

FEBRUARY 28, 2013

AUDIT REPORT

OFFICE OF AUDITS

REVIEW OF NASA'S INTERNAL CONTROLS FOR AWARDS WITH SMALL BUSINESSES

OFFICE OF INSPECTOR GENERAL



National Aeronautics and
Space Administration

REPORT No. IG-13-010 (ASSIGNMENT No. A-12-015-00)

Final report released by:



Paul K. Martin
Inspector General

Acronyms

FAR	Federal Acquisition Regulation
FPDS-NG	Federal Procurement Data System–Next Generation
GAO	Government Accountability Office
HUBZone	Historically Underutilized Business Zone
OIG	Office of Inspector General
ORCA	Online Representations and Certifications Application
SBA	Small Business Administration

OVERVIEW

REVIEW OF NASA'S INTERNAL CONTROLS FOR AWARDS WITH SMALL BUSINESSES

The Issue

The Small Business Act (the Act) authorized Federal agencies, including NASA, to “set-aside” contracts for small business firms or for small business owners who are members of socioeconomically disadvantaged groups.¹ The Act established Government-wide programs to help small businesses obtain a fair proportion of Government contracts and created the Small Business Administration (SBA) to oversee the small business procurement process across Federal agencies. In fiscal year 2010, NASA obligated approximately \$16.5 billion in procurements, \$1.2 billion of which was obligated in 5,513 small business contracts to acquire a variety of supplies and services such as sensors, flight tests, software licenses and support, and training.²

Because small business firms may lack experience in Government contracting, there is a risk of firms proposing costs that are unallowable by the Federal Acquisition Regulation (FAR) or that firms could be ineffective in meeting contract performance requirements. Consequently, the programs supported by these small businesses are vulnerable to risks of unfair and unreasonable contract prices, substandard contractor performance, and fraud and abuse. In January 2012, the SBA issued guidance that described risks from fraud schemes common to small business programs.³ For example, a business official may falsely certify that the firm meets eligibility criteria as a small business or for a specific program such as socially and economically disadvantaged small business, woman-owned small business, or service-disabled veteran-owned small business.⁴ The false certification could allow an otherwise ineligible firm to obtain a benefit or Government contract unfairly.

We initiated this audit to determine whether NASA implemented controls to manage risks of unfair and unreasonable contract prices, substandard contractor performance, and fraud and abuse by small business contractors. To accomplish our objectives, we

¹ Congress originally passed the Small Business Act as the Small Business Investment Act of 1958. The Act has been amended and reauthorized several times since 1958. The most recent reauthorization was in December 2011.

² The 5,513 small business contracts and corresponding dollar amount does not include grants or Small Business Innovation Research awards.

³ SBA Memorandum, “Investigating Fraudulent Statements Made to Obtain Contracts Set Aside for Small Businesses,” January 19, 2012.

⁴ Small business eligibility criteria limit a firm’s number of employees or annual revenue, by industry.

identified 626 small business awards made by NASA during fiscal year 2010 with individual values from \$100,000 to \$650,000. The total value of the 626 awards was approximately \$160.7 million. From these, we statistically selected a random sample of 67 with a total value of approximately \$17.5 million. Details of the audit's scope and methodology are in Appendix A.

Results

We found that NASA had adequate controls in place to establish fair and reasonable contract prices and oversee performance by small business contractors. Additionally, we found no indicators that ineligible firms had used eligible firms as pass-throughs or that firms had delivered goods or services that did not meet contract requirements.⁵

However, of the 67 sampled awards, we identified 20 that were made to firms that self-certified as being owned and controlled by women. Of those 20, we found indications that 7 (35 percent) may have been to companies that falsely self-certified their eligibility as a woman-owned small business. This problem occurred because NASA procurement officials relied on a Government-wide self-certification process to determine whether firms were eligible as woman-owned small businesses.⁶ We believe the self-certification process warrants a Government-wide review and have referred our audit conclusions to the Government Accountability Office (GAO) and SBA for consideration.

Contracting Officers Established Fair and Reasonable Contract Prices. In an initial sample of 20 awards, we found that all proposed costs were allowable, reasonable, and adequately supported. According to the FAR, procurement officials must obtain the type and quantity of data necessary to establish a fair and reasonable price and evaluate the reasonableness of the proposed price. Procurement files for the 20 awards contained a sufficient amount of supporting documentation to demonstrate that NASA procurement officials complied with FAR requirements. Based on the results of our initial sample, we elected not to review additional awards.

Contractors Met Performance Requirements. In an initial sample of 20 awards, we found that NASA had established adequate performance oversight procedures, personnel followed those procedures, and contractors met contract requirements. According to FAR and NASA requirements, NASA personnel were required to conduct interim and final performance evaluations for contracts with a performance period exceeding one year and \$100,000 in value.⁷ We found, for example, that NASA's technical

⁵ In a typical "pass-through" scheme, a larger business uses an eligible small or socio-economically disadvantaged business to receive contracting opportunities set-aside for small businesses.

