NASA's Challenges in Managing Its Integrated Financial Management Program*, GAO-04-255 (Washington, D.C.: Nov. 21, 2003); and GAO-04-151.

[4] NASA defined those in the financial accounting arena as the system's users who, under NASA's plan, would determine the system's requirements, guide its implementation, and define and measure its success. Those who would benefit from the system's new capabilities were identified as stakeholders. Under NASA's plan, they would be the ultimate beneficiaries of the system improvements, but would not have a role in setting requirements or measuring and determining the success of the system's implementation.

receive an unqualified, or "clean," opinion on its financial statements, with no material internal control weaknesses noted and with financial management systems that were reported to be in substantial compliance with the requirements of FFMIA. FFMIA, building on previous financial management reform legislation, stresses that agencies need to have systems that provide managers with the reliable, timely, and accurate financial information that they need to ensure accountability on an ongoing basis, as well as to make informed decisions on investing resources, managing costs, and overseeing programs. Thus, the auditor's report implied that NASA could not only generate reliable information once a year for external financial reporting purposes but also could provide the kind of information needed for day-to-day management decision making. However, as others and we have reported, the independent auditor's reports did not provide an accurate picture of NASA's financial management systems and failed to disclose pervasive financial management problems that existed at NASA then and continue today. Ultimately, these unqualified opinions and positive reports on NASA's internal controls and systems served only to mask the serious financial management problems that existed at NASA throughout this period.

- First in 1990 and then in subsequent years, we identified contract management as an area at high risk because of NASA's inability to (1) oversee its contractors and their financial and program performance and (2) implement a modern, integrated financial management system, which is integral to producing accurate and reliable financial information needed to support contract management.[5] During this period, we also issued a wide range of reports that detailed the agency's difficulties associated with controlling program costs and producing credible cost estimates.

- In 2000, congressional staff members found a $644 million misstatement in NASA's fiscal year 1999 financial statements—an error not previously detected by NASA or its independent auditor. As we reported[6] in March 2001, this error resulted because NASA's systems could not produce the budgetary data required by federal accounting standards. Instead, the agency was relying on an ad hoc, year-end data call from its 10 reporting units and the aggregation of data using a computer spreadsheet. We concluded that Arthur Andersen's work did not meet professional standards, and we questioned NASA management's and its auditor's determination that the agency's systems substantially complied with the requirements of FFMIA.

- In 2001 and subsequent years, our work in response to a legislative mandate revealed that NASA was unable to support the amounts that it had reported to the Congress as obligated against statutory spending limits for the space station and related space shuttle

[5] At that time, we began a special effort to review and report on the federal program areas that our work had identified as high risk because of vulnerabilities to waste, fraud, abuse, and mismanagement. We first issued our *High-Risk Series* in December 1992 and have continued to include NASA's contract management as an area of high risk since. See U.S. General Accounting Office, *High-Risk Series: NASA Contract Management*, GAO/HR-93-11 (Washington, D.C.: December 1992) and *Major Management Challenges and Program Risks: National Aeronautics and Space Administration*, GAO-03-114 (Washington, D.C.: January 2003).

[6] U.S. General Accounting Office, *Financial Management: Misstatement of NASA's Statement of Budgetary Resources*, GAO-01-438 (Washington, D.C.: Mar. 30, 2001)

support.[7] Here again, NASA's inability to provide this detailed obligation data was linked to its lack of a modern, integrated financial management system.

- Finally, in February 2002, NASA's new independent auditor, PwC, further confirmed NASA's financial management difficulties and disclaimed an opinion on the agency's fiscal year 2001 financial statements. The audit report also identified a number of material internal control weaknesses and stated that contrary to previous financial audit reports, NASA's financial management systems did not substantially comply with FFMIA.

- Although NASA received an unqualified opinion on its fiscal year 2002 financial statements,[8] NASA's auditor again report material weaknesses in NASA's internal controls over its Property, Plant, and Equipment (PP&E) and materials, which make up nearly $37 billion, or 85 percent, of NASA's assets, and over the agency's processes for preparing its financial statements and performance and accountability report. According to the auditor's report, various deficiencies continued to exist within NASA's financial management operations, including (1) insufficient resources to address the volume of compilation work required to prepare NASA financial reports, (2) lack of an integrated financial management system, and (3) lack of understanding by NASA staff of federal reporting requirements. The nature and extent of the reported material weaknesses highlighted the agency's inability to generate reliable data for daily operations and decision making. Thus, it is not surprising that the auditor again concluded that NASA's financial management systems did not substantially comply with the requirements of FFMIA.

NASA's Auditor Disclaims an Opinion on Fiscal Year 2003 Financial Statements

NASA's financial management problems and internal control weaknesses continue to exist today. NASA's auditor, PwC, disclaimed an opinion on NASA's fiscal year 2003 financial statements. According to the auditor's report, NASA was unable to provide PwC sufficient evidence to support the financial statements and complete the audit within the time frames

[7] U.S. General Accounting Office, *NASA: International Space Station and Shuttle Support Cost Limits*, GAO-01-1000R (Washington, D.C.: Aug. 31, 2001), and *NASA: Compliance with Cost Limits Cannot Be Verified*, GAO-02-504R (Washington, D.C.: Apr. 10, 2002).

[8] We conducted a limited scope review of NASA's fiscal year 2002 financial statement audit performed by NASA's IPA, PwC, to assist in planning future audits of the U.S. government's consolidated financial statements. Based our review of PwC's supporting audit evidence, we would not have been able to rely on its work for the purpose of fulfilling our responsibilities related to the audit of the U.S. government's consolidated financial statements. We reported in March of 2004 to the NASA Inspector General that our review of PwC's supporting audit evidence revealed deficiencies in audit documentation, audit planning, and testing. Specifically, adequate audit tests were not performed for major balance sheet line items such as Fund Balance with Treasury; property, plant, and equipment (PP&E); and materials. It was not our intent to determine whether the audit opinion rendered was appropriate or to reperform any of the auditor's work. Our procedures consisted of an evaluation of evidence obtained from the auditor's fiscal year 2002 audit documentation and discussions with audit personnel. We did not independently test, reperform, or make supplemental tests of any of the account balances.

established by the Office of Management and Budget. In addition, for the third straight year, NASA's independent auditor concluded, just as we reported in November 2003,[9] that the agency's new financial management system did not comply with the requirements of FFMIA. Although NASA attributed the auditor's disclaimer of opinion to the agency's implementation of a new financial management system, many of the reported problems were long-standing issues not related to implementation of the new system. The auditor reported material weaknesses that existed throughout NASA's financial management operations.

- First, NASA was unable to provide reliable documentation and an audit trail to support the financial statements. NASA's auditor reported that in an effort to populate its new financial management system, NASA summarized the previous 7 years of transaction-level detail from its legacy systems and entered the cumulative amount into the new system as if the transactions were current-year activity. As a result, many of the accounts supporting the financial statements were overstated by billions of dollars. In an effort to correct these errors and balance the accounts to the general ledger, NASA made net adjustments totaling $565 billion but was not able to provide documentation supporting the adjustments.

- Second, NASA's internal controls over its reconciliation of fund balance with Treasury accounts were ineffective. Specifically, NASA failed to reconcile its fund balance with Treasury accounts during the year and resolve all differences. At year-end, NASA's general ledger account for fund balance with Treasury was materially overstated and did not reconcile to the balance reported by Treasury at year-end. To correct the overstatement, NASA made $2 billion in unsupported net adjustments to its Fund Balance with Treasury account, which had the effect of reducing NASA's recorded balance so it equaled Treasury's reported balance. This type of adjustment is similar to forcing the balance recorded in your checkbook at the end of the month to reconcile with your bank statement. Instead of trying to determine the reason for the error and resolve the difference you, simply "plug" the difference to your checkbook balance. NASA's failure to perform reconciliation procedures throughout the year is a fundamental breakdown in basic internal controls and illustrates the human capital challenges NASA faces in overcoming its financial management problems.

- Third, NASA's processes for preparing its financial statements continue to be ineffective. The continued weaknesses in NASA's financial statement preparation processes resulted in major delays and errors in preparing fiscal year-end financial statements. For example, NASA's auditor reported inconsistencies, such as the significant differences between the agency's Fund Balance with Treasury and Treasury's balance that should have been identified and corrected by NASA as part of the agency's internal quality control review process. In addition, NASA's financial statements were not prepared in accordance with federal accounting standards. As we reported in November 2003, the core financial module did not appropriately capture accrued contract costs and accounts payable information in accordance with federal accounting standards. Instead, in instances where costs and the corresponding liabilities were greater than the associated obligations, the

[9] GAO-04-151.

differences were transferred outside of the general ledger and held in suspense until additional funds were obligated, thus understating NASA's reported program costs and liabilities. Although NASA officials stated that as of October 1, 2003, they no longer post costs in excess of obligations in a suspense account, their current solution still does not appropriately capture accrued cost and accounts payable in accordance with federal accounting standards.

- Finally, NASA continues to lack effective internal controls over PP&E and materials. Although NASA reported that a corrective action plan had been implemented to address the deficiencies identified in the previous year's audit report, subsequent testing identified major errors in contractor-held PP&E and materials.

NASA's Effort to Implement New Integrated Financial Management System

NASA's new financial management system falls short in addressing the long-standing financial management issues that have prevented the agency from effectively monitoring over 90 percent of its annual budget and managing costly and complex programs, such as the International Space Station. For years, NASA has cited deficiencies within its financial management systems as a primary reason for not having the data required to oversee its contractors, accurately account for the full cost of its operations, and efficiently produce accurate and reliable information needed for both management decision-making and external reporting purposes. Recognizing the importance of successfully implementing an integrated financial management system, in April 2000, NASA began its IFMP effort. When completed, IFMP is planned to consist of nine modules[10] that will support a range of financial, administrative, and functional areas. This is NASA's third attempt at modernizing its financial management systems and processes. The first two efforts were eventually abandoned after a total of 12 years and a reported $180 million. The schedule for implementing IFMP was originally planned for fiscal year 2008, but after NASA's new Administrator came on board in fiscal year 2002, the timeline was accelerated to fiscal year 2006, with the core financial module to be completed in fiscal year 2003. As of June 30, 2003, NASA reported that it had fully implemented the core financial module at all of its 10 operating locations.

Through IFMP, NASA has committed to modernizing its business processes and systems in a way that if implemented properly, will introduce interoperability and thereby improve the efficiency and effectiveness of its operations as well as bring the agency into compliance with federal financial management systems requirements. NASA has also committed to implementing IFMP within specific cost and schedule constraints. In 2003, we issued five reports[11] outlining the considerable challenges NASA faces in meeting its IFMP commitments and providing NASA the necessary tools to oversee its contracts and manage its program. For example, in April 2003, we reported that NASA had deferred addressing the needs of key system

[10] The nine modules are core financial, resume management, travel management, position description management, human resource management, payroll, budget formulation, contract administration, and asset management.

[11] GAO-03-507, GAO-04-43, GAO-04-151, GAO-04-118, and GAO-04-255.

stakeholders,[12] including program managers and cost estimators, and was not following key best practices for acquiring and implementing the system. Then, in November 2003, we reported that NASA (1) acquired and deployed system components of IFMP without an enterprise architecture, or agencywide modernization blueprint, to guide and constrain program investment decisions; (2) did not use disciplined cost estimating processes or recognized best practices in preparing its life cycle cost estimates; and (3) had delayed implementation of many key external reporting capabilities.

