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AUDIT REPORT

OFFICE OF AUDITS

NASA'S COMPLIANCE WITH THE IMPROPER PAYMENTS INFORMATION ACT FOR FISCAL YEAR 2012

OFFICE OF INSPECTOR GENERAL



National Aeronautics and
Space Administration

Final report released by:



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Inspector General

Acronyms

AFR	Agency Financial Report
Caltech	California Institute of Technology
DCAA	Defense Contract Audit Agency
FFRDC	Federally Funded Research and Development Center
FY	Fiscal Year
GAO	Government Accountability Office
IPERA	Improper Payments Elimination and Recovery Act of 2010
IPIA	Improper Payments Information Act of 2002
JPL	Jet Propulsion Laboratory
OCFO	Office of the Chief Financial Officer
OIG	Office of Inspector General
OMB	Office of Management and Budget
PAR	Performance and Accountability Report

OVERVIEW

NASA'S COMPLIANCE WITH THE IMPROPER PAYMENTS INFORMATION ACT FOR FISCAL YEAR 2012

The Issue

Each year, the Federal Government wastes billions of taxpayer dollars on improper payments to individuals, organizations, and contractors. An improper payment is any payment that should not have been made; was made in an incorrect amount, to an ineligible recipient, for ineligible goods or services, or for goods or services not received; was duplicative; did not reflect credit for applicable discounts; or lacked adequate supporting documentation.¹ Federal agencies estimated making approximately \$108 billion in improper payments in fiscal year (FY) 2012, a decrease from the FY 2011 estimate of \$115 billion.²

Congress passed the Improper Payments Information Act of 2002 (IPIA) to address the identification, estimation, and reduction of improper payments. IPIA requires the heads of Federal agencies annually to: 1) identify programs and activities susceptible to improper payments; 2) estimate the amount of improper payments; and 3) report these estimates and planned actions to reduce improper payments in programs with estimates greater than \$10 million and that exceed a specific percentage of disbursements. The Improper Payments Elimination and Recovery Act of 2010 (IPERA) amended IPIA by expanding requirements for programs and activities vulnerable to significant improper payments and broadening recovery requirements.³ In addition, IPERA requires Inspectors General to determine whether their respective agencies comply with IPIA requirements and to evaluate the accuracy and completeness of agencies' reporting and performance in reducing and recapturing improper payments.

The Office of Management and Budget (OMB) has designated 13 programs as "high-error" or "high-priority" for improper payments.⁴ Of the \$108 billion in estimated improper payments reported in FY 2012, \$101 billion are attributable to these 13

¹ OMB Memorandum M-11-16, "Issuance of Revised Parts I and II to Appendix C of OMB Circular A-123," April 14, 2011

² <http://paymentaccuracy.gov/> (accessed February 20, 2013)

³ From this point forward, the term "IPIA" will be used to refer to IPIA as amended by IPERA.

⁴ The high-error programs are those programs that reported roughly \$750 million or more in improper payments in a given year, did not report an error amount in the current reporting year but previously reported an error amount over the threshold, or have not yet established a program error rate and have measured components that were above the threshold.

programs. None of these programs, many of which are benefit entitlement programs administered at the state level, are funded by NASA.⁵

Last year, the NASA Office of Inspector General (OIG) issued its first report on NASA's improper payment and recapture audit efforts. We found that NASA complied with the requirements of IPIA, but noted areas for improvement and made nine recommendations to improve NASA's methodology for identifying susceptible programs; testing for, estimating, and reporting improper payments; and recapture audit efforts.⁶

In its FY 2012 Agency Financial Report (AFR), NASA identified ten programs, covering \$11.96 billion in FY 2011 disbursements, as susceptible to improper payments.⁷ NASA tested a statistically valid sample of disbursements from those programs and found no improper payments. Additionally, NASA performed payment recapture testing of FY 2010 disbursements on fixed price contracts. Of the \$4.25 billion subject to review, NASA identified only \$7,335 in overpayments, \$3,525 of which it recouped.

In this audit, we examined whether NASA complied with the requirements of IPIA. In addition, we evaluated the completeness and accuracy of the Agency's IPIA reporting, its performance in reducing and recapturing improper payments, and its implementation of our prior recommendations. Details of the audit's scope and methodology are in Appendix A.

Results

We determined in our review of the FY 2012 AFR and supporting documentation that NASA complied with IPIA. However, we also identified opportunities for improvement in NASA's methodology for its IPIA and recapture audit programs, as well as its annual reporting. With regard to our prior recommendations, NASA is in the process of implementing corrective action to address four and has taken action we consider responsive to the other five.

Although NASA now includes payments it makes to grantees and the Jet Propulsion Laboratory (JPL) in its IPIA review, the Agency continues to exclude payments made by JPL to vendors and sub-recipients. Further, NASA may have inaccurately assessed and assigned risk to certain programs due to incomplete data, a heavy reliance on materiality, and subjective assignment of risk by the IPIA contractor. In addition, while NASA conducted recapture audits, NASA excluded from coverage cost-type contracts, grants, and cooperative agreements, and accordingly the audits were limited to 35 percent of the

⁵ The Departments of Health and Human Services, Treasury, Labor, Agriculture, Education, and Housing and Urban Development, and the Social Security Administration fund the 13 high-risk programs. State-administered programs account for about a third of the improper payments made by these programs.

⁶ NASA Office of Inspector General, "NASA's Efforts to Identify, Report, and Recapture Improper Payments" (IG-12-015, May 1, 2012).

⁷ http://www.nasa.gov/pdf/707292main_FY12_AFR_121412_FINALv508.pdf (accessed February 22, 2013)

Agency's total disbursements. As a result, the Agency may be missing an opportunity to identify and recover a larger population of improper payments. Finally, we also identified errors and omissions in NASA's AFR that lead us to question whether NASA's reporting efforts are accurate and complete.