⁶ During fiscal year 2010, firms certified their eligibility as woman-owned small businesses in the Government-wide Online Representations and Certifications Application (ORCA) self-certification. Firms were required to complete the ORCA self-certification to receive federally funded small business awards.

⁷ FAR 42.15, "Contractor Performance Information."

representatives and product users monitored performance and communicated with contractors at least monthly through face-to-face meetings, telephone conversations, or emails. Additionally, all of the sampled contracts met actual performance, cost, schedule, and deliverable requirements. Based on the results of our initial sample, we elected not to review additional awards.

Small Businesses had Indicators of Potential Fraud and Abuse. We found no indicators that ineligible firms had used eligible firms as pass-throughs or that firms had delivered goods or services that did not meet contract requirements. However, we identified signs that some contractors may have submitted false self-certifications. Specifically, 20 of the 67 sampled awards were made to woman-owned small businesses. Of these 20, we found indications that 7 (35 percent) were awarded to 6 different firms that may not have met the criteria for a woman-owned small business, namely that the business was at least 51 percent owned by one or more women and daily operations were controlled by one or more women.⁸ For each of the seven awards, the contractor certified that daily business operations were managed and controlled by a woman-owner.⁹ However, in every instance, our review found evidence that daily business operations were actually controlled and managed by the male spouse of the purported business owner. For example, only the male spouse held the advanced degrees and technical expertise needed to manage and control the operations of a research and development company.

When making a small business award, NASA procurement officials access the ORCA self-certification as the primary indicator of a firm's eligibility as a woman-owned business. Agency personnel lack the resources and time for eligibility verification procedures that could add several hours to each procurement action and would not be cost efficient.

We discussed the risk of false certification as a woman-owned business with SBA program officials who acknowledged the problem and stated that SBA has implemented controls to mitigate that risk. However, we believe that the level of false self-certification as a woman-owned business is troubling and may exist Government-wide. For example, we found that the six small businesses in our sample with indicators of false self-certification received approximately \$74.5 million in contract obligations during fiscal year 2010 from 54 unique Federal procurement organizations, which may have overstated progress toward meeting woman-owned business contracting goals by the same amount. Therefore, based on the potential Government-wide effect of this condition, we have referred our audit conclusions to GAO and the SBA for possible review.

⁸ FAR 52.212-3, "Offeror Representations and Certifications – Commercial Items."

⁹ Two of the seven awards were made to a single firm. We referred our findings to the NASA Office of Investigations for further review.

Management Action

Although we made no specific recommendations to NASA, we urged Agency officials to be aware of the fraud risks inherent in these programs and work with SBA and other Federal agencies to develop mitigation measures.

The Associate Administrator for Small Business Programs agreed and stated that he recognized the need for vigilance regarding the fraud risks in these programs and that his office will work with strategic partners to develop risk mitigation measures. Management's full response is reprinted in Appendix B.

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INTRODUCTION

Background

The Small Business Act (the Act) authorizes Federal agencies to reserve or “set-aside” a proportion of their contracts for small businesses. Depending on the type of business they conduct, firms qualify for these set asides based on the number of people they employ or their annual revenue.¹⁰ In 2010, NASA obligated approximately \$16.5 billion in procurements, \$1.2 billion of which was obligated in 5,513 small business contracts to acquire a variety of supplies and services such as sensors, flight tests, software licenses and support, and training.¹¹

The Act also permits agencies to further classify small businesses into four sub-categories and to set goals for awarding a specific percentage of contracts to firms in these categories:

- **Socially and Economically Disadvantaged Small Business.** Requires that the firm’s owner belong to a socially disadvantaged group and meet income and wealth limits established by the Small Business Administration (SBA).
- **Service-Disabled Veteran-Owned Small Business.** Requires that a veteran with a service-connected disability own at least 51 percent of the business and personally manage and control its daily operations or, in the case of a veteran with permanent and severe disability, the spouse or permanent caregiver of such veteran.
- **Woman-Owned Small Business.** Requires that a woman or group of women own at least 51 percent of the business and manage and control daily operations.
- **Historically Underutilized Business Zone (HUBZone).** Requires that the firm’s principal office be located in, and at least 35 percent of its employees live in, an area designated as a HUBZone.