IFMP Core Financial Module Will Not Fully Address the Needs of Key Stakeholders

Based on our review of NASA's three largest space flight programs—the space station, the space shuttle, and the Space Launch Initiative,[13] in April 2003 we reported that the core financial module, as currently implemented, did not fully address the information requirements of stakeholders such as program managers, cost estimators, or the Congress. While NASA considers these officials to be the ultimate beneficiaries of the system's improvements, they were not involved in defining or implementing the system requirements and will not have a formal role in defining or measuring its success. As a result, NASA has neither reengineered its core business processes nor established adequate requirements for the system to address many of its most significant management challenges, including improving contract management; producing credible cost estimates; and providing the Congress with appropriate visibility over NASA's large, complex programs. Specific issues for key stakeholders include the following:

- *Program managers*. To adequately oversee NASA's largest contracts, program managers need reliable contract cost data—both budgeted and actual—and the ability to integrate these data with contract schedule[14] information to monitor progress on the contract. However, because program managers were not involved in defining system requirements or reengineering business processes, the core financial module was not designed to

[12] NASA defined those in the financial accounting arena as the system's users who, under NASA's plan, would determine the system's requirements, guide its implementation, and define and measure its success. Those who would benefit from the system's new capabilities were identified as stakeholders. Under NASA's plan, they would be the ultimate beneficiaries of the system improvements, but would not have a role in setting requirements or measuring and determining the success of the system's implementation.

[13] During the time of our review, NASA was pursuing a program—known as the Space Launch Initiative—to build a new generation of space vehicles to replace its aging space shuttle. This was part of NASA's broader plan for the future of space travel—known as NASA's Integrated Space Transportation Plan. On October 21, 2002, NASA postponed further implementation of the program to focus on defining the Department of Defense's role, determining future requirements of the International Space Station, and establishing the agency's future space transportation needs. In November 2002, the administration submitted to the Congress an amendment to NASA's fiscal year 2003 budget request to implement a new Integrated Space Transportation Plan. The new plan makes investments to extend the space shuttle's operational life and refocuses the Space Launch Initiative program on developing an orbital space plane—which provides crew transfer capability to and from the space station—and next generation launch technology.

[14] The term "schedule" incorporates both the concept of status of work and whether a project or task is being completed within planned time frames. Depending on the nature of the work being performed, the method of measuring work progress varies. Work is measured in terms of tasks when a specific end product or result is produced. But when work does not produce a specific end product or result, level-of-effort or a more time-oriented method of measurement is used.

integrate the cost and schedule data that they need. As a result, program managers told us that they would not use the core financial module to manage programs such as the space station and space shuttle and instead would continue to rely on hard copy reports, electronic spreadsheets, or other means to monitor contractor performance.

- *Cost estimators.* In order to estimate the costs of programs, cost estimators need reliable contract cost data at a level of detail greater than what the core financial module maintains. Although this module is technologically capable of maintaining the detail they need, cost estimators were not involved in defining the system requirements or reengineering business processes. Reengineering is critical here because a driving factor in determining what information cost estimators receive from contractors is what level of detail the contractors are required to provide, based on the contracts that they have negotiated with NASA. As a result, NASA has not determined the most cost-effective way to satisfy the information needs of its cost estimators. Because the core financial module will not contain the sufficiently detailed historical cost data necessary for projecting future costs, cost estimators will continue to rely on labor-intensive data collection efforts after a program is completed.

- *The Congress.* Based on our discussions with congressional staffs from NASA's authorizing committees, the agency did not consult with them regarding their information needs. Consequently, NASA cannot be sure that it is implementing a system that will provide the Congress with the information it needs for oversight.

According to IFMP officials, they chose to forgo certain system capabilities to expedite implementation of the core financial module. Thus, while the core financial module software is technologically capable of meeting key stakeholders' needs, it has not been configured to do so. IFMP officials have stated that these capabilities can be added at a later date. We made several recommendations related to engaging stakeholders, including cost estimators and program managers, in developing a complete and accurate set of requirements. Although NASA officials concurred with our recommendations, they disagreed with our finding—stating that they had already effectively engaged key stakeholders.

NASA Was Not Following Key Best Practices for Acquiring and Implementing IFMP

We reported in April 2003 that NASA's approach to implementing its new system did not optimize the system's performance and would likely cost more and take longer to implement than necessary. Specifically, NASA was not following key best practices for acquiring and implementing the system, which may affect the agency's ability to fully benefit from the new system's capabilities. First, NASA did not analyze the relationships among selected and proposed IFMP components to understand the logical and physical relationships among the components it acquired. By acquiring these IFMP components without first understanding system component relationships, NASA increased its risks of implementing a system that will not optimize mission performance and will cost more and take longer to implement than necessary. Second, although industry best practices and NASA's own system planning documents indicate that detailed requirements are needed as the basis for effective system testing, NASA did not require documentation of detailed system requirements prior to system

implementation and testing. NASA's approach instead relied on certain subject matter experts' knowledge of the detailed requirements necessary to evaluate the functionality actually provided.

We made several recommendations to focus near-term efforts on stabilizing the operational effectiveness of deployed IFMP components. While NASA officials concurred with our recommendations, they disagreed with our findings—stating that they had already implemented effective processes related to performing dependency analysis and requirements and testing.

IFMP Components Deployed without an Enterprise Architecture

We reported in November 2003 that NASA had acquired and deployed system components of IFMP without an enterprise architecture, or agencywide modernization blueprint, to guide and constrain program investment decisions—actions that increased the chances that these system components will require additional time and resources to be modified and to operate effectively and efficiently. During the course of our review of IFMP, NASA implemented some of these key architecture management capabilities, such as having an enterprise architecture program office; designating a chief architect; and using an architecture development methodology, framework, and automated tools. However, at the time, NASA had not yet established other key architecture management capabilities, such as designating an accountable corporate entity to lead the architecture effort, having an approved policy for developing and maintaining the architecture, and implementing an independent verification and validation function to provide needed assurance that architecture products and architecture management processes are effective.

As NASA proceeds with its enterprise architecture effort, it is critical that it employs rigorous and disciplined management practices. Such practices form the basis of our architecture management maturity framework,[15] which specifies by stages the key architecture management controls that are embodied in federal guidance and best practices, provides an explicit benchmark for gauging the effectiveness of architecture management, and provides a road map for making improvements. GAO made several recommendations to ensure that NASA had the necessary agencywide context within which to make informed IFMP and other systems modernization decisions. NASA agreed that improvements were needed and reported that it had efforts under way, consistent with our recommendations, to develop an architecture and ensure that IFMP proceeded within the context of the architecture. We have not evaluated NASA's progress on these commitments

IFMP Further Challenged by Questionable Cost Estimates and an Optimistic Schedule

Questionable cost estimates, an optimistic schedule, and insufficient processes for ensuring adequate funding reserves have put IFMP at an even greater risk of not meeting program objectives. In preparing its life cycle cost estimates for IFMP,[16] NASA did not use disciplined

[15] U.S. General Accounting Office, *Information Technology: A Framework for Assessing and Improving Enterprise Architecture Management (Version 1.1)*, GAO-03-584G (Washington, D.C.: April 2003).

[16] Fiscal years 2001 through 2010.

cost estimating processes as required by its standards and recognized best practices. For example, NASA's current IFMP life cycle cost estimate—which totals $982.7 million and is 14 percent, or $121.8 million, over the previous IFMP life cycle cost estimate—was not prepared on a full-cost basis. The estimate included IFMP direct program costs, NASA enterprise support, and civil service salaries and benefits, but it did not include the cost of retiring the system, enterprise travel costs, the cost of nonleased NASA facilities for housing IFMP, and other direct and indirect costs likely to be incurred during the life of the program. In addition, NASA did not consistently use breakdowns of work in preparing the cost estimate, although NASA guidance calls for breaking down work into smaller units to facilitate cost estimating and project and contract management as well as to help ensure that relevant costs are not omitted. In cases where work breakdowns were used, the agency did not always show the connection between the work breakdown estimates and the official program cost estimate. This has been a weakness since the inception of the program. Without a reliable life cycle cost estimate, NASA will have difficulty controlling program costs.

In addition, NASA's schedule may not be sufficient to address program challenges, such as personnel shortages. To address personnel shortages during the implementation of the core financial module, NASA paid nearly $400,000 for extra hours worked by center employees and avoided a slip in IFMP's compressed schedule. However, the schedule for implementing the budget formulation module has slipped because IFMP implemented this module simultaneously with the core financial module—an action advised against by a contractor conducting a lessons-learned study—placing heavy demand on already scarce resources.

Finally, the program did not consistently perform in-depth analyses of the potential cost impact of risks and unknowns specific to IFMP, as required by NASA guidance. Instead, the program established funding reserves on the basis of reserve levels set by other high-risk NASA programs. As a result, reserve funding for IFMP contingencies may be insufficient—which is particularly problematic, given the program's questionable cost estimates and optimistic schedule. As we were completing our audit work, one module—budget formulation—was already experiencing shortfalls in its reserves, and project officials expressed concern that the module's functionality may have to be reduced. Moreover, the program did not quantify the cost of high criticality risks—risks that have a high likelihood of occurrence and a high magnitude of impact—or link these risks to funding reserves to help IFMP develop realistic budget estimates. We made recommendations to provide NASA the necessary tools to accurately estimate program cost and predict the impact of program challenges. Although NASA concurred with our recommendations for corrective action, NASA indicated that its current processes were adequate for preparing work breakdown structure cost estimates, estimating life-cycle costs, and establishing reserves based on IFMP-specific risks.

Core Financial Module Does Not Address
Long-standing External Reporting Issues

The core financial module, as currently implemented, also does not address many of the agency's most challenging external reporting issues. Specifically, the core financial module does not address NASA's past external reporting problems related to property accounting and budgetary accounting. Such shortcomings limit the ability of the Congress and other interested parties to

evaluate NASA's performance on an ongoing basis because NASA's financial management systems do not provide a complete accounting of its assets and how funds were spent. If these issues are not addressed, NASA will continue to face risks in its ability to adequately oversee its programs, manage their costs, and provide meaningful information to external parties, such as the Congress.

- *Property accounting.* The core financial module has not addressed the problems I discussed previously related to material weaknesses in NASA's internal controls over PP&E and materials. NASA's PP&E and materials are physically located throughout the world, at locations including NASA centers, contractor facilities, other private or government-run facilities, and in space. NASA's most significant challenge, with respect to property accounting, stems from property located at contractor facilities, which accounts for almost $11 billion, or about one-third, of NASA's reported $37 billion of PP&E and materials and consists primarily of equipment being constructed for NASA or items built or purchased for use in the construction process. NASA has not reengineered the agency's processes for capturing contract costs associated with PP&E and material, and therefore, does not record these property costs in the general ledger at the transaction level. Instead, according to NASA officials, the agency plans to continue to (1) record the cost of PP&E and materials as expenses when initially incurred, (2) periodically determine which of those costs should have been capitalized, and (3) manually correct these records at a summary level. Because NASA does not maintain transaction-level detail, the agency is not able to link the money it spends on construction of its property to discrete property items and therefore must instead rely solely on its contractors to periodically report summary-level information on these assets to NASA.

- *Budgetary accounting.* The software NASA selected, and is now using, for its core financial module does not capture and report certain key budgetary information needed to prepare its Statement of Budgetary Resources. As a result, NASA continues to rely on manual compilations and system queries to extract the data needed to prepare the Statement of Budgetary Resources—just as it did using its legacy general ledger system. According to NASA officials, a "patch" release or software upgrade in October 2003 has addressed the issues we identified related to budgetary accounting. However, we have not verified NASA's assertion and previously reported that NASA had implemented similar " patch" releases that did not fully address this issue. As we reported in March 2001, this cumbersome, labor-intensive effort to gather the information needed at the end of each fiscal year was the underlying cause of a $644 million misstatement in NASA's fiscal year 1999 Statement of Budgetary Resources. Although the software that NASA purchased for the core financial module was certified by the Joint Financial Management Improvement Program (JFMIP) as meeting all mandatory system requirements, NASA may have relied too heavily on the JFMIP certification. JFMIP has made it clear that its certification, by itself, does not automatically ensure compliance with the goals of FFMIA. Other important factors that affect compliance with *Federal Financial Management System Requirements* include how well the software has been configured to work in the agency's environment and the quality of transaction data in the agency's feeder systems. As I mentioned previously, NASA did not use the disciplined requirements management and testing processes necessary to reduce the risks associated

with its implementation efforts to acceptable levels. Therefore, it is not surprising that NASA found that the system was not providing the desired functionality or performing as expected.

