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United States Government Accountability Office  
Washington, DC 20548

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April 8, 2005

The Honorable Ted Stevens  
Chairman  
The Honorable Daniel K. Inouye  
Co-Chairman  
Committee on Commerce, Science,  
and Transportation  
United States Senate

The Honorable Sherwood L. Boehlert  
Chairman  
The Honorable Bart Gordon  
Ranking Minority Member  
Committee on Science  
House of Representatives

Subject: *NASA: Compliance with Cost Limits*

Section 202 of the National Aeronautics and Space Administration (NASA) Authorization Act of 2000, Pub. L. No. 106-391, § 202, 114 Stat. 1577, 1587 (Oct. 30, 2000) requires that GAO verify NASA's accounting for amounts obligated against established limits for the space station and related space shuttle support. Under the act, obligations are limited to \$25 billion for the International Space Station's (ISS) development and \$17.7 billion for shuttle launches in connection with the space station's assembly. In the past, we have advised your committees that NASA was unable to provide detailed support for the amounts obligated against the limits. Thus, we could not verify the amounts that NASA reported in its budget requests to Congress.

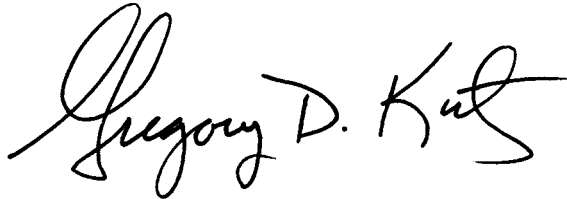
As part of its fiscal year 2006 budget request, NASA reported that of the \$23.7 billion that had been appropriated for ISS and related activities from fiscal year 1994 through fiscal year 2004, approximately \$23.5 billion was obligated as of September 30, 2004. NASA did not report the amounts obligated for shuttle launch costs. Furthermore, NASA is still unable to provide detailed support for the amounts obligated against the limits. Thus, we could not verify the amounts NASA reported to Congress in its budget requests for fiscal years 2002 through 2006. NASA has acknowledged the financial reporting challenges it faces and recently implemented a new integrated financial management system. Although NASA is still working through some significant systems implementation issues, the goal of the new system is to improve the availability and reliability of NASA's financial data.

As discussed with your staff, the enclosed briefing slides provide a summary of past and current issues related to NASA's compliance with the ISS and shuttle support spending limits as well as our assessment of NASA's financial reporting challenges going forward. We conducted our work to develop the attached briefing slides from March through April 2005 in accordance with U.S. generally accepted government auditing standards. We provided a copy of the enclosed briefing slides to NASA officials, who agreed with our observations and conclusions.

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We are sending copies of this report to other interested congressional committees as well as to NASA's Administrator and Chief Financial Officer. We will also make copies available to others upon request. In addition, the report will be available at no charge on the GAO Web site at <http://www.gao.gov>.

If you or your staff have any questions about this report, please contact me at (202) 512-9095 or by e-mail at [kutzg@gao.gov](mailto:kutzg@gao.gov) or Diane Handley, Assistant Director, at (404) 679-1986 or by e-mail at [handleyd@gao.gov](mailto:handleyd@gao.gov).

A handwritten signature in black ink that reads "Gregory D. Kutz". The signature is fluid and cursive, with the first letters of each word being capitalized and prominent.

Gregory D. Kutz  
Director, Financial Management and Assurance

Enclosure

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# International Space Station and Shuttle Support Cost Limits

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Briefing to the Senate Committee on Commerce,  
Science, and Transportation and the House  
Committee on Science

April 8, 2005

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## Briefing Contents

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- NASA Authorization Act of 2000 Requirements
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## NASA Authorization Act of 2000 Requirements

The act establishes general limitations for NASA on the development cost associated with the International Space Station (ISS) and shuttle launches in connection with the ISS's assembly:

- ISS obligations limited to \$25 billion.
- Shuttle launch obligations limited to \$17.7 billion.