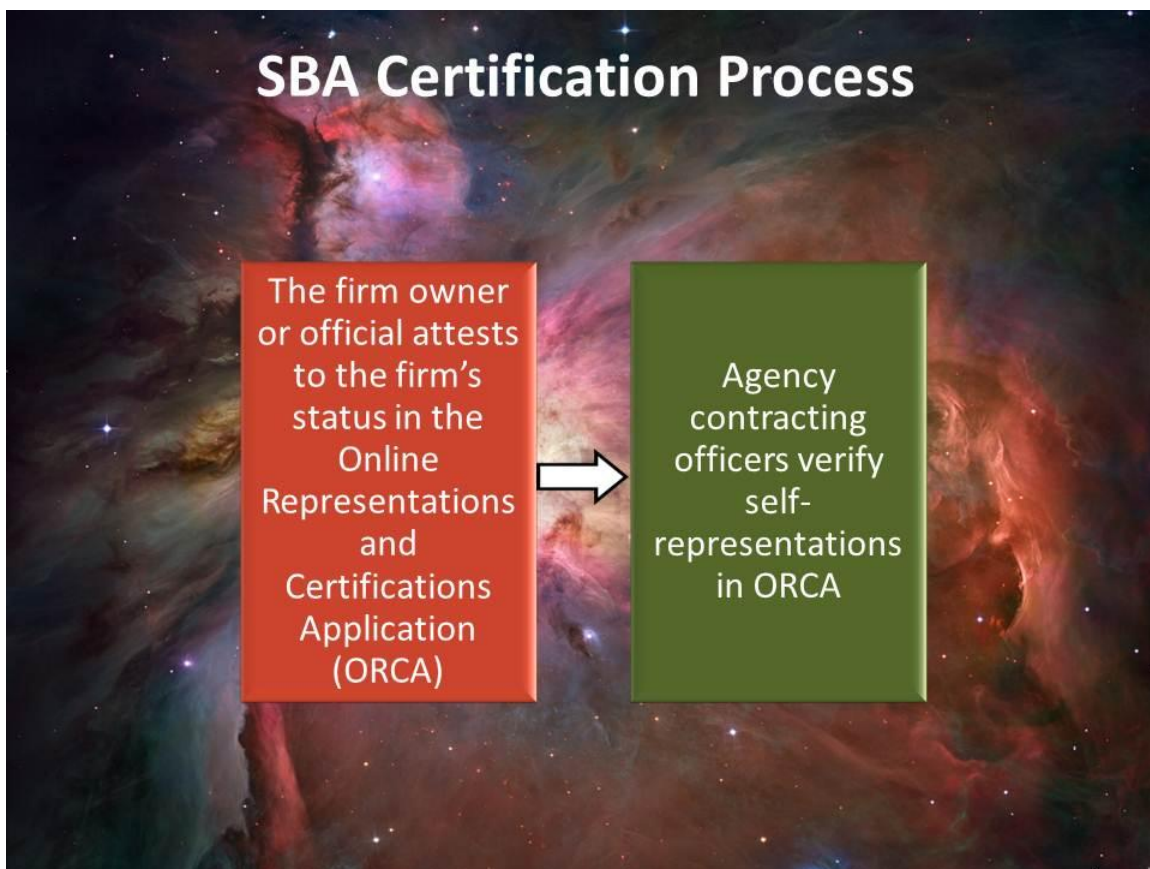
These categories are not mutually exclusive. For example, a firm may qualify as both a woman- and veteran-owned business.

¹⁰ For example, firms that conduct research and development in the physical, engineering, and life sciences may have no more than 500 employees, and engineering services firms may have no more than \$14 million in average annual revenue to qualify.

¹¹ The number of contracts and dollar amount does not include grants or Small Business Innovation Research awards.

Certification Process. The Act establishes procedures by which firms certify their overall eligibility as a small business as well as their eligibility for the sub-programs: woman- and service-disabled veteran-owned, disadvantaged, and HUBZone businesses. For the small business and woman- and service-disabled veteran-owned categories, firms only are required to self-certify their status in the SBA's Online Representations and Certifications Application (ORCA) database (see Figure 1 below). Agency contracting officers rely on the information in the ORCA database to determine whether firms qualify for small business and woman- and veteran-owned programs.