Core Financial Module
Does Not Comply with FFMIA

As I mentioned previously, in November 2003,[17] we reported that NASA's new core financial module did not comply substantially with the requirements of FFMIA. At the time, NASA disagreed with our conclusions and recommendations regarding its financial management systems and stated that many of the problems we identified as of June 30, 2003, had been resolved by September 30, 2003. However, in February 2004, after NASA's independent auditor also concluded that NASA's financial management system, at September 30, 2003, did not substantially comply with the requirements of FFMIA, NASA reversed its position and concurred with all of our recommendations. Specifically, NASA agreed to implement a corrective action plan that will engage key stakeholders in developing a complete and accurate set of user requirements, reengineering its acquisition management processes, and bringing its systems into compliance with FFMIA.

FFMIA stresses the need for agencies to have systems that can generate timely, accurate, and useful financial information with which to make informed decisions, manage daily operations, and ensure accountability on an ongoing basis. Compliance with FFMIA goes far beyond receiving a "clean" opinion on financial statements. Instead, FFMIA provides agencies with the building blocks needed to reform their financial management organization and practices, and to support program managers in making wise decisions about program cost and performance. However, as we reported in April 2003 and in November 2003, NASA's core financial module did not provide program managers, cost estimators, or the Congress with managerially relevant cost information that they need to effectively manage and oversee NASA's contracts and programs, such as the International Space Station. NASA's continuing inability to provide its managers with timely, relevant data on contract spending and performance is a key reason that we continue to report NASA's contract management as an area of high risk. Because this information is not available through the core financial module, program managers will continue to rely on hard copy reports, electronic spreadsheets, or other means to monitor contractor performance. Consequently, NASA risks operating with two sets of books—one that is used to report information in the agency's general-purpose financial reports and another that is used by program managers to run NASA's projects and programs.

NASA Faces Significant Challenges in Reforming Its Financial Management Operations

Many of NASA's financial management problems are deeply rooted in an agency culture that has not fully acknowledged the nature and extent of its financial management difficulties and does not see finance as intrinsic to the agency's program management decision process. Over the past 4 years, we have issued numerous reports highlighting NASA's financial management difficulties and making recommendations for improvement. However, NASA management has

[17] GAO-04-151.

been slow to implement these recommendations and in many cases has denied the existence of the problems we and others have identified—instead attributing the agency's difficulties to the auditor's sampling methodology or the auditor's lack of understanding of NASA's operations. For example:

- In response to our August 2001 and April 2002 reports on NASA's compliance with the International Space Station and shuttle support cost limits, NASA management disagreed with our finding that NASA was unable to support the amounts that it had reported to the Congress as obligated against the statutory spending limits for the space station and related space shuttle support costs. At the time, NASA asserted that the obligations were verifiable and that our audit methodology was the problem. We planned to use statistical sampling, which is a standard, widely used methodology that enables auditors to draw conclusions about large populations of transactions by testing a relatively small number of those transactions. In order for a statistical sample to be valid, the complete population of items of interest must be subject to selection and every transaction must have a chance to be selected for testing. However, after nearly a year, NASA was not able to provide us with a complete population of transactions from which to draw our sample. Consequently, we were unable to verify the accuracy of the amount NASA reported against the cost limits.

- In a March 20, 2002, statement before this subcommittee NASA management attributed its failure to obtain an unqualified opinion on the agency's fiscal year 2001 financial statements to its auditor's newly required protocol for sampling. However, the only thing new about the sampling protocol was that NASA's previous auditor, Arthur Andersen, had not employed a similar approach. In fact, to test amounts reported on NASA's fiscal year 2001 financial statements, NASA's new financial statement auditor, PwC, attempted to use standard transaction-based statistical sampling similar to the methods we had attempted in our effort to audit the underlying support for amounts charged to the spending limits. In its audit report, PwC noted that successive summarization of data through NASA's various financial systems impeded NASA's ability to maintain an audit trail down to the detailed transaction-level source documentation. For this and other reasons, PwC concluded that it was unable to audit NASA's financial statements.

- In response to our April 2003 report on the status of NASA's implementation of IFMP, NASA management disagreed with all of our findings, including our concerns that NASA program managers and cost estimators were not adequately involved in defining system requirements and, therefore the system did not fully address their information needs. In its written comments, NASA dismissed these concerns and stated that the problem was a lack of understanding not a lack of information, and that it was incumbent upon program managers and cost estimators to learn and understand the capabilities of the new system and take advantage of them for their specific purposes.

- Finally, in response to our November 2003 report on IFMP's external reporting capabilities, NASA management disagreed with all of our conclusions and recommendations, including our conclusion that the core financial module, as implemented in June 2003, did not comply substantially with FFMIA. In its written

comments, dated October 31, 2003, NASA asserted that many of the problems we identified in June 2003 were resolved by September 30, 2003. However, NASA's assertions did not prove to be accurate. In January 2004, NASA's independent financial statement auditor confirmed that the problems we identified in June 2003 related to NASA's accrued costs, budgetary accounting, and property accounting still existed at September 30, 2003, and that the system was not in compliance with FFMIA requirements. NASA reversed its position in February 2004 and concurred with our recommendations that it implement a corrective action plan that will engage key stakeholders in developing a complete and accurate set of user requirements, reengineering its acquisition management processes, and bringing its systems into compliance with FFMIA.

The challenges that NASA faces in reforming its financial management operations are significant, but not insurmountable. As our prior work[18] shows, clear, strong leadership will be critical for ensuring that NASA's financial management organization delivers the kind of analysis and forward-looking information needed to effectively manage its many complex space programs. Further, in order to reap the full benefit of a modern, integrated financial management system, NASA must (1) routinely generate reliable cost and performance information and analysis, (2) undertake other value-added activities that support strategic decision making and mission performance, and (3) build a finance team that supports the agency's mission and goals.

Conclusion

Until NASA fully acknowledges the nature and extent of its financial management difficulties and better integrates its financial management operations with its program management decision process, it will continue to face many of the same financial management problems I have discussed today. While modernizing NASA's financial management system is essential to enabling the agency to provide its managers with the kind of timely, relevant, and reliable information that they need to manage cost, measure performance, make program funding decisions, and analyze outsourcing or privatization options, NASA cannot rely on technology alone to solve its financial management problems. Rather, transforming NASA's financial management organization will also require sustained top leadership attention combined with effective organizational alignment, strategic human capital management, and end-to-end business process reengineering. This goes far beyond obtaining an unqualified audit opinion and requires that agency financial managers focus on their overall operations in a strategic way and not be content with an automated system that helps the agency get a "clean" audit opinion once a year without providing additional value to the program managers and cost estimators who use its financial data.

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Mr. Chairman, this concludes my prepared statement. I would be pleased to respond to any questions that you or other members of the Subcommittee may have.

[18] U.S. General Accounting Office, *Executive Guide: Creating Value Through World-class Financial Management*, GAO/AIMD-00-134 (Washington, D.C.: April 2000). Our executive guide was based on practices used by nine leading organizations—Boeing; Chase Manhattan Bank; General Electric; Pfizer; Hewlett-Packard; Owens Corning; and the states of Massachusetts, Texas, and Virginia.

Contacts and Acknowledgments

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Related GAO Products

Business Modernization: Disciplined Processes Needed to Better Manage NASA's Integrated Financial Management Program. GAO-04-118. Washington, D.C.: November 21, 2003.

Business Modernization: NASA's Integrated Financial Management Program Does Not Fully Address External Reporting Issues. GAO-04-151. Washington, D.C.: November 21, 2003.

Information Technology: Architecture Needed to Guide NASA's Financial Management Modernization. GAO-04-43. Washington, D.C.: November 21, 2003.

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Financial Management: Misstatement of NASA's Statement of Budgetary Resources. GAO-01-438. Washington, D.C.: March 30, 2001.

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Mr. PLATTS. Thank you, Mr. Kutz.

Again, I appreciate all of your testimony and if Mr. Ciganer or Mr. Li would like to join the other three at the table as we move forward to questions. We will again be guided by a loose 5 minute rule and begin questions with Mrs. Blackburn and myself and Mr. Towns who is going to be rejoining us.

I would like to start with the structure at NASA. One of the things that came through loud and clear in the statements here today and in the written statements and other coverage of the challenges to NASA regarding financial management is the need to change the culture. This must be a priority, and, in reality, the programs NASA is so well known and appropriately applauded for will be that much stronger if we do right on the financial management side.

One of the challenges that seems to surface in the past structure of NASA, hand in hand with the culture of leadership, is the delineation of authority in the 10 separate centers with the CFOs of each center answering to the center director but not to the CFO for the entire agency. Ms. Brown, if you could share with us what you are doing to address that decentralized approach of the past and how you are trying to better centralize it, because as we see here today you are the one that needs to answer for the agency as the agency CFO. How you are getting your hands around those 10 independent centers?

Ms. BROWN. Thank you for that opportunity. I would like to state for the record too that we are working that at NASA. It is a challenge having 10 different, separate CFOs reporting to a center director but I have imparted what we call team clarity at NASA. It is basically a group of individuals at NASA within the NASA community working toward restructuring and realigning the agency as a total and whole in order to meet our new vision. In that effort, we have had multiple discussions with regards to the reporting structure that would be instrumental in my being able to resolve this challenge we have in financial management. To that end, we are looking at having a couple of options, one being having the center CFOs report directly to me or my being able to work with the center directors in the hiring, firing and performance evaluation of those center CFOs in order to strengthen that relationship. So we are looking at a couple options and we will be providing those to the committee once those are finalized.

Mr. PLATTS. Expand on that. I was under the belief that delineation of authority or realignment had already occurred where the center CFOs would be reporting directly to you. That is something you are looking at and discussing but has not taken place thus far?

Ms. BROWN. Correct.

Mr. PLATTS. That is something that concerns me, that given what we know about the challenges in the past, even in this past year and the 2003 audit, the 2003 numbers, that we are now halfway through 2004 and we have not actually made that change. You are the agency CFO and the need for that information and that authority over those centers is going to be critical if you are to truly get your hands around the challenge before you.

Ms. BROWN. Chairman Platts, you are indeed correct on that. We have taken steps within my organization to work with the center

CFOs. There hasn't been a challenge in that respect and getting their attention to the issue. The disclaimer was a definite wake-up call for that but we have not formally documented that in our new organizational structure.

Mr. PLATTS. What is the timeframe for the two changes, one, them answering to you directly, the center CFOs and two, your having whether it is a veto role or a sign-off role in the hiring of staff in the CFO offices in each of the centers?

Ms. BROWN. Actually we are working toward those and should have them within the next couple of weeks.

Mr. PLATTS. I would appreciate and ask that you do share the results of that realignment as soon as it is complete so we are aware of how you are going to be going forward. One of the weaknesses that came forward I believe in the Inspector General's statement was staff not understanding the requirements of the Federal financial management laws and what was required of them. Given that these are individuals being entrusted with oversight of management of billions of dollars, there clearly is a need for improvement in the staff knowledge and actions. I know you have only been there 6 months or so, but you accepted that challenge and now are responsible for each and every one of those individuals within the financial management field. We would appreciate your diligent efforts regarding that management aspect.

Mr. Kutz or Mr. Li could you comment on the change in culture, the alignment and what has occurred in GAO's opinion and what needs to occur further?

