



NASA OFFICE OF INSPECTOR GENERAL

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

October 6, 2022

TO: Karla Smith Jackson
Assistant Administrator for Procurement

SUBJECT: Summary of Results of Incurred Cost Audits and Agreed-Up On Procedure Engagement (IG-23-002)

We are providing this memorandum summarizing the results of two incurred costs audits and one agreed-upon procedure engagement procured by our office during fiscal year (FY) 2021.¹ These audits were intended to identify potential gaps and risks in audit coverage of NASA prime and subcontract costs. Accordingly, we engaged audit services for NASA contractors and subcontractors who were not included in the Agency's audit procurement plan.

We utilized NASA's preestablished Agency-wide audit support services contract with certified public accounting firms. Based on the established memorandums of agreement and statements of work, the objective of the incurred cost audits was to examine the costs claimed on NASA contracts and to express an opinion as to whether the costs are: allowable under the Federal Acquisition Regulation (FAR) and Cost Accounting Standards (if applicable), reasonable, applicable to the contract, and not prohibited by statute or regulation. The agreed-upon procedures engagement was conducted to review and provide analysis over billing practices and the joint venture agreement terms of one NASA contractor. The audits and the engagement were to be conducted in accordance with the procedures outlined in Generally Accepted Government Auditing Standards. See Table 1 for a profile of the two audits and the engagement.²

¹ Incurred cost audits assess whether the direct and indirect costs contractors charge are allowable, allocable, and reasonable. Agreed-upon procedures are engagements wherein the auditor performs specific procedures on a subject matter and reports the findings without providing an opinion or conclusion.

² A fourth direct incurred cost audit was procured during FY 2021. However, the resulting report was not complete at the time of this memorandum. Those audit results will be reported in a future OIG summary memorandum.

Table 1: Summary of Procured Audits and Engagements

Contractor	Years	Audited/ Reviewed Costs ^a	Type of Audit/Engagement	Auditor
Akima Support Operations, LLC	2018 2019 2020	\$46,752,945	Direct Incurred Cost Audit	Kearney & Company
Sigma Space Corporation	2015 2016 2017 2018	\$41,587,650	Direct and Indirect Incurred Cost Audit	Regis & Associates, PC
Metis Flight Research Associates, LLC	June 2018 through October 2021	\$38,000,000	Agreed-upon Procedures/Billing and Voucher Practices	Kearney & Company

Source: NASA OIG presentation of audits and engagements procured.

^aThe audited/reviewed costs include only NASA contract costs.

RESULTS OF AUDITS

The resulting audits and engagement report were issued to the relevant NASA contracting officers and provided to the Office of Inspector General. NASA contracting officials will use the reports to conduct award, administration, and closeout functions of contracts. Our office is compiling the results to determine if there are any systemic issues that warrant additional audit coverage of NASA contractors and subcontractors. This is our second year procuring audits, and we identified that the results from many of the audits procured in FY 2020 and 2021 were qualified due to the auditors' limited ability to review subcontract costs. This occurred due to timing or the auditors' inability to obtain adequate support for the subcontract costs that in some instances resulted in these costs being questioned. As we continue this effort and our oversight work, we plan to further explore the limitations on the evaluation of subcontract costs as well as the potential gaps and risks of audit coverage in future years. Each of the three reports is summarized below.

Akima Support Operations, LLC

The report issued by Kearney & Company, dated March 18, 2022, cites a qualified opinion due to a scope limitation related to costs on one subcontract. Excluding the scope limitation, the auditors found the direct costs for FYs 2018, 2019, and 2020 were allowable, allocable, and reasonable and complied with the terms of the contracts and the FAR.

The scope limitation related to \$12,480,923 in subcontract costs for one subcontract. The auditors were unable to determine or receive confirmation that the subcontractor had been subject to an incurred cost audit or whether the subcontract indirect rates were settled. The auditors conducted limited procedures to examine the subcontract costs and confirmed the subcontract invoices matched the amounts claimed on Akima Support Operations, LLC's claimed subcontract costs. However, the auditors could not determine with reasonable certainty the breakout of direct and indirect portions of the

subcontractor's cost claimed. These costs may change based on when the subcontractor's indirect rates are finalized.

Sigma Space Corporation

The report issued by Regis & Associates, PC, dated May 23, 2022, states that, except for the adjustments to direct subcontract costs and the qualifications identified, the auditors found the incurred cost proposal submissions, as adjusted, present fairly in all material respects the allowable direct costs claimed and the final indirect cost rates for FYs ended 2015, 2016, 2017, and 2018 conformed with the provisions of the contracts and the FAR.

The auditors questioned \$47,939 in direct subcontract costs and the associated indirect costs for FY 2017. Specifically, the auditors considered the direct costs unsupported because documentation was not provided for subcontractor travel and labor costs. Additionally, the report identified two qualifications. The first related to the auditors performing limited procedures on Sigma Space's direct subcontractor costs due to the timing of the subcontractor's incurred cost submissions. These costs are subject to change until the subcontractor's indirect rates are finalized by the government. The second qualification related to the auditors performing limited procedures to evaluate direct costs incurred on contracts issued by agencies other than NASA. The auditors reconciled the non-NASA direct costs to the general ledger because these costs constitute a component of the indirect cost rate base. Sigma Space Corporation concurred with the auditor's findings. While we are not making a formal recommendation, NASA's contracting officers should pursue the recovery of \$47,939 in questioned costs prior to closing out the contracts.

Metis Flight Research Associates, LLC

The report issued by Kearney & Company dated March 18, 2022, details the results of the agreed-upon procedures conducted to review and provide analysis over various billing practices and agreement terms of Metis Flight Research Associates, LLC, from June 2018 through October 2021. Metis Flight Research Associates, LLC, is an unpopulated joint venture made up of three small businesses. The auditors conducted five major procedures reviewing the organizational structure, billing practices, and vouchers of Metis Flight Research Associates, LLC, under its contract with NASA. The auditors found that one member entity was approved a cost-plus-fixed-fee subcontract at award yet changed it to a time-and-materials subcontract in December 2018 without written authorization from NASA.³ The auditors noted that there were no terms or conditions in the prime contract requiring government approval for subcontractor changes to contract type. The auditors also found a 5 percent increase in average cost per hour billed related to the change in subcontract type yet explained that the entity also onboarded several new employees during the time period which could support the increase. Finally, the auditors found one joint venture member had differences in proposed costs by year by major cost element when compared to billed costs. However, the billed costs were all within the NASA approved budgets.

The auditors are responsible for the reports described above and the conclusions expressed. Accordingly, we do not express any opinion on the contractors' incurred costs. Going forward, we plan to procure additional audits and report systemic issues to your office. If you have any questions, please

³ A cost-plus-fixed-fee contract is a cost reimbursement contract that provides for payment to the contractor of a negotiated fee that is fixed at the inception of the contract. A time-and-materials contract provides for acquiring services on the basis of direct labor hours at specified fixed hourly rates that include wages, overhead, general and administrative expenses, and profit as well as the actual cost for materials.

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