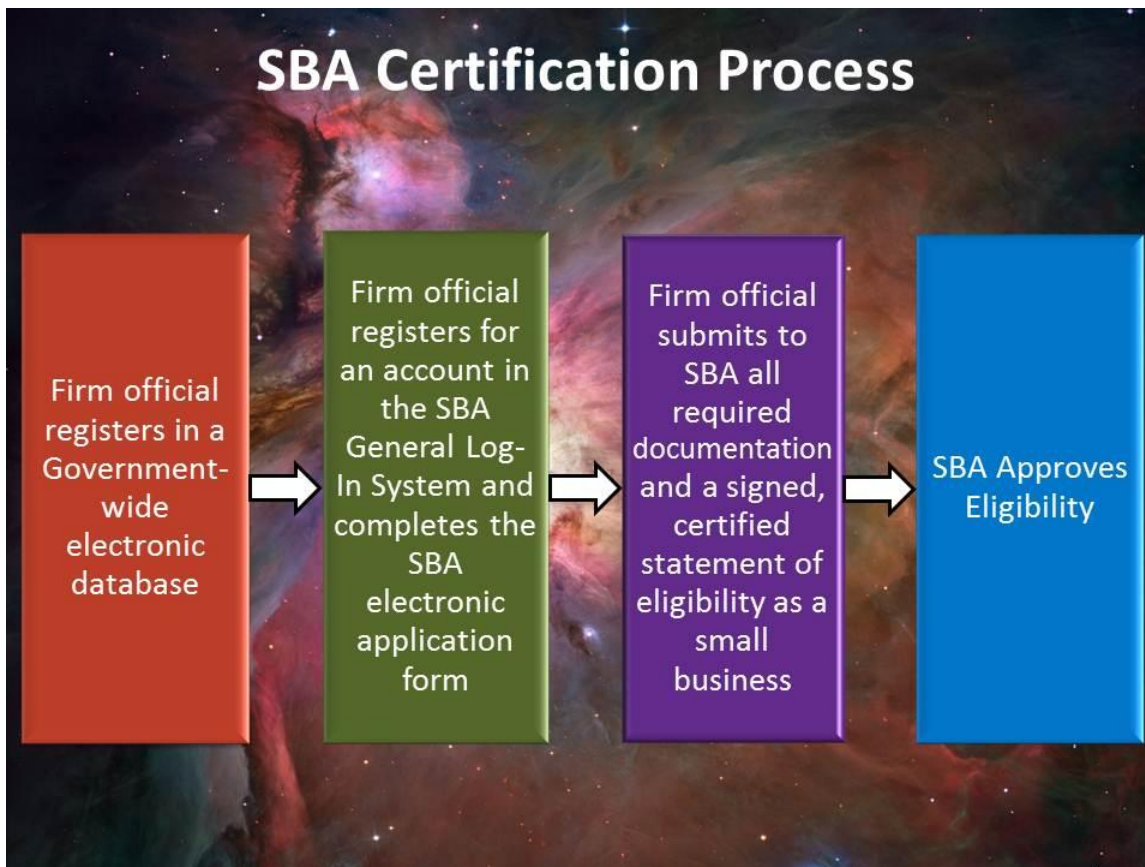
Figure 1. Small Business and Woman/Veteran-Owned Certification Process



Source: NASA Office of Inspector General (OIG) analysis of program information

A more formal application process exists for firms that seek to qualify as socially and economically disadvantaged or HUBZone small businesses. For these programs, firms self-certify, but are also required to complete an SBA application and submit additional documentation, such as tax returns or citizenship verification of the business owner. The SBA then reviews these materials and approves qualified firms for these programs (see Figure 2).

Figure 2. Disadvantaged/HUBZone Certification Process



Source: NASA OIG analysis of program information

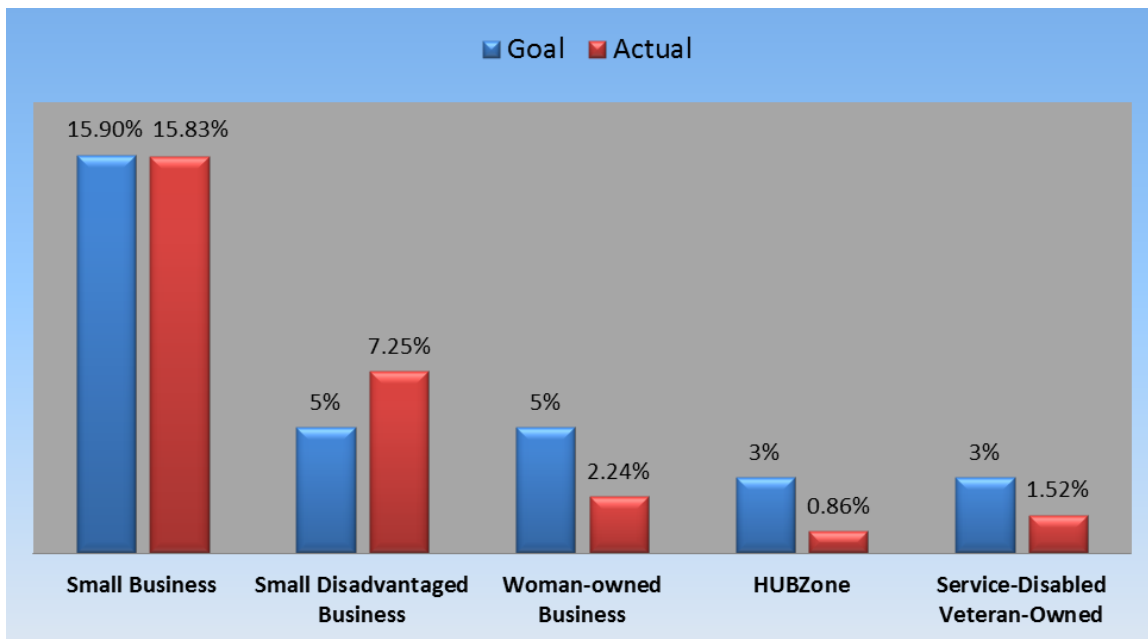
NASA’s Small Business Program. The Act and the Federal Acquisition Regulation (FAR) require Federal agencies to establish offices to develop, implement, and manage their small business programs. NASA created the Office of Small Business Programs to oversee its small business programs. The Office’s mission is to provide small businesses the maximum number of practicable opportunities to participate in NASA contracts and to monitor the Agency’s progress in meeting its small business contracting goals.