Mr. LI. I think we can both address culture with regards to the financial unit and the larger aspect of NASA. As you know, after the Columbia Accident Investigation Board issued its findings, it identified that culture was indeed an issue in the whole agency. So while I am encouraged by what Ms. Brown talks about in terms of the organizational improvements and the realignment in her unit, the other thing we need to keep in mind is that culture change also has to deal with the alignment of both the program and the financial management unit. In other words, if these people cannot talk to one another and manage these programs, getting the financial data to manage these programs like the spacecraft and the human space flight programs, it is not going to work. So culture change cannot just be one in which we fix what happens at the CFO level. It has to be throughout the agency.

Mr. PLATTS. Is it your opinion that with the realignment, and the shared services center up and coming would that help to address some of that issue?

Mr. LI. I don't believe so, sir. I think that is an issue of their trying to get more efficiencies and trying to co-locate some of the administrative functions they have, so I don't believe that is going to solve the cultural issue you talked about.

Mr. PLATTS. I take it the issues being discussed that direct authority of Ms. Brown over those center CFOs and input into the hiring of the staffs in those center CFO offices, that is something you think is important moving toward changing the mentality and the way of operating?

Mr. LI. Yes, I do.

Mr. PLATTS. Mr. Kutz, did you want to add anything?

Mr. KUTZ. I would just add with respect to the other cultural issue, making sure that the program in finance is better integrated. That is an important issue that goes back to finance being somewhat stovepiped from the program which gets into is this IFMP going to meet the needs of those people. I think NASA's goal up front was for the integrated financial management system to be something the program managers used to manage on a day to day basis. We don't see that happening right now and that needs to be one of the goals and results of this, before we spend $1 billion on a system that is just an accounting system. I think that is a very critical aspect to discuss in today's hearing.

Mr. PLATTS. Mr. Cobb.

Mr. COBB. I would like to comment just because I have a slightly different dichotomy to lay out for you. In one sense I don't think the CFO will have the ability to carry out her function until the people who are the CFOs at the field centers report directly to her and she writes their performance evaluations and is responsible for their bonuses and fundamentally they work for her. I am not sure that is what is being contemplated in connection with the organizational changes at NASA in the CFO shop or in the CIO shop or in the Safety and Engineering area. I think they are contemplating something that is more complex with dual reporting requirements but that ultimately the employees we are talking about will be responsive to the center directors.

Mr. PLATTS. I share your belief. As a subcommittee with oversight, if those individuals aren't reporting and answering to you, that means I am going to have to bring all 10 of the individual center CFOs here to answer for themselves if they are not going to be answering to you.

Ms. BROWN. And given the two comments made from the GAO and the IG, you see my dilemma in trying to formulate what is the best plan moving forward. The GAO, as just stated, says you need the financial manager and the program manager working diligently together moving the agency forward. If I take the CFOs and have them report directly to me, they are no longer responsive to the center director or the program managers at those different centers. Therefore, that relationship breaks down and they will be responsive and beholding to me.

The IG feels we should have a stronger input having a direct line to myself and that is the debate and discussion we are having today within NASA. What is the best structure for NASA, for our leadership in order to develop the agency not only for today to meet the challenges I have currently for financial management, but also moving forward and meeting the vision. This dichotomy between the two here is the same debate we are having at NASA. Once we finalize that, get it in written form, we will provide it to the committee, but it is not my hope to have 10 different accounting CFOs coming to report to this committee. I am accountable for NASA's financial status and they report to me and they work with me.

Mr. PLATTS. Under the CFO Act, you are deemed the one accountable. Those regional, center CFOs are not under the act.

I did read it different, Mr. Kutz and Mr. Cobb, that they didn't necessarily disagree, Mr. Kutz and Mr. Li, that program managers need to work hand in hand with the CFOs but I want to followup.

Do you object or think it is a bad idea for the center CFOs to answer directly to Ms. Brown in the chain of command?

Mr. LI. No. I was not implying that the organizational alignment of the CFO precluded or would impact upon that closeness of working together between the program managers. Just ensuring that the way of doing business incorporates the financial discipline of managing a program does not require that organizational alignment.

Mr. PLATTS. I think how I took the GAO's statement, Ms. Brown, in your written statement you capture it well where you say "A clean opinion should reflect a reliable, transparent and efficient set of financial management practices." It should not, in itself, be a goal but rather a reflection of those practices; that by putting in the good processes, including how we align the financial managers by their work, they will generate good information that benefits program managers because of having timely accurate information to work with.

Ms. BROWN. Correct.

Mr. PLATTS. I want to yield to the Vice Chair, but in this first round, I wanted to get into one of the issues that goes to the data and the errors in basic accounting. The 2003 audit disclosed the $2 billion discrepancy between NASA's books and the fund balance with Treasury. In reading the various reports in preparing for this, I think it was best captured in the GAO's written statements how I looked at that. I may be unusual but I am the one that writes all the bills in our house and I balance my checkbook to the penny every month. If I find I am off a dime, I go find the dime. It was amazing to me as a taxpayer, the way I understand this is that NASA's books were off by $2 billion and there is basically just a correction made but no effort, at least initially, and I am not sure yet there has been a detailed explanation given of how that $2 billion discrepancy came to be. Where is it? What happened to the money?

Ms. Brown and Mr. Ciganer, if you can expand on that issue because remember you are speaking to the guy who looks for the dime I am missing at the end of the month in my checkbook balance and $2 billion is a heck of a lot of money from hardworking Americans.

Mr. CIGANER. Mr. Chairman, we actually share your concern and one of the stated objectives of the new system was to actually bring a level of transparency to the information and a level of detail to the individual transactions that did not exist in the previous systems. As we stated earlier not only did we consolidate 10 separate, independent accounting systems from each center but a variety of subsystems.

What we tried to do moving forward is not only rolling out this new environment but also taking care of cleaning up an awful lot of information that was residing at the level of detail that we did not consider sufficient moving forward. We were aiming, and are still aiming, at exactly what the GAO and the IG pointed out, which is to develop a much closer relationship in cost and performance on the management of our major programs. We are very conscious that the stovepipes that were established individually, geographically and even by department, all have to be broken down

very, very quickly. We tried to actually not only convert the data from a historical accounting standpoint, but also to look at the individual transactions and the system we selected is transaction oriented as opposed to just accounting oriented, and break down a lot of the information that existed in a much higher level in the past into a much lower level so you can go task by task and start doing the analysis you require.

Mr. PLATTS. Those are issues that I do want to get into with the new integrated financial management program and how we are going to get more detail. I actually have some questions about the way the system is designed and how much detail we get. I would like to focus on the $2 billion discrepancy. As we sit here today, do we know where that money went, why there was a discrepancy, to ensure there wasn't fraud, waste or misuse of funds?

Ms. BROWN. No, it was not a matter of fraud, waste, abuse or misuse of funds. Basically, it comes down to accounting practices, policies and procedures. Again, as Patrick said, when we implemented the new system, we had over 120 legacy systems that we were migrating. A lot of those systems didn't have the financial rigor or the reconciliation. Like you said, every month you reconcile your checkbook even down to the dime. It was not a prevailing practice. We weren't quite sure as we were moving through the migration and we started doing a reconciliation from pre-migration into that area. We started seeing the differences and we are researching the differences.

What I have done in my NASA financial improvement plan because that was one of the issues raised within the audit and is a material weakness identified. In my plan, we are doing a soup to nuts reconciliation starting back to 2000, 2001, 2002, and 2003. Basically I am reconciling my checkbook for the last 5 years and I will continue that until I am able to get to a point where I am comfortable in knowing where each and every dime went.

Three weeks ago we received the tapes from Treasury so that we can begin that process. I don't mind providing the committee with the results of going through that process but again, it is through years of being able to do that. We have it now in a single system. I can identify at the transactional level down to the detail because people had to go back and do that rework and put in that information. Not all those systems had that information in them. Now I am beginning to process through my NASA financial management improvement plan to do that reconciliation starting back in 2000.

Mr. PLATTS. If I understand correctly, as you are going forward trying to best determine where that $2 billion went, you have records from Treasury now that would be the records of who was paid for what and what amount and you are working through that process?

Ms. BROWN. Correct and I do have support doing that.

Mr. PLATTS. You said it was 3 weeks ago you got that information?

Ms. BROWN. I received the tapes from Treasury starting from 2000, 2001, 2002, 2003, correct. It was a little difficult for Treasury to come up with the older records.

Mr. PLATTS. There was a request a while back?

Ms. BROWN. Correct.

Mr. PLATTS. And it took a while for Treasury to put together the information?

Ms. BROWN. Correct.

Mr. PLATTS. As you move through that process and get more detail and try to account for all those dimes that make up that $2 billion, I would appreciate that information being shared because one thing as I read everything is more than 6 months after the close of the end of the fiscal year, we still don't know, and I am hesitant that we can say there was no misuse, there was no intentional defrauding of the public. At this point we really don't know where the money went. We just know it went somewhere, $2 billion more than what NASA thought.

Ms. BROWN. It is not that the money actually went someplace, it is a matter of whether or not the information was recorded in our legacy systems and properly transferred into our current new environment.

Mr. PLATTS. You don't know at this point whether it was even recorded in your legacy systems accurately?

Ms. BROWN. Correct.

Mr. PLATTS. So the sooner we get to that detail, I think we will be more comfortable because it really goes to one, how taxpayer funds are being spent but also that foundation we are trying to build on as you are making the transformation to the new system that we are correcting the errors of the past. The sooner we know what those errors were, the sooner we can make sure they are corrected as we go forward.

Ms. BROWN. Correct and that is why this is one of the biggest and most pressing priorities we have been working on the NASA Financial Management Improvement Plan. Again, it is kind of like going back to your bank and asking for your prior records from many years. I had to go back to Treasury and ask for those records. Having received those, we are beginning the effort of going back there and doing that reconciliation. That is why we have not taken that $2 billion lightly. That is why we are devoting the effort to do so.

Mr. PLATTS. One followup on that and I want to get Mr. Cobb and Mr. Kutz's comments on this. I realize this was as you were being sworn in as CFO but when the report was filed, there was no mention of that $2 billion correction in the papers filed. The auditor brought it to your attention so it should have been at least footnoted. Is there an explanation from someone at NASA of why? The Federal accounting requirements should have shown that we made this correction. Is there an explanation for why it was not noted?

Ms. BROWN. Actually that was an initial oversight at the point in time we actually provided our financial statements to our auditors. It was literally an oversight. Of course we would have adjusted them afterwards as we went through the process but because of the timing and because of having to meet the November 15 date, we never went back. At that point in time, we also knew we were getting a disclaimer. It is a matter of not going back and adding the footnote.

Mr. PLATTS. I say this in a respectful way and you are the one here and the one responsible but I think it kind of captures the cul-

tural change that needs to happen that there is a $2 billion oversight and whoever is putting together those reports doesn't understand that we have a fiduciary responsibility to disclose that. That epitomizes a lack of appreciation for what the standard practice requires and what is needed. I appreciate that is part of what you are seeking to change.

Ms. BROWN. Therein lies my challenge.

Mr. PLATTS. I do want to get to Mrs. Blackburn but Mr. Cobb and Mr. Kutz, if you want to comment on this aspect of the audit and the $2 billion and where we stand today?

Mr. COBB. Just briefly, I think the reason you have internal controls is so that you create an environment where fraud, waste and abuse doesn't occur. That is one comment. Second, it strikes me that NASA should be able to get to the bottom of what happened to the $2 billion without going to the bank to find out what happened with respect to the transactions. That seems like a work around to a much better way of getting at it.

Mr. PLATTS. It is fair to say, Ms. Brown, that is what you are saying, that you had to go to the bank, the Treasury, because your data was so inappropriately maintained in the legacy systems?

Ms. BROWN. Yes.

Mr. PLATTS. Mr. Cobb, your comment about the internal controls, I assume something looking at whether there should be an audit of their internal controls, an audit level opinion on the internal controls, that is something you would support?

Mr. COBB. I would agree with the notion and I have heard discussions about the idea of whether or not the independent auditors should render an opinion on internal controls, I would agree with that notion. I think the NASA experience alluded to in Mr. Kutz's testimony where there were a number of favorable unqualified opinions, including most recently in fiscal year 2002, really hid the ball on what the problems were at NASA. If there had been greater focus on internal controls, to the point of rendering an opinion on internal controls, we might not be in the situation we are in today.