As part of the annual budget request to Congress, the National Aeronautics and Space Administration (NASA) is required to update Congress on its progress by:

- Accounting for the amounts obligated against the ISS and shuttle limitations to date.
- Arrange for GAO to verify the accounting within 60 days of budget submission.

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## Objective

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- To provide updated information regarding NASA's ability to account for amounts charged against the ISS and shuttle launch spending limits included in section 202 of the National Aeronautics and Space Administration Authorization Act of 2000 (Pub. L. No. 106-391, § 202, 114 Stat. 1577, 1587 [Oct. 30, 2000]).
- We conducted our work to develop the briefing slides from March through April 2005 in accordance with U.S. generally accepted government auditing standards.

## Summary of Past and Current Reporting

- **NASA's fiscal year 2002 budget:**
  - NASA's first report to Congress under the act.
  - NASA reported that
    - it had received about \$15.8 billion of budget authority through fiscal year 2000 related to the ISS limit and
    - it had charged \$1.5 billion against the shuttle limit through fiscal year 2000 (calculated based on \$380 million per launch, the maximum allowed by the act).
- **GAO's August 2001 report:**
  - We found that NASA was unable to provide detailed support for the amounts obligated in all years against the spending limits.  
(See GAO, *NASA: International Space Station and Shuttle Cost Limits*, GAO-01-1000R [Washington, D. C.: Aug. 31, 2001].)

## Summary of Past and Current Reporting (Continued)

- **NASA's fiscal year 2003 budget:**
  - NASA reported budget authority of \$17.9 billion received for the ISS limit through fiscal year 2001. NASA did not report amounts obligated for the shuttle limit through fiscal year 2001. However, it did report that the 32 planned shuttle missions required to assemble the ISS were projected to cost \$12.2 billion, based on \$380 million per launch.
- **GAO's April 2002 report:**
  - No change from our August 2001 report. (See GAO-01-1000R and GAO, *NASA: Compliance with Cost Limits Cannot Be Verified*, GAO-02-504R [Washington, D.C.: Apr. 10, 2002].)



## Summary of Past and Current Reporting (Continued)

- **NASA's fiscal year 2004 budget:**
  - NASA reported budget authority of \$19.8 billion received for the ISS limit through fiscal year 2002 and did not report amounts obligated for the shuttle.  
*February 1, 2003: Space Shuttle Columbia Accident—Shuttle Fleet Grounded.*
- **NASA's fiscal year 2005 budget:**
  - NASA did not comply with the requirements of section 202 of the National Aeronautics and Space Administration Authorization Act of 2000.
  - NASA did not report amounts obligated against the cost limits as part of its fiscal year 2005 budget request to Congress.
- **GAO's briefing of April 2003:**
  - No change from our August 2001 report. (See GAO-01-1000R.)
- **GAO's results as of March 2004:**
  - No basis for validating amounts charged against the limits.
  - No change from our August 2001 report. (See GAO, *NASA: Compliance with Cost Limits*, GAO-04-648R [Washington, D. C.: Apr. 2, 2004] and GAO-01-1000R.)

## Summary of Past and Current Reporting (Continued)

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• **NASA's fiscal year 2006 budget:**

- NASA reported that, of the \$23.7 billion appropriated for the ISS and related activities from fiscal year 1994 through fiscal year 2004, approximately \$23.5 billion had been obligated as of September 30, 2004. NASA did not report amounts obligated for shuttle launch costs.
- NASA reported that ISS development costs may exceed the \$25 billion cost cap in fiscal year 2005. NASA projected cumulative costs through fiscal year 2005 to total \$25.8 billion. NASA attributed the increase to the continued grounding of the shuttle fleet and reductions in the ISS operations and research budgets.

• **GAO's results as of April 2005:**

- No change from our August 2001 report. (See GAO-01-1000R.)