Small Business Contracting Goals. The Act sets a Government-wide goal to award 23 percent of prime contracts to small businesses. Working with the SBA, individual Federal agencies set annual goals for awards to small businesses generally, and to woman- and veteran-owned, disadvantaged, and HUBZone small businesses in particular. Agencies report information about their contract awards, including awards to small businesses, in the Federal Procurement Data System–Next Generation (FPDS-NG).¹² The SBA uses the information in this system to monitor and report on agencies’ progress toward meeting their small business contracting goals.

¹² The FPDS-NG is the Government’s official system for collecting, developing, and disseminating procurement data. The database shows prime and subcontract awards by agency.

In 2010, SBA set goals for all small business eligible procurements: NASA was expected to award 15.9 percent to small businesses, 5 percent to small and disadvantaged businesses, 5 percent to woman-owned, 3 percent to HUBZone, and 3 percent to service-disabled veteran-owned small businesses. Table 1 illustrates NASA’s fiscal year 2010 goals and results.

Table 1: NASA’s Planned Small Business Goals and Results for 2010



Source: NASA OIG analysis of program information

Risks of Fraud and Abuse

Similar to other Federal Government programs, small business contracting may be vulnerable to fraud and abuse. For example, a Government Accountability Office (GAO) audit of socially and economically disadvantaged small business programs found that 14 ineligible companies received \$325 million in contracts.¹³ In some of these cases, company presidents made false statements such as underreporting income or assets or misrepresenting their ethnic identity. According to a 2012 letter from the SBA Office of Inspector General, false certifications are a major vulnerability for small business set-aside programs.¹⁴ In other cases, ineligible companies used certified firms as fronts or “pass-throughs” to secure contracts they otherwise could not obtain.¹⁵ Finally, as with

¹³ GAO, “8(a) Program: Fourteen Ineligible Firms Received \$325 Million in Sole-Source and Set-Aside Contracts” (GAO-10-425, March 2010).

¹⁴ “Small Business Procurement Program Summaries for Federal Inspectors General,” January 2012.

¹⁵ In a typical “pass-through” scheme, a larger business uses an eligible small or socio-economically disadvantaged business to receive contracting opportunities set-aside for small businesses. Although the small business receives the contract, the small business often does little or no work on the contract.

other types of Federal contracts, small business contractors may deliver goods or services that do not meet contract requirements.

Objectives

We initiated this review to evaluate NASA's oversight of contract awards to small businesses. Specifically, we determined whether controls were adequate for the Agency to (1) establish a fair and reasonable price for these awards; (2) oversee contractor performance; and (3) manage the risks of fraud and abuse.

See Appendix A for details of the audit's scope and methodology, our review of internal controls, and a list of prior coverage.

NASA HAD ADEQUATE CONTROLS TO ASSESS PROPOSED CONTRACT PRICES AND MONITOR CONTRACTOR PERFORMANCE

Our review of a statistically selected sample of 20 small business awards found that NASA had adequate controls in place to establish fair and reasonable contract prices and oversee contractor performance. Specifically, procurement officials properly applied proposal analysis to establish fair and reasonable contract prices and monitored contractor deliverables to ensure they met contract specifications.

Management Responsibility for Internal Controls

According to the Federal Managers' Financial Integrity Act of 1982 and the Office of Management and Budget Circular A-123, agency management is responsible for developing effective internal controls.¹⁶ Internal controls include the plans, methods, and procedures that management uses to meet missions, goals, and objectives. Well-designed internal controls provide effective and efficient operations; ensures reliable financial reporting; complies with laws and regulations; and safeguards assets from fraud and abuse. Moreover, the benefit of internal controls should outweigh the cost of implementing those controls. Federal agencies should consider both qualitative and quantitative factors when analyzing costs against benefits.

Controls to Establish Fair and Reasonable Contract Prices

According to the FAR, procurement officials are required to obtain the type and quantity of data necessary to establish a fair and reasonable price and to evaluate the reasonableness of the proposed price. We reviewed a sample of 20 small business awards valued at \$4.3 million and found that NASA procurement officials appropriately used analytical techniques such as price analysis, cost analysis, and cost realism analysis to establish fair and reasonable contract prices. Examples of these techniques included the following:

- Price analysis is the review and evaluation of a proposed contract price without assessing individual cost elements and profit. We found that NASA procurement officials used this technique by ensuring that a sufficient number of firms submitted proposals and by selecting the proposal that provided the best overall value to the Government.