Mr. PLATTS. Thank you.

Mr. Kutz, did you want to add anything?

Mr. KUTZ. Just quickly. I would say your analogy is accurate and unfortunately, NASA is not the first agency this has happened to. This has happened in many other agencies before. I would say it is kind of a two-part issue. One is you have to go back and reconcile all the old stuff but the next question is what has happened beyond September 30, 2003 with the new. I think you have to look both ways. Some of the agencies we have dealt with on this before, because they will never reconcile it down to the dime as you mentioned in your statement, they may have to get some write-off authority to clean up the books. Then the important part is going forward and not letting it happen again.

Mr. PLATTS. That internal control system being in place going forward is critical too.

Mr. KUTZ. Monthly balancing, yes.

Mr. PLATTS. After her patience with me, I was about to yield. As soon as Mrs. Blackburn comes back we will yield to her. Let me continue on some of the audit issues.

Ms. Brown, in your discussion about the $582 billion or so adjustments and explaining how one correction may be $30 billion done three times and equals $90 billion, you sought to explain that. Do you want to expand on that and how you are looking at what happened in the past that we have that huge number as we go into the 2004 end of the year audit. If there is a one-time correction that cumulative is $582 billion because you are correcting for all the wrongs of the past, hopefully this year we are not going to see similar types of corrections in this year's audits. Would you like to expand on that?

Ms. BROWN. We are going to show you a couple charts and I am going to have Patrick explain to you what happened last year, what is happening this year and hopefully give you an idea of what you can expect with what regards to what we call journal vouchers or JB type of entries.

Mr. CIGANER. As we mentioned earlier, 2003 was the year where we deployed the new system and it was deployed in a series of waves. We learned from the previous failed attempt in trying to do everything at once was just not feasible while trying to keep the risk at a limit we could live with. Unfortunately, 2003 was the fiscal year in which the agency was gradually converting to the new system. This created enhanced work for the auditors that went beyond anybody's expectation. All of a sudden, our audit team had to audit the old systems and the conversion to the new system and then what the new system reflected. Additionally the ability to prepare financial statements following adjustments had to be done in a manual way because the new system went live in late June for the last centers of the agency. There was no capability, as was accurately pointed out, to prepare our financial statements right out of the system.

The first chart basically describes, and I will not go into the detail, the number of steps that had to be taken in 2003 in order to not only prepare the statements but also identify and post all those adjustments. As we were at the end of the fiscal year, generating the data in the new system, all of the adjustments had to be posted to that new system and part of the internal controls required the tracking of every individual step and in addition, the training that was required to post those adjustments, had not been as efficient as we had hoped.

Essentially, a lot of mistakes in postings were recorded and then those postings had to be reversed. We have a specific occasion, which is very unfortunate, where a simple $500,000 adjustment that got posted to a wrong account was reposted over 15 times and therefore the audit log trail we created registered that amount. Imagine 10 centers, $15 billion, for the year worth of adjustments, including all the open contracts, some of which cover several years and you can see the amount of postings and adjustments that took place. It is not optimum, but, what we are aiming to do in 2004, is by moving completely in 2003 the agency, since October 1, has been operating in the new system and, as you can see, we now will have a much cleaner way of producing the statements and the adjustments.

Mr. PLATTS. When I saw that $582 billion, I thought it was a misprint. I appreciate the explanation.

You diplomatically said that some of the errors or a large part of those are mispostings that had to be corrected and one apparently 15 different times and that tells us that the training, the skill level of some of the individuals making these postings was not adequate. I assume you are giving everyone a crash course in how to more accurately post their data?

Ms. BROWN. An extremely correct assumption, yes, but will people still incorrectly post adjustments or incorrectly post data into the new system? Yes. It is part of the learning curve, it is part of what we call the adaptation phase of any new system of implementation. Will the numbers be in the billions? I definitely hope not. We are working through these areas. I don't think we have seen anything at this point in time.

Mr. PLATTS. My understanding is that of the total amount of adjustments, the $565 billion roughly was related to data conversion. That still leaves another $17 billion that is not related to data conversions. Can you expand on what that other $17 billion relates to?

Ms. BROWN. That is related to the contractor-held property which again is outside of our system. That is the information that is reported to us or pushed to us from our contractors. It is basically contractor-held property that is in the hands of contractors by which they have to report back to us. Those discrepancies were in the contractors' information being pushed to us and we cannot manipulate change or do anything with that because it is reporting to us.

Mr. PLATTS. But you subsequently learned it was inaccurate to the tune of $17 billion and corrected that. That leads us to another issue which I was going to followup later which is your contract management practices.

Ms. BROWN. Correct.

Mr. PLATTS. As we said, the wrongful transfer of data was about training and knowledge of making postings, and that $17 billion tells us that even though it seems small compared to $582 billion, it is still $17 billion in errors by contractors submitting information because it is contractor-held but NASA-owned?

Ms. BROWN. Correct.

Mr. PLATTS. So they are inaccurately reporting to the taxpayers what their assets are. I assume you are taking action. I don't know if you want to expand now on the contract management and how you are trying to address the errors in oversight of your contractors?

Mr. CIGANER. This became a very significant issue starting 2 years ago and over time we realized the only way we were able to accurately track our assets that were currently being developed by the contractors is to develop a more sophisticated automation process. Currently the contractors are generating essentially year-end reports that give us the information. That report in itself needs to be audited. Every time we audited it, we found mistakes.

The next module of the IFM program, Integrated Asset Management which just got started right now, is specifically focused at addressing this issue which is in itself very complex from a systems standpoint because we need to have insight into the various asset management systems held by our contractors.

Mr. PLATTS. It is going to be a critical part because my understanding is 90 percent of your budget is spent on contracts. So you need to get this aspect in order.

Ms. BROWN. About 98 percent contracted out and of the assets on my balance sheet, it is actually 75 percent. This is a very key element of our module that I am looking forward to as the Chief Financial Officer in getting and it is a definite requirement that we need.

Mr. PLATTS. Mr. Cobb and Mr. Kutz if you could comment and then Mrs. Blackburn, I promise not to ask another question and yield to you.

On the two issues we have talked about here, one is the $582 billion in adjustments and your understanding of how that came to be and also your assessment of the data that substantiates what adjustments were made. Are you comfortable with your knowledge base of how that huge sum came to be and how it is being addressed?

The second part is on the contract management side of how we are moving forward and getting our arms around the contractors who expend a huge sum of the funds in NASA and hold a huge portion of their assets.

Mr. COBB. Yes, I do feel as though there is a general understanding of how the large numbers came to be. I think in simple terms, adjustments and multiple adjustments were made to bundles of transactions because of errors in the system and then those errors in the adjustments were grossed up and you ended up with large numbers.

To me there were numerous in and outs that led to the gross $582 billion. To me, the number is not as important as the inadequacy of the documentation that shows what the basis was for the various adjustments. But with respect to the difference between the 2003 chart on how IFMP was going to work and the 2004 chart, the key is how much manual manipulation it is going to take. Is the CFO going to be able to press a button and have accurate financial statements issued? I think if you look at the chart, it says in effect no because there is going to be a body of corrective activity that has to take place. In fact, I question whether or not one can press a button and have any financial statements issued at this point.

We understand the problems that were identified in fiscal year 2003 are not fixed. There continue to be data integrity problems, and there continue to be questions about whether or not the system can generate financial statements. Ultimately the policies and procedures that Gwen's improvement plans are trying to implement are still not firmly in place. So will there be another year with $582 billion? The number will be different I am sure and probably be less but my guess is there are going to be substantial problems.

Mr. PLATTS. The underlying problems still exist that generated all those adjustments? We are not yet close to addressing that?

Mr. COBB. That is right and I have a great deal of respect for the CFO and her team that are trying to get on top of the problems, as well as for Mr. Ciganer's efforts to get on top of the issues relating to IFMP, but there are still plenty of issues.

Mr. PLATTS. Mr. Kutz.

Mr. KUTZ. Yes. I will be quick. I am sure Representative Blackburn would like to take her turn.

With respect to the $565 billion, I think it is a reflection of problems with following disciplined processes and system implementation, issues with respect to requirements, testing, and risk management. I am sure if they look back, they would like to have dealt a little bit more with these things before they implemented the system. Now it is kind of a patchwork, catch-up, fix it after the fact, so that would be my observation. I can't add anything more to what they have said on the other part.

On the property, I agree 100 percent with Mr. Ciganer with respect to the automated interfaces needed into the contractor records which the analogy would be Procter and Gamble has the same thing into WalMart's system and it is a little different scenario with inventory but the same concept. They need to have that to have asset traceability from their general ledger at NASA to the detailed records at the contractor of the property assets. I would agree with him on that.

Mr. PLATTS. What was the timeframe? You are beginning that now, that module?

Mr. CIGANER. Yes, sir. As a matter of fact, one chart shows we are starting right now development of the module and the target date for completion is the first quarter of fiscal 2008, again because it is a fairly complicated undertaking from both a system design and validation and data integrity standpoint.

Mr. PLATTS. That leaves me to other questions but I am going to hold on to them for now. Mrs. Blackburn has been very patient. Mrs. Blackburn is recognized for the purpose of questions.

Mrs. BLACKBURN. Thank you, Mr. Chairman. I want to thank our panel for your time today. We really want to work with you to be certain that these situations are addressed. I will apologize to you all for stepping out. I had a group of four constituents who were waiting to visit with me on an issue that is as important to them and to our district as your financial health and your agency's health is to our Nation.

Ms. Brown, I would like to begin with you just for a couple points of clarification. As the chairman was talking with you about the reporting structure for the CFOs, you mentioned your timeline for change should be ready in about 2 weeks. My question is, is this just your human capital change or does that also include your financial systems and the changes there?

Ms. BROWN. The change I was speaking of is mostly in human capital. We are looking at reorganizing or restructuring within the NASA community for the human capital. We are working toward the systems side.

Mrs. BLACKBURN. Another point of clarification. In your written testimony, you say you have used blended data to prepare your financial statements. For the record, would you explain what blended data is?

Ms. BROWN. Blended data would have been the legacy system and the SAP system because we had over 110 different systems that we had to migrate through and it was done in a wave approach. Not all the centers in fiscal year 2003 were all operating on the SAP environment. We had to take data from the legacy sys-

tem up to the point of conversion and then also data from the SAP system at the point of conversion forward. That is what we termed blended data.

Mrs. BLACKBURN. Your SAP system, that software, is it my understanding that is being phased out and that by 2012, you will have no technical support for that financial system?

Ms. BROWN. I am going to give that one to my project manager.

Mr. CIGANER. It is accurate that the current version of the software that is being implemented is being slotted for upgrade. Those very large enterprise resource planning systems are consistently developing new upgrades and new updates, so, the SAP current product has been advertised as being phased out. We have actually planned the migration to the new version which is indicated in the schedule where it says: "enterprise upgrade" will start fairly shortly and will take approximately 15 months. We were very aware unfortunately of the fact that this type of environment requires you to consistently update your system. This is just like Windows, just a lot more.

Mrs. BLACKBURN. Mr. Kutz, would you like to comment on that, sir?

Mr. KUTZ. I agree with what he said. I think there are going to be some licensing fees and other costs involved in this that may or may not be involved in the total cost of the program at this point but hopefully, also there will be some additional capabilities since it will be a new generation of software. That might help them with other things.

Mrs. BLACKBURN. Mr. Kutz, the new financial system that we are dealing with, how do you see this helping them address their financial weaknesses and the internal controls. You may have addressed this a bit while I was out of the room. I would be interested in your take on that.