## Issues Affecting Reporting of Reliable Financial Information

- NASA's newly implemented financial management system continues to face serious data integrity issues and is currently unable to generate reliable and accurate financial data.
  - GAO reported that NASA's new system did not provide complete and accurate cost and obligation data. (See GAO, *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], and GAO, *NASA: Significant Actions Needed to Address Long-standing Financial Management Problems*, GAO-04-754T [Washington, D. C.: May 19, 2004].)

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## Issues Affecting Reporting of Reliable Financial Information (Continued)

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- NASA's independent auditor, Ernst and Young, reported serious errors in the amounts reported in the agency's fiscal year 2004 financial statements and was unable to render an opinion on the statements.
  - NASA's opening balances for many of its budgetary accounts were misstated.
  - NASA was unable to provide subsidiary listings to support budgetary outlays during the fiscal year.
- GAO previously reported that NASA faces major challenges in resolving many of its long-standing financial management problems. (See GAO-04-151 and GAO-04-754T.) Until such issues as data reliability and accurate reporting are addressed, NASA may fall short in providing complete and reliable accounting of its assets and how funds were spent.

## Issues Affecting Cost Limits Going Forward

- Although NASA's fiscal year 2006 budget request is based on the assumption that the shuttle fleet will return to flight in the late spring of 2005, uncertainties about the timing of the fleet's return to flight pose challenges for NASA in managing ISS costs.
- NASA's Office of Inspector General (OIG) reported that the ISS program schedule is currently off track by 2 years. In addition, NASA has substantial work to perform in addressing technical issues raised by the Columbia Accident Investigation Board (CAIB). As of January 2005, the Return-to-Flight (RTF) Task Force closed or conditionally closed only 7 of the 15 RTF recommendations made by CAIB.

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## Issues Affecting Cost Limits Going Forward (Continued)

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- Continued grounding of the U.S. shuttle fleet will delay completion of the ISS and increase costs. Factors increasing costs include the following:
  - Continued maintenance and storage of ISS components at the Kennedy Space Center. In August 2004, NASA reported that almost all of the hardware required for the completion of the ISS had been delivered to the Kennedy Space Center.
  - Testing and recertification of some of the ISS's components.
  - Extending contracts for the retention of critical skills longer than planned to complete development and assembly of the ISS.

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## Issues Affecting Cost Limits Going Forward (Continued)

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- NASA reported that, upon returning to flight, the shuttle fleet will be dedicated to assembling the ISS and is to be retired upon completion of that work. However, until the shuttle's return-to-flight date is known, it will be difficult for NASA to provide reliable estimates of the increase in costs and the ISS's completion date.

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## Related Audit Issues

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- As part of our audit of NASA's implementation of its new financial management system, we reported that the new system does not yet provide reliable and timely cost information for program management and external reporting purposes, such as validating obligations as set forth in the National Aeronautics and Space Administration Authorization Act of 2000. (See GAO, *Business Modernization: Improvements Needed in Management of NASA's Integrated Financial Management Program*, GAO-03-507 [Washington, D.C.: Apr. 30, 2003], GAO-04-151, and GAO-04-754T.)



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## Related Audit Issues (Continued)

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- NASA's independent auditor, Ernst and Young, disclaimed an opinion on NASA's fiscal year 2004 financial statements primarily because of pervasive errors in the financial statements and data integrity issues. As such, NASA's independent auditor reported that NASA's financial management system does not comply with the requirements of the Federal Financial Management Improvement Act of 1996.
- In October 2004, NASA's OIG reported that two of the most serious management and performance challenges facing NASA are (1) completing the ISS and (2) the new integrated financial management system.

## Conclusions

- NASA remains unable to provide reliable and accurate detailed support for the amounts obligated in all years against the spending limits. As such, GAO is unable to verify the amounts charged against the ISS and shuttle spending limits included in section 202 of the National Aeronautics and Space Administration Authorization Act of 2000 (Pub. L. No. 106-391, § 202).
- NASA has acknowledged the financial reporting challenges it faces and recently implemented a new integrated financial management system. Although NASA is still working through some significant systems implementation issues, the goal of the new system is to improve the availability and reliability of NASA's financial data.

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