¹⁶ OMB Circular A-123, "Management's Responsibility for Internal Control," December 21, 2004.

- Cost analysis is the review and evaluation of individual cost elements and profit to determine a fair and reasonable contract price. We found evidence that NASA procurement officials used this technique to assess the reasonableness of proposed materials costs, travel costs, labor rates, indirect cost rates, and profit.
- Cost realism analysis is the independent review and evaluation of specific elements of a proposed cost estimate to assess whether those elements are realistic for the work to be performed and reflect a clear understanding of the requirements. We found that NASA procurement officials used this technique by asking Agency technical personnel to help assess whether proposed equipment costs were fair and reasonable.

Based on the results of this sample, we concluded that NASA's controls over small business awards were adequate to establish fair and reasonable contract prices. We also concluded that the review of additional sample items was not warranted.

Controls to Oversee Contractor Performance

To test oversight controls, we reviewed procurement files and performance assessments and surveyed both NASA procurement personnel and product users.¹⁷ For all 20 contracts in our sample, we found adequate controls were in place to oversee performance, NASA and contractor personnel followed those controls, and contractors met cost, schedule, and deliverable requirements. Specifically:

- According to FAR and NASA requirements, NASA personnel were required to conduct interim and final performance evaluations for contracts that have a period of performance over one year and exceed \$100,000 in value.¹⁸ Twelve of the 20 contracts we reviewed met this requirement. We found that NASA personnel conducted the required interim and final performance evaluations for all 12 of these contracts.
- NASA contracting officer technical representatives and product users took steps to ensure contractors met performance requirements. We found that NASA's technical representatives and product users monitored contractor performance and communicated with contractors at least monthly through face-to-face meetings, telephone conversations, or emails. For example, on a contract for flight test services, NASA test directors participated in all flight tests conducted by the contractor to monitor the contractor's performance. Similarly, on a software development contract, the NASA technical monitor reviewed the final product to verify that the software provided the required functionality and performed adequately.

¹⁷ We surveyed 19 technical representatives and 17 product users.

¹⁸ FAR 42.15 and NASA FAR Supplement, Subpart 1842.

RESULTS

- For the 20 sampled contracts, we compared cost, schedule, and deliverable requirements of the contract with the contractor's actual performance and found 100 percent of the contracts met requirements. NASA technical oversight personnel and product users assessed contractor performance from satisfactory to excellent on such factors as managing and controlling costs, adhering to the contract schedule, and conforming to the standards of good workmanship.

Based on our findings of these 20 awards, we concluded that no further review of additional awards to oversee contractor performance was warranted.

RISK OF FALSE SELF-CERTIFICATION BY INELIGIBLE FIRMS

We reviewed a sample of 67 small business awards for indicators of fraud or abuse. We found no indications that ineligible firms had used eligible firms as “pass-throughs” to obtain contracts and no evidence of product substitution. However, we identified signs that some contractors may have submitted false self-certifications. Specifically, 20 of the 67 sampled awards were made to woman-owned small businesses. Of these 20, we found indications that 7 (35 percent) were awarded to 6 different firms that may not have met the criteria for a woman-owned small business, namely that the business was at least 51 percent owned by one or more women and daily operations were controlled by one or more women.¹⁹ Although we were unable to determine how many of the firms actually were ineligible, these cases raise concerns about vulnerabilities in the program.

NASA procurement officials relied on the Government-wide self-certification process to determine whether firms were eligible woman-owned small businesses and did not conduct additional inquiries to verify this status. Accordingly, we referred our findings and concerns about these cases to the GAO and SBA for their consideration.

No Indicators of the Use of Pass-Throughs or Product Substitution

We reviewed information about each small business firm in our sample from technical performance reports, Federal databases, company websites, and other publicly available records. We then compared each firm’s 2010 ORCA self-certification to all other information we gathered about that business. We found no indicators that ineligible firms had used eligible firms as pass-throughs or that firms had delivered goods or services that did not meet contract requirements.

Indicators of Ineligibility

Of the 67 small business awards we reviewed, 20 were made to firms that self-certified as being owned and controlled by women. Of these 20, we found indications that 7 (35 percent) were awarded to 6 firms that may not have met the criteria for a woman-owned small business. Specifically, we found indications that the daily business

¹⁹ Two of the seven awards were made to a single firm. We referred our findings to the NASA Office of Investigations for further review.

operations of some of these firms were controlled and managed by the male spouse of the purported woman business owner. Examples of such evidence included:

- the male spouse was listed on the company website as President;
- the company name specifically identified the male spouse rather than the purported woman-owner;
- only the male spouse held the advanced degrees and technical expertise needed to manage and control the operations of a research and development company; and
- biographical information, company websites, and other publicly available records indicated that daily business operations were managed and controlled by the male spouse.