Mr. KUTZ. With respect to the overall concept of having an integrated system, I think it is definitely the right move. We support what they are doing from a conceptual standpoint. Our issues have been with the implementation of the system. Having an integrated system and trying to shut down the different systems at the 10 centers is the right thing to do so it should help from that perspective. It should also help them with issues such as property management in the long term, although as Mr. Ciganer said, I think really to have their systems be compliant with Federal standards, they are going to have to develop that automated look into the contractors' records with respect to the actual asset traceability. Those are really long term types of issues but the concept of this for external reporting purposes and also for program management purposes is conceptually correct. Our issues have been with some of the implementation steps.

Mrs. BLACKBURN. Is this FFMIA compliant?

Mr. KUTZ. We reported it was not and again, we had reported there were a number of capabilities that were deferred from June 2003 when they said the core modules were fully implemented, there were a lot of capabilities deferred in our view relative to things like budgetary reporting, the property issue is not dealt with and as Mr. Cobb noted, the system right now cannot prepare financial statements. Their quarterly reports to OMB are going over as

estimates. Those are significant capabilities that although they said the system was fully implemented in June, clearly there are things that still need to be done for it to be compliant. I think the property issue that Mr. Ciganer says is 2008, our belief is that will have to be done for the system to be compliant.

Mrs. BLACKBURN. So we are basically a long way away from their having a compliant system?

Mr. KUTZ. Given the timeline he mentioned, I would say yes.

Mrs. BLACKBURN. Do you have a thought on what the cost is going to be, the true cost of this?

Mr. LI. The cost of the system that NASA has reported to you this year, fiscal year 2005, when you take a look at that number, it is around the $500 million. That is only for the direct procurement costs of this particular system. What is not within that explanation is that it requires also the Civil Service costs associated with the personnel to implementing the system and also the enterprise costs that are needed. The enterprises are the individual organizations within NASA. When you add up all those numbers, you are up to about three-quarters of $1 billion. In our report we provided last November, we reported on life cycle costs, which are the costs that would be needed to not only develop the system but to maintain it over the life of the system. The life we had used in coming up with our estimate was 2000–2010. For that period, the total, including the operations and maintenance for IFMP is very close to $1 billion.

Mrs. BLACKBURN. Mr. Li, let me ask this. Would it be your recommendation, the GAO recommendation, that they scrap this and start over?

Mr. LI. No. I think we are beyond that point. I think Core Financial has been implemented, I think at this point in time there are recommendations we have made to NASA and I am hopeful and I am encouraged they have accepted our recommendations. We are looking forward to those changes being made.

Mrs. BLACKBURN. Mr. Cobb, did you have a comment on that?

Mr. COBB. Just to followup on what Allen just said. The Office of Inspector General intends to conduct an overall audit of the IFMP. We intend to work closely with GAO and use resources they have offered to us in connection with that activity to get at whether or not NASA is following up on the recommendations that GAO and we have made. We will look at the contracts that have been entered in connection with IFMP, and the resource issues to see whether or not the dollar numbers we have been discussing are accurate. In addition, we will evaluate whether the various modules work in concert with each other so that the system can be most effective from the users' standpoint in generating information for managing activities.

Mrs. BLACKBURN. Let us continue along that line. Mr. Kutz said something about the contractor-held assets. We have talked some about the internal controls. What type internal controls should NASA establish so that they get a more reliable and consistent reporting of those contractor-held assets?

Mr. COBB. Fundamentally, I see the problem that NASA can establish reporting systems for contractors to report on NASA-owned contractor-held property. The independent auditor typically looks

for how NASA understands that the numbers being reported are right, how does it go about that? Those are the internal controls they are talking about. Both Mr. Ciganer and Mr. Kutz have talked about that what you need is a system linked between the contractors and the agency that gives you a real time understanding of what is happening with respect to evaluation of the contractor-held property. Until you have that in place, contractor-held property is going to be a problem in connection with the annual CFO audits that are conducted and if everything else is fixed, might result in qualified opinions until that asset module is in place and working.

Mrs. BLACKBURN. Mr. Kutz, did you have a comment on that?

Mr. KUTZ. I would add he was getting into too that they are reliant upon the controls at the contractor, so once that automated interface is there you still have to have reliable data at the contractor. I think that was the internal control that Mr. Cobb was talking about and I would concur with what he said.

Mrs. BLACKBURN. Ms. Brown, you had a comment?

Ms. BROWN. I was also going to say I agree with Mr. Cobb on two things. First, we need the system. Second, we need the real time look into the contractor-held property but the third thing that we would need is flexibility to be able to go in and do quality assurance audits to ensure that they are in compliance with those regulations and they have proper accounting of the property onsite. That is something we are working toward also.

Mrs. BLACKBURN. Ms. Brown, do you have a set of best practices or an agency you are looking at, something that is more or less a template you are following to get things on track?

Ms. BROWN. Actually, we are looking at several. When we first started the implementation of the SAP enterprise relationship we had actually engaged Northrop Grumman and they have kind of been our yardstick as to where we are and being able to chart our milestones as we move through the process. As we have been getting a lot of attention on our financial management, other agencies have been coming to the forefront and extending their best practices and some of the lessons they have learned as they went through the process like Dupont and also some other agencies.

Mrs. BLACKBURN. Mr. Kutz, if proper best practices had been followed, wouldn't that have avoided a lot of the problems we are talking about today?

Mr. KUTZ. I believe to some extent that is true. You mentioned Northrop Grumman and I visited with Northrop Grumman also and they are putting in SAP in their organization but our recommendations with respect to project management have gotten into requirements, testing, and risk management, those types of project management items. As Mr. Li said, we are hopeful they will be implemented and they have said they will implement our recommendations. If they do and follow the best practice and discipline processes of project management, I think there is nothing wrong with the SAP software. That has been proven to be software that can be used to do the kinds of things we are talking about. So it is a matter of having disciplined project management to put that in place and make it work.

Mrs. BLACKBURN. I thank you for that and I think we all know the best practices issue is probably one that we have throughout Government.

Thank you, Mr. Chairman, and I will yield back.

Mr. PLATTS. Thank you, Mrs. Blackburn.

I want to followup with the new integrated financial management program and the Core Financial Module in particular. It was kind of touched upon, but I am not sure I have a complete answer as far as the ability of the system, the CFM, to generate financial statements. It is my understanding that the quarterly statements for the first two quarters of this year were generated manually, not by the CFM. Is that to continue for this coming quarter? What is the problem that we have a new system that wasn't designed to generate the financial statements as required?

Mr. CIGANER. The question really breaks down into two components. The first component is whether or not the system itself, the environment we adopted in Core Financials is capable of giving us the data that is required to produce financial statements. The answer is yes. As Mr. Kutz indicated, SAP is an off the shelf system that has the ability from an accounting standpoint to manage and track the information very accurately.

The byproduct of being an off the shelf system is the fact that it did not come with NASA specific report writing capability. That is something that the agency itself had to develop. So the environment maintains the core transaction information but the production of the reports to meet both our internal and external requirements is truly an internal effort.

We are in the process of developing those reports. As was accurately pointed out by the IG and the GAO, we did not have that capability in October when the financial statements were due. This is taking time. We are specifically focused on trying to get the first test of the automated reporting capability in June but, again, it is fairly complex. I would like to point out that we are actually trying to do something which I don't think is fairly pervasive in the Federal environment which is extract financial statements and notes directly out of the accounting environment. Most agencies produce trial balances and then generate manual reports for reasons that range from staffing levels to the complexity of our projects and programs being consolidated. We decided to actually take a leading edge position and develop a series of report generation capabilities that would ultimately aim at what Mr. Cobb was stating which is why I don't think we will ever be able to push a button but will have a system doing the majority of the consolidation and reporting work including generating the data from notes.

To date this has not been accomplished I believe anywhere in the financial community we work with. So it is a daunting task.

Mr. PLATTS. That is where we want everybody to be and certainly you are striving for that approach because that is part of why as taxpayers we are willing to spend perhaps $1 billion on technology, to allow you to be able to push a button and not just at the end of the year but throughout the year because that goes into what we talked about earlier, the financial managers and the program managers being able to work hand in hand. It can't be once a year at the end of the year that you give information, it has

to be pretty much ideally every week, where are we, do we have problems with overruns and costs. That information needs to be generated immediately. It can't take a heroic manual effort each time. Otherwise you will never have the benefit of what we are after.

It sounded like you said for the June 30th quarterly, you are going to test the ability of the system to generate the financial statements?

Ms. BROWN. Correct. We are in the process of testing that feature at the moment and we are going through the initial dry run. Our plan is to be able to, as Cobb says, press the button in June and be able to produce the financial statements. That is what we have been working toward. Right now, my staff has informed me that it is in the testing phase at this point in time so that we can go into actual operation by June.

Mr. PLATTS. Mr. Cobb and Mr. Kutz, your assessments of where we are now in the system and the ability to generate those financial statements?

Mr. COBB. I have some skepticism as to whether or not on June 30 the system is going to be able to generate financial statements that are a fair representation of the financial state at NASA.

Mr. KUTZ. I would concur. I think this is a symptom of what was a schedule driven, core module implementation in 2003 and that we have a system now almost a year later that can't prepare financial statements. I think in looking forward, a lesson learned from this is as we move forward to make sure we follow very disciplined processes and not jump ahead of ourselves and turn on the switch before we are ready to go.

Mr. PLATTS. Is the fact that we moved forward without an enterprise structure plan in place, in trying to get it out there and underway, part of the reason why we maybe weren't as thorough in having all the partners involved in the design and plans for the system?

Mr. KUTZ. I think it is really the requirements and testing. If you had a requirement which it did have a requirement, JFMIP requires you to have the system be able to prepare financial statements. If you had a test case in place to test it before you went live, you would have known that you couldn't do it. So I think it gets back to basic project management of requirements and testing.

Mr. PLATTS. Are we testing the ability of NASA to meet the November 15 deadline for this 2004 end of the year statements?

Mr. CIGANER. I would like to clarify the fact that we are testing our ability to produce quarterly financial statements using this function. I do not think, and I agree with the Inspector General, that the June results are going to be what we want to see. This is the first time that a lot of the weaknesses that were identified from the fiscal year end close were fixed and at least some of them were patched because they were fundamental software issues.

We should point out that although the report generation capability is something we are developing internally, our objective is to be able to very quickly generate the base information out of the system. It is unlikely, and I agree with the OIG and GAO, that in this fiscal year we will be able to produce by November 15 a set of re-

ports that accurately represent automatically the financial position of the agency. It is still going to require manual work.

Mr. PLATTS. You are still going to require manual work. Even with that manual work, will you make the November 15th deadline?

Ms. BROWN. Yes, we will make the November 15th deadline. As one of his most significant customers with the IFMP program right now, I am demanding quite a bit of attention from him as you see him sitting here with me today but also my whole goal in being able to go through this process, as arduous as it is, is making sure that we have a system that we are pulling data directly from our system and producing those financial statements in an automated fashion. As you know, moving the date to November 15 is just the first step. I see down the horizon that you will probably want to have financial statements on a monthly basis. If I am successful in doing this, this will set NASA on the course of being able to do monthly financial statements with footnotes.

Mr. PLATTS. That relates to the issue now of monthly reconciliations with Treasury?

Ms. BROWN. Correct.

Mr. PLATTS. Is that ongoing?

Ms. BROWN. Actually, we have already set up that process with part of our NASA financial management improvement plan. We have monthly reconciliations which are being certified not only by the center CFOs but once we get the center CFOs educated and working through this process, we are going to educate our center directors also so that they have an understanding of what is going on with their checkbook at each of the centers. It is a two-pronged process we are working on but again, a lot of these fixes are not going to happen overnight. We are plotting a long-term course because this is a significant challenge.

Mr. PLATTS. It is a balance between not rushing forward and making errors that you have to spend a lot of time correcting but at the same time, trying to be as quick as possible and there is no easy way to err, quick and errors or longer and less information in the meantime.