NASA Relied on the Government-wide Self-Certification Process

In fiscal year 2010, before making a small business award, NASA procurement officials obtained and reviewed representations made by firms in their ORCA self-certification. For a firm purporting to be woman-owned, the self-certification included an attestation that the company was an eligible woman-owned small business in accordance with FAR requirements. When making a small business award, procurement officials access the ORCA self-certification as the primary indicator of a firm's eligibility as a woman-owned business.

According to NASA procurement officials and the Associate Administrator of the Office of Small Business Programs, procurement personnel lack the resources and time to perform verification procedures such as reviewing information about each firm from procurement databases, company websites, and other publicly available records. We agree that eligibility verification procedures could add several hours to each procurement action and would not be cost beneficial.

In addition, as part of this review we discussed the risk of false certification as a woman-owned business with SBA officials. Program officials acknowledged the risk of false self-certification within small business programs and said they have taken several steps to mitigate these risks, including hiring a contractor to review documentation from firms that claim eligibility as a socially and economically disadvantaged small business or HUBZone small business. For firms that purport to be a woman-owned small business, SBA officials said they rely on competitor firms or contracting officers to bring allegations of potential fraud or abuse to their attention, and that they also examine a sample number of firms claiming to be woman-owned small businesses.

During fiscal year 2010, the 6 small businesses in our sample with indicators of false self-certification received approximately \$74.5 million in contract obligations from 54 unique Federal procurement organizations, which may have overstated their progress toward

meeting woman-owned business contracting goals by the same amount. Because this is a Government-wide certification process managed by the SBA, we referred our findings to the SBA and GAO for their consideration.

Conclusion

We found that NASA had adequate controls in place to establish fair and reasonable contract prices and oversee contractor performance in its small business awards. In reviewing a sample of these awards for indicators of fraud and abuse, we found no evidence to suggest that ineligible firms had used eligible firms as pass-throughs or that firms delivered goods or services that did not meet contract requirements. However, we found indicators that caused us to question whether several of the firms that claimed to be woman-owned small businesses in fact met eligibility criteria.

Recommendations, Management's Response, and Evaluation of Management's Response

Although we did not offer any recommendations to NASA's Office of Small Business Programs, in a draft of this report we urged Agency managers to remain wary of the fraud risks inherent in these programs and to work with SBA and other Federal agencies to develop risk mitigation measures. In addition, we referred our audit conclusions to GAO and SBA for their review.

The Associate Administrator for Small Business Programs agreed and stated that he recognized the need to remain vigilant with respect to the fraud risks in these programs and would work with SBA and NASA's Office of Procurement to develop appropriate risk mitigation measures. Management's full response is reprinted in Appendix B.

Scope and Methodology

We performed this audit from March 2012 through February 2013 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe the evidence obtained provides a reasonable basis for our findings and conclusions based on the audit objectives.

In fiscal year 2010, NASA made 5,513 small business awards totaling approximately \$1.2 billion. To reach a statistically reliable result given audit time and resource constraints, we limited our audit to the 626 small business awards made by NASA that had a value from \$100,000 to \$650,000.²⁰ The total value of the 626 awards was approximately \$160.7 million. From the 626 awards, we selected a statistical sample of 67 for detailed review. The total value of the 67 awards in our sample was approximately \$17.5 million.

The objective of the audit was to evaluate NASA's oversight of awards with small and disadvantaged businesses. Specifically, we determined whether controls were adequate to:

- establish a fair and reasonable price for small business awards;
- oversee contractor performance; and
- manage the risks of fraud and abuse in awards to small businesses.

To determine whether controls were adequate to establish a fair and reasonable price for small business awards, we reviewed a statistically selected sample of 20 awards and performed the following procedures:

- reviewed FAR requirements pertaining to contract pricing and the allowability of costs;
- interviewed Agency procurement officials and officials in the NASA Office of Small Business Programs to identify procedures for reviewing and awarding small business contracts; and

²⁰ Based on the results of our prior audits, we concluded that the awards most vulnerable to risk of unallowable and unsupported costs are those above the simplified acquisition threshold of \$100,000 and below the \$650,000 threshold that requires certified cost and pricing data.

- obtained and reviewed procurement files to assess whether costs were allowable and properly supported.

To determine whether controls were adequate to oversee contractor performance, we reviewed a statistically selected sample of 20 small business awards and performed the following procedures:

- reviewed regulations governing contractor performance information and management of service contract oversight, including the FAR and NASA policies;
- developed two surveys to address the oversight and performance conducted by NASA officials to determine if contractors met the Agency's technical, cost, and schedule requirements;
- obtained and reviewed performance assessments and progress reviews to verify that NASA's contracting officer technical representatives and product users prepared contractor performance evaluations; and
- interviewed NASA's contracting officer technical representatives and product users to corroborate information obtained from procurement files and survey responses.