Ms. BROWN. As I will echo from my Office of Inspector General, we can no longer afford at NASA to continue to put patches on different problems. We need to fix the problems for the long term. Again, we sit down, we do the analysis, we say what is it today, where is it we want to be tomorrow and what are the changes that need to be implemented? That is what we are doing in financial management at NASA because we have a system that is the underpinning to getting us there and it has flexibility.

Mr. PLATTS. It might be a good time for the broad question of all of you. The track record, $180 million spent, two different efforts, no success. We are now going to spend what we believe to be close to $1 billion over 8 to 10 years on this new system. Whatever time it takes, what is your confidence level, each of you from your different perspectives that when the system, all the modules are in place and we have the system as we have planned it up and running that we will have a system that generates accurate, timely, actionable information month in, month out, year in and year out?

Ms. BROWN. My confidence is high. Given right now the challenges I see, it is hard to see, as they say, the light at the end of the tunnel. If I take the time and use this opportunity as the Chief Financial Officer to set the stage today to do the right things in financial management to set the course such that we can be there tomorrow, we will be able to do that. I would probably like Mr. Ciganer to comment as far as the cost because he has been doing a bit on that area. Again, I am a primary customer of the IFMP program and I recognize that yes, we do have a lot of challenges, the system is expensive but it is the right course and right now as the CFO, I don't see any other alternative.

Mr. CIGANER. I just want to add to what Ms. Brown was saying. The system itself is a series of tools, it is an environment that provides information more efficiently over time, hopefully. A significant component of this entire process is also the changes that should take place within the agency. That includes some of the comments that were made in more tightly coupling financial management to program management. Those stovepipes cannot stay the way they are. We have to also be sure that all program reviews consist of costs, technical performance and schedule and all three of those elements have to be looked at and analyzed.

We are building the tools but although daunting, the technical challenges are only half of the undertaking. Changing and moving forward the way we manage and also guide the agency to using that information is a cornerstone. That is way beyond the systemic element.

One last thing I want to add is that I know it is a tradeoff on getting the system up and running or making sure it is perfect and then getting it up and running. We made a conscious decision, I made a conscious decision, to roll out the system during fiscal year 2003 to get it at least running. Some of the issues that we identified subsequently could not have been identified solely in testing and simulation. In addition to that, we should mention that for the first time in its history, the agency is actually operating from a single system day in and day out. All of the bills are paid out of that system, all of the transactions are tracked. There is a lot to be done, there absolutely are software flaws that need to be fixed, processes that need to be changed but the significant step has been taken forward in that 2003 extremely painful year.

Mr. PLATTS. Mr. Cobb, Mr. Kutz, your confidence in where we will be after the years pass and the $1 billion or so is spent?

Mr. COBB. I think that I would agree with Mr. Ciganer that a condition to being able to implement the system is that the agency has to embrace it, the agency at all levels of management. In terms of a prediction of success or failure, I would only say I think there is going to be a vast number of implementation issues that the agency has to work through over a significant period of time. NASA is going to need to be patient and beyond that, I don't have the audit work to support a conclusion, but I think it is all the right idea and is worth continuing to plug away at it. If we think it is going to be good money after bad, we are certainly going to raise the flag on that.

Mr. PLATTS. Things such as what we discussed earlier, Ms. Brown having direct authority over those center CFOs, that is part

of the other half of the equation beyond the technology is the personnel and structure of responsibility?

Mr. COBB. It is a big issue the 45 year history of the agency, and I think a lot of areas at NASA are fighting the idea that you have in effect a centralized management.

Mr. PLATTS. Mr. Kutz.

Mr. KUTZ. I would say from a confidence level with respect to getting at least marginal improvement from the accounting side, I think it is very likely they will get that. They have already had some benefits and if they do some patchwork to deal with some of the things like the budgetary reporting, year-end closing and so forth, I think they are going to get that. The harder part is going to be, as Mr. Ciganer said, to make this NASA's system for program managers and to overcome that obstacle which is a two-part obstacle. One, you have to get the data that he talked about, cost schedule and performance information for your contracts in the system so they actually use it. Then you have to convince them to actually use the system. That is going to be a major challenge as is the look into the contractors systems for the property and equipment. Those are major challenges that are fairly far out into the future for them. Those are going to be probably the hardest things to implement.

Mr. LI. If I can just comment, the first effort that failed was an in-house effort. They tried to develop an integrated financial system in-house. The second done was one in which a firm indicated they had the solution but they would make minor modifications to it. It turned out those modifications were a lot more extensive and that failed.

The thing that differentiates this last effort with the other two is the level of support and involvement in terms of top management. I think Mr. O'Keefe has really been vigilant and is imposing a lot of pressure on getting this particular system. That is a two-edged sword because that pressure also manifests itself in terms of the schedule pressures that my colleague just talked about in terms of wanting to get this particular system out there and when they did so, they only did it because they were able to defer some functions, some functions were not available, and I think that says something about trying to meet a schedule as opposed to trying to meet what your needs are.

Mr. PLATTS. I concur with you with Mr. O'Keefe's commitment and Ms. Brown's commitment of changing the dynamics of the agency and truly embracing what we are all after, that accurate, reliable, actionable information.

Mrs. Blackburn.

Mrs. BLACKBURN. Just a couple quick things to wrap up. Ms. Brown, I like your optimism and I think if anyone can make this come about and get those reports by November 15, that you are the one. You are going to put the energy in to accomplish that so I would like to know if you agree with the Inspector General's report that NASA has insufficient Civil Service staff to carry out the financial management implementation plan?

Ms. BROWN. Definitely I do. Of course coming on board as the new Chief Financial Officer in November, that has been one of the areas I have been working diligently with my current CFOs. They

have identified to me already the staffing shortages and we are working through that in order to promulgate that through the budget process to see if we can get those additional resources. Even at the headquarters level, I am having staffing challenges. I have went to three 1990's from 75 just in the financial management area and I am now down to about 22 at this point in time. That is the staff that I have to put together the whole agency's financial management statement.

Mrs. BLACKBURN. Am I correct in understanding you have hired an outside consultant to assist with this?

Ms. BROWN. Yes. Due to the deficiency that I have in my current personnel allocation, I have had to hire contractor resources to do that. It is only a short term fix. I am confident and hopeful that through the committee and through other processes that I would be able to increase, augment and be able to supplement throughout the future as that has been identified by the IG as a definite high risk area for myself.

Mrs. BLACKBURN. Mr. Cobb, did you have a comment on that?

Mr. COBB. No, it seems as though Ms. Brown agreed with what most people are articulating. in terms of the issuance of financial statements by November 15, one question is whether or not those financial statements are going to be auditable in a manner that could get you to something other than a disclaimer or an unqualified opinion. I think that is unlikely.

Mrs. BLACKBURN. Mr. Kutz, any comment?

Mr. KUTZ. I think that the human capital issue is critical here because when you look at something like this, you see human capital all over it. I look at NASA kind of as where IRS was several years ago with respect to that and bringing in several really good people could make a big difference for the CFO. I believe that is an important aspect of this. The environment out there for hiring is not bad although in Washington it is particularly difficult because there are so many people looking for government accounting types but we have found we are much more competitive at GAO compared to the big four accounting firms than we might have been 4 or 5 years ago. We have gotten some very, very good people recently so I hope the NASA people will be able to bring in some good talent.

Mrs. BLACKBURN. Ms. Brown, I don't want you to take the time to answer this today but I am going to ask you to submit a written answer. I know we are running long. I am looking at the clock and it is already 4:30 p.m. and you all have been very generous with your time to talk with us today. We have kind of talked all around this. We have talked about the errors and how the books have not reconciled and not knowing where some of the money is. Those are of great concern to us. We are talking long term and we are talking stop gap. I want to go back to the stop gap right now.

What I would like to know from you is what measures you have implemented can minimize the numerous additional transactions to undo and correct your financial reporting in those transactions? I think that would be instructive to us as we look at going forward and just to know what we are dealing with, what measures you all have taken to be sure that this year we are going to be moving toward having timely and accurate financial statements?

Mr. Chairman, I will yield back to you.

Mr. PLATTS. Thank you, Mrs. Blackburn.

I have just a couple followup questions that we will wrap up with. One is on the staffing issue and I appreciate your frankness on the need both in the centers and in the headquarters for additional staff. I believe the current budget year request is about $900 million increase from last year that has been submitted by the administration. Is any part of that specifically allocated to additional staff for financial management activities?

Ms. BROWN. Yes. I actually received an augmentation of 15 individuals for my staff. Unfortunately, those are 15 other than full-time equivalents meaning they are anywhere from 2 year to 3 year temporary type hires.

Mr. PLATTS. So there is some help but it is not a permanent acknowledgment for the need for additional commitment. That is something I think in trying to help move along this process, this committee, because we are investing whether it is a $500 million settlement, the procurement aspects of this new but we are not adequately funding the human capital side of this effort, is going to be good money after bad because it is not going to work. It is going to have to be a partnership. I hope internally you will continue advocate the human capital side of what you need, although we are an oversight committee and not an appropriating committee, we would like to be on the appropriating side but it is something that is going to be critical to your efforts.

Mr. LI. On that point of human capital, I think we have identified and GAO has identified human capital as a major challenge for the entire Federal Government. In addition to financial management organizations having difficulty, I think this is prevalent throughout not only all agencies but at NASA. NASA in the past year has received additional personnel flexibilities by which it will be able to retain and attract higher talent. So it is not like they haven't addressed this particular issue. They do have some tools available to them.

Mr. PLATTS. Are you seeing benefits from that flexibility? It is similar to what we have done at DOD and the GAO in wanting to have those same types of options.

Ms. BROWN. Actually I have seen great benefits from that because I have actually been sending some of my direct reports from here out to the colleges and universities and using that capability we have been given and that flexibility to do direct hiring at the colleges and universities in order to bring in individuals. We are looking at being able to get one out of the two offers we just did within the last 30 days. So we are using a lot of those flexibilities. Mr. Chairman, I am using anything that I can to get any bodies that I can into my organization be it here at headquarters or at the centers in order to address this issue.

Mr. PLATTS. I am not sure how the funds for financial management come to you in the agency. The dollar amount correlates to both the technical and the human capital but how is it allocated? Is it specifically delineated for financial management or is it part of a larger pool of money for the general management? How is that set up?

Mr. CIGANER. It is actually part of our G&A allocation both at the corporate level and also at center level.

Mr. PLATTS. Explain to me as a lay person, G&A?

Mr. CIGANER. General and administrative.

Mr. PLATTS. Generic administrative sum and then you compete for your amount within that?

Mr. CIGANER. Exactly. We are not viewed as a line item project. We are competing every year for those funds supporting our budgetary requirements.

Mr. PLATTS. Given Mr. O'Keefe's commitment to this effort, is there discussion ongoing about it being delineated as a parity line item?

Mr. CIGANER. Yes, there is. As we move away from the purely financial components as Mr. Kutz mentioned, the accounting system parts into the much broader applications that we want to develop, project management, asset tracking, human capital, the need to be very stable in managing the funding requirements is becoming more pervasive. So there is ongoing discussion.

Mr. PLATTS. Mr. Cobb, do you want to comment?

Mr. COBB. No.

Mr. PLATTS. One final question. As we look ahead to this year's year-end statements, one of the things that struck me in Mr. Kutz's testimony is the fact that the auditor of the 2003 statements stated, I guess this was the third year and concurred with the GAO's opinion that the financial statements were not in compliance with the Federal Financial Management Improvement Act. I think that is one of the areas where there is agreement to disagree at some point or if we are all on the same page, I would like each of you to comment on the fact that is the auditor's opinion as stated in that audit, that the 2003 and previous years were not in compliance with FFMIA and where will it be in the 2004 audit. Will we have a similar discrepancy? Mr. Cobb.

Mr. COBB. I think consistent with my prior testimony on this, I would render a prediction and I would expect that the new independent auditor is going to find problems in terms of compliance with FFMIA in this year, 2004, and quite possibly into 2005.

Mr. PLATTS. Mr. Kutz.

Mr. KUTZ. We don't believe they have ever been in compliance with FFMIA despite prior reports that said they were. I believe one of the reasons they are implementing IFMP is to truly become in compliance with that. Things like the property and equipment reporting and using the system to manage programs are two of the critical elements in our view that are necessary for that to be successful and that is not going to happen in the short term in all likelihood.

Mr. PLATTS. You think the asset module will be several years in the process. You envision to get true compliance, we will need that in place?

Mr. KUTZ. That would be GAO's view.

Mr. PLATTS. Right.

Ms. BROWN. We would be in agreement with that. Again, like I said, our goal here is we do want to become compliant but we need to lay the foundation and the groundwork to do so. Again, it is going to take time and we will be working through these processes

to make sure we are compliant as we go through the steps. We are looking to show measurable improvement moving toward and in that direction of being FFMIA compliant.

Mr. PLATTS. We look forward as a committee to continue to work with each of you in your respective entities as you go forward. Certainly all of us will anxiously await November 15th to see this year's reports. I meant to emphasize up front and will close with, that as a subcommittee, Mrs. Blackburn, myself, Mr. Towns and other Members, we see ourselves as partners with the agencies we are working with. In today's hearing, to have you, Ms. Brown and Mr. Ciganer for the agency, the Inspector General, GAO, as well as Mr. Kutz and Mr. Li, what I hope is that the dialog that has gone on today will continue on a regular basis as we go forward especially between each of your entities as you work together to get what we are all after which is to allow NASA to do its great work and be able to be openly accountable to the American taxpayers who are funding that great work.

I look at the record of the past years and into the 1990's and where the independent auditor thought maybe it was doing NASA and its staff and its supporters a favor in giving audit opinions that were clean when they shouldn't have been and what the record tells us today, they really did a disservice to NASA. I appreciate that each of you are seeking to correct the errors of the past today and hence forth. Given the number of years the practices were not as legitimate and accurate as they should have been, that certainly is a challenge. As a subcommittee, we look forward to continuing to work with you.

Ms. Brown, as you work to have better authority over those independent centers and the financial management end of this, I have plenty to fill my schedule but if it means I need to have 10 center CFOs be requested to testify because they are not adequately being responsive to you, then so be it. I am optimistic as well that you are going to be persuasive in that realignment and gain the oversight and authority you need to well fulfill your statutory responsibilities. We wish you well in that effort.

Ms. BROWN. Thank you.

Mr. PLATTS. Mrs. Blackburn, did you have anything in closing?

Mrs. BLACKBURN. No.

Mr. PLATTS. If not, we will keep open the record for 2 weeks from today for those who want to submit additional information and for that additional information, Ms. Brown, we have asked of you.

I certainly appreciate the majority and minority staff members' efforts today in working with each of our guests and their staffs and appreciate everyone's attendance and participation.

This hearing stands adjourned.

[Whereupon, at 4:45 p.m., the subcommittee was adjourned, to reconvene at the call of the Chair.]

[Additional information submitted for the hearing record follows:]

Question from Representative Blackburn

In a statement before the Senate Appropriations Committee during March 2004, the NASA Administrator indicated that he is committed to management excellence and to developing a new financial system that will provide the tools necessary for improved program management. However, GAO and the NASA Inspector General have reported that program managers and cost estimators are not using the new system and instead are using ad hoc measures to obtain the information they need to manage programs such as the International Space Station. How can you be assured that NASA program managers are using the new financial system?

Responses to material requested for the record during the May 19, 2004, hearing at which Gwendolyn Brown and Patrick Ciganer testified.

QUESTION:

NASA's Center CFOs currently report to Center Directors. Has NASA changed this policy, and if so, what is the new policy?

ANSWER:

Effective July 1, 2004, all of the budgeting and financial Center personnel who reside in a Center's office of the CFO shall report to the NASA CFO. This reporting arrangement shall continue until NASA has two consecutive years of unqualified opinions by its auditors.

QUESTION:

Has NASA's resolved the $2 billion Treasury balance discrepancy?

ANSWER:

At the end of FY 2003, NASA's newly implemented Integrated Financial Management Program overstated the Agency's Fund Balance with Treasury (cash) by $1.743 billion. This overstatement was a compilation of numerous errors made when NASA's 10 Centers converted old data into the new system during the fiscal year. Since publication of PriceWaterhouseCoopers' disclaimer of an audit opinion on our FY 2003 financial statements, NASA, working with our financial services consultants (KPMG), has reengineered its processes and procedures for the monthly reconciliation of its fund balance with Treasury at all 10 Centers. NASA's Headquarters CFO Office now conducts monthly quality assurance reviews to ensure that Centers are identifying all discrepancies for research and correction.

NASA has reconciled all but $140 million of the FY 2003 audit differences. The target date to resolve the remaining conversion-related errors is July 31, 2004, when NASA expects to have a fully reconciled Agency-wide fund balance with Treasury. When completed, the final results will be hared with the Subcommittee

QUESTION:

What measures is NASA implementing to reduce the number of corrective transactions in the Core Financials module?

ANSWER:

The majority of NASA's data accuracy problems with preparing the FY 2003 financial statements were the result of data conversion issues, initial system configuration issues, and user errors. It is the culmination of those issues that resulted in the $565 billion of corrective adjustments to the financial statements.

For example, early in the fiscal year, a very large (greater than $30 billion total to date), multi-Center, eleven year old contract was initially booked at the wrong NASA Center. Reversing this posting, in addition to the initial credit of $30 billion to the wrong Center, required debiting that account for $30 billion, and crediting the $30 billion amount to the correct Center. The system correctly recorded and reported three $30 billion entries,

totaling, in this instance, $90 billion in our running total adjustment log. Unfortunately, in a system conversion of this magnitude, mispostings will be encountered in the new environment. However, the new internal control subsystem provided a tracking mechanism for accurately identifying and correcting those mispostings. A combination of human error and complex conversion procedures resulted, in several instances, in multiple re-postings, which was exacerbated by poor subsequent documentation. Additionally, the production of NASA's Agency Financial Statements was based upon a significant volume of adjustments, which NASA's auditors were not able to satisfactorily review before the Audit opinion was required to be issued.

Since the issuance of NASA's FY 2003 Performance and Accountability Report, NASA has initiated a robust financial management improvement plan that includes initiatives to correct the initial data conversions errors, review the mapping of transactions within the system to validate the system's configuration of accounting transactions, and development and training in the use of an automated tool to assist in the identification of incorrect postings within the core financial accounting system.

Accordingly, the vast majority of the issues that produced NASA's accounting irregularities and the associated necessary corrective transactions are behind us. Efforts to date, done through the NASA Financial Management Improvement Plan, have identified changes to the configuration of accounting transactions, as well as the clean up of past irregularities in data. It is NASA's expectation that all data issues from the FY 2003 reporting period will be corrected by the end of FY 2004 and no new data issues should arise.

Responses to written questions submitted by Chrm. Platts on behalf of the Science Committee resulting from the May 19, 2004, hearing at which Gwendolyn Brown and Patrick Ciganer testified.

We understand from the Science Committee that you—as NASA's Chief Financial Officer—have notified NASA's Education office that they recently violated the Anti-Deficiency Act 17 times in its contracts with companies and universities. This means that NASA contracted for work without having any money to pay for it. Because NASA was unable to pay some of the companies, they recently laid off some of their employees. If an Anti-Deficiency Act violation happens once or twice in an agency, this would sound alarm bells. So how could this happen 17 times.

QUESTION 1:

Have these violations occurred?

ANSWER 1:

There have been no Anti-Deficiency Act violations by the Education Enterprise or any other NASA Enterprise to date in FY 2004. NASA has had no violations of the Anti-Deficiency Act in FY 2004 – a situation in which NASA would have incurred expenses greater than a total appropriation line amount.

NASA implemented full cost accounting and budgeting throughout the Agency in FY 2004. However, the Office of Education did not transition to full cost concepts and practices as well as other NASA offices. Several Education programs unknowingly obligated funds at a pace which, if not stopped, would have resulted in the overspending of the FY 2004 overall Office of Education funding allocation. Consequently, a moratorium was placed on the commitment or obligation of Education funding, pending the formulation of a new FY 2004 budget plan for Education programs in full cost. This moratorium has been in place since April 29, 2004, and currently extended through the end of June 2004.

During the moratorium, NASA was able to review and re-prioritize the programs and projects within the Office of Education to ensure that there was enough funding to meet its obligations and commitments to contractors as well as education opportunities. Further, we are unaware of any company or university that has laid-off any employees as a result of this situation.

The Chief Financial Officer is currently conducting a thorough review of this issue and providing additional guidance and training to the Office of Education to ensure that the principles and practices of full cost accounting and budgeting are fully understood and implemented. NASA does not anticipate any instances that would require the Office of Education to suspend commitments or obligations in the future.

QUESTION 2:

If so, did these violations of the Anti-Deficiency Act occur as a result of problems with the IFMP accounting systems, poorly trained personnel, or another problem with NASA's internal cost controls?

ANSWER 2:

As stated above, there were no Anti-Deficiency Act violations

QUESTION 3:

What action are you taking to put the early warning controls in place to fix any future problems of NASA spending money that it doesn't have?

ANSWER 3:

NASA's existing financial controls provide sufficient early warning to avoid overspending of an Office's funding allocation as evidenced by our ability to stop and correct the spending patterns by the Office of Education during FY 2004.

United States General Accounting Office
Washington, DC 20548

June 23, 2004

The Honorable Todd Russell Platts
Chairman, Subcommittee on Government Efficiency and
Financial Management
Committee on Government Reform
House of Representatives

Subject: Transcript of GAO's May 19, 2004 Testimony and Question From The Honorable Marsha Blackburn

Dear Mr. Chairman:

As requested in your letter, dated May 28, 2004, enclosed is the copy of the testimony with my corrections in red pencil. I have also initialed each completed page.

Your letter also included a question from Representative Blackburn. In referring to the NASA Administrator's statement that he is committed to management excellence and to developing a new financial system that will provide the tools necessary for improved program management, Representative Blackburn asked how can NASA be assured that its program managers are using the new financial system?

As we have reported and testified, the new financial management system does not provide program managers with timely, relevant data on the cost, schedule, and performance of its programs that they need to effectively monitor NASA's contracts and programs. For example, to adequately oversee NASA programs, such as the International Space Station and related contracts, program managers need reliable contract cost data – both budgeted and actual – and the ability to integrate these data with contract schedule information to monitor progress on the contract. However, the new system was not designed to integrate the cost and schedule data that they need. In addition, to estimate the costs of NASA programs, NASA cost estimators need more detailed contract cost data than the new financial system maintains. Because this vital information is not available through the new system, program managers and cost estimators continue to rely on hard copy reports, electronic spreadsheets, or other labor-intensive ad hoc measures to obtain information they need to effectively monitor NASA contracts and programs.

Our previous work at leading public and private sector organizations has shown that user involvement and effectively reengineering business processes are major factors in successfully implementing financial management systems. However, as discussed in my testimony, NASA did not involve program managers and cost estimators--key users of financial cost data—in defining or implementing the new system's

requirements and have allowed those officials only a limited role in all aspects of the system's implementation. Thus, NASA needs to involve program managers and cost estimators in developing user requirements and provide the capabilities required. If this is done, it is more likely that these managers will be able to use the new financial system. NASA has agreed to implement a corrective action plan that will engage key users, such as program managers and cost estimators, in developing a complete and accurate set of user requirements and reengineering its acquisition management processes.

If you or your staffs have any questions, please contact me at (202) 512-9505 or by e-mail at kutzg@gao.gov, or Diane Handley at (404) 679-1986 or by e-mail at handleyd@gao.gov.

Sincerely yours,

Gregory D. Kutz
Director, Financial Management and Assurance

Enclosures