To determine whether controls were adequate to manage the risks of small business fraud and abuse, we reviewed a statistically selected sample of 67 small business awards and performed the following procedures:

- obtained and reviewed information about each small business firm from the FPDS-NG, the SBA's Dynamic Small Business Search, the Central Contractor Registration, the System for Award Management, the 2010 ORCA self-certification, company websites, and other publicly available records;
- interviewed Agency procurement officials to identify procedures for assessing whether a business is eligible for a small business award; and
- compared each firm's 2010 ORCA self-certification to all other information we gathered about that business.

Use of Computer-Processed Data. To evaluate NASA's oversight of awards with small and disadvantaged businesses, we obtained and analyzed fiscal year 2010 data from the FPDS-NG. To assess the reliability of that data, we reviewed FPDS-NG system documentation and tested a statistical sample of data to identify obvious problems with completeness or accuracy. We concluded that the FPDS-NG data was valid and reliable for the purposes of meeting our audit objectives.

Review of Internal Controls

We reviewed controls related to each objective as described under Scope and Methodology. The audit identified a high risk of small businesses falsely self-certifying their eligibility as a woman-owned business. We concluded that the high risk of false self-certification occurred because NASA procurement officials relied on the Government-wide self-certification process to determine whether firms were eligible woman-owned small businesses without performing additional steps to verify eligibility. Based on discussions with NASA procurement officials, we concluded that it would not be cost-effective for NASA to implement control procedures that address the high risk of false self-certification. Since the risk of false self-certification exists in the Government-wide self-certification process, we believe that process warrants a comprehensive Government-wide review and have referred our audit conclusions to GAO and the SBA for consideration.

Sampling Methodology

We used a stratified sample design with the method of selection being simple random sample. From the sample of 626 small business awards made by NASA during fiscal year 2010 with individual award values from \$100,000 to \$650,000, we found 7 of the 67 (10.4 percent) awards had indicators of false self-certification as a woman-owned small business.

We evaluated simple random samples for attributes based on sample award (either passes or fails, depending on the audit substantive tests) and evaluated our variable data based on the dollar amount of the award that failed the substantive tests.

Prior Coverage

During the past 5 years, the GAO and the Department of Defense Inspector General have issued 3 reports of particular relevance to the subject of this report. Unrestricted reports can be accessed over the Internet at <http://www.gao.gov> and <http://www.dodig.mil/audit/reports>, respectively.

Government Accountability Office

“Service-Disabled Veteran-Owned Small Business Program: Case Studies Show Fraud and Abuse Allowed Ineligible Firms to Obtain Millions of Dollars in Contracts” (GAO-10-108, October 2009)

“8(a) Program: Fourteen Ineligible Firms Received \$325 Million in Sole-Source and Set-Aside Contracts” (GAO-10-425, March 2010)

Department of Defense Inspector General

“Inadequate Controls Over the DoD Service-Disabled Veteran-Owned Small Business Set-Aside Program Allow Ineligible Contractors to Receive Contracts”
(DODIG-2012-059, February 2012)

MANAGEMENT COMMENTS

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



FEB 26 2013

Reply to Attn of: Office of Small Business Programs

TO: Assistant Inspector General for Audits
FROM: Associate Administrator for Small Business Programs
SUBJECT: Response to OIG Draft Report, "Review of NASA's Internal Controls for Awards with Small Businesses" (Assignment No. A-12-015-00)

The Office of Small Business Programs (OSBP) appreciates the opportunity to review and provide comments on the Office of Inspector General (OIG) draft report entitled, "Review of NASA's Internal Controls for Awards with Small Businesses" (Assignment No. A-12-015-00), dated February 6, 2013.

We are pleased with the OIG's overarching conclusion that NASA has adequate controls in place to establish fair and reasonable contract prices and oversee contractor performance in its small business awards, and that through its testing of a sample of awards for indicators of fraud and abuse, the OIG found no evidence to suggest that ineligible firms had used eligible firms as pass-through entities or that firms delivered goods or services that did not meet contract requirements.

While the report makes no specific recommendations to NASA, the OIG highlights and we recognize the need to remain vigilant with respect to the fraud risks inherent in these programs and will continue to work with our strategic partners, including NASA's Office of Procurement and the Small Business Administration (SBA), to develop appropriate risk mitigation measures.

Again, thank you for the opportunity to review and comment on the subject draft report. If you have any questions or require additional information on our response, please contact Richard Mann at 202-358-2438.

A handwritten signature in black ink, appearing to read "Glenn A. Delgado".

Glenn A. Delgado

cc:
Assistant Administrator for Procurement/Mr. McNally

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Subcommittee on Space and Aeronautics

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