Although improper payments identified through NASA's IPIA testing and recapture audit efforts have been historically low, the actual amount of improper payments the Agency makes may be higher than reported given the issues we identified. However, because NASA does not fund benefit entitlement or state-administered programs, we believe it is not likely this figure would qualify as "significant" under OMB guidelines.⁸ Further, the results of NASA's FY 2012 financial statement audit did not disclose any material weaknesses in the Agency's internal controls related to procurement or disbursement functions.⁹

Management Action

To improve NASA's IPIA and recapture audit programs, NASA should continue to implement corrective actions in response to our prior recommendations related to NASA's risk assessment process, inclusion of payments made by JPL in IPIA testing, and inclusion of grants and cost-type contracts in recovery audit efforts. To improve the reporting in its AFR, we recommended that NASA's Chief Financial Officer establish a process to collect the data necessary to complete reporting requirements on the disposition of recaptured funds, as well as refine the existing process to gather the data necessary to report instances in which overpayments are recaptured outside of the recapture audit process. We also recommended that the Chief Financial Officer develop and disseminate guidance on the reporting requirements to all parties who participate in the collection and preparation of the tables to ensure the information reported complies with applicable OMB requirements.

In response to a draft of this report, the Chief Financial Officer concurred with our recommendations to establish a process to collect data related to reporting on the disposition of recaptured funds, refine the existing process related to the reporting of overpayments recaptured outside of the recapture audit process, and develop and disseminate guidance on these processes.

We consider management's comments to be responsive. Accordingly, we are resolving the recommendations and will close them upon verification they have been completed. Management's response is reprinted in Appendix B.

⁸ Significant improper payments are gross annual improper payments in a program exceeding (1) both 2.5 percent of program outlays and \$10 million of all program or activity payments during the fiscal year reported or (2) \$100 million regardless of the improper payment error rate.

⁹ A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis.

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INTRODUCTION

Background

The Improper Payments Information Act (IPIA) was passed in November 2002 to enhance the accuracy and integrity of Federal payments. IPIA requires heads of Executive Branch agencies to review all agency programs and activities annually and identify programs that may be susceptible to significant improper payments.¹⁰ For each program and activity identified as susceptible, agencies must estimate the annual amount of improper payments and report those estimates to Congress. They are also required to report actions to reduce improper payments for any program in which the estimate exceeds \$10 million. The Act also requires the Director of the Office of Management and Budget (OMB) to prescribe implementing guidance for agencies.

As defined by OMB, an improper payment is “any payment that should not have been made or that was made in an incorrect amount under statutory, contractual, administrative, or other legally applicable requirements.”¹¹ Improper payments may take the form of payments to an ineligible recipient or for ineligible goods or services, duplicate payments, payments in the incorrect amount, or payments that lacked adequate supporting documentation and may result from inadequate recordkeeping, inaccurate eligibility determinations, inadvertent processing errors, lack of timely and reliable information to confirm payment accuracy, or fraud.

Fiscal year (FY) 2012 marked the ninth year of IPIA implementation and the second year of implementation of the Improper Payments Elimination and Recovery Act of 2010 (IPERA). IPERA amends IPIA by expanding the requirements for identifying, estimating, and reporting on programs and activities susceptible to significant improper payments. IPERA also includes a requirement that, when cost-effective, agencies conduct recapture audits for each program and activity with at least \$1 million in annual program outlays.¹²

According to OMB, compliance with IPIA means that an agency has:

- published a Performance and Accountability Report (PAR) or Agency Financial Report (AFR) for the most recent fiscal year and posted that report and any accompanying required materials on its website;

¹⁰ Significant improper payments are gross annual improper payments in a program exceeding (1) both 2.5 percent of program outlays and \$10 million of all program or activity payments during the fiscal year reported or (2) \$100 million regardless of the improper payment error rate.

¹¹ OMB Memorandum M-11-16, “Issuance of Revised Parts I and II to Appendix C of OMB Circular A-123,” April 14, 2011

¹² From this point forward, the term “IPIA” will be used to refer to IPIA as amended by IPERA.

- conducted a program-specific risk assessment for each program or activity;
- published improper payment estimates for all programs and activities identified as susceptible to significant improper payments;
- published programmatic corrective action plans in the PAR or AFR;
- published, and has met, annual reduction targets for each program assessed to be at risk and measured for improper payments;
- reported a gross improper payment rate of less than 10 percent for each program and activity for which an improper payment estimate was obtained and published in the PAR or AFR; and
- reported information on its efforts to recapture improper payments.¹³

Additionally, OMB guidance directs Inspectors General to:

- evaluate the accuracy and completeness of agency reporting and agency performance in reducing and recapturing improper payments, and
- evaluate and report on agency efforts to prevent and reduce improper payments and report any recommendations for improving those efforts.

Office of Inspector General Review of NASA’s FY 2011 Compliance with IPIA. Last year, the Office of Inspector General (OIG) issued its first report on NASA’s efforts to comply with IPIA.¹⁴ For its FY 2011 PAR, NASA tested seven programs and reported an improper payment estimate of \$1.5 million in one of those programs. Further, NASA reported it had identified no recoverable funds as a result of its recapture audit efforts. The OIG found that NASA complied with the requirements of IPIA, but noted a number of areas for improvement and made recommendations to management for corrective action.

Overall, we found that NASA limited the scope of its IPIA efforts, which in turn minimized the Agency’s ability to identify, report on, and recapture improper payments. In response to our report, NASA agreed to analyze and modify its IPIA methodology, increase the scope of its testing, improve its reporting process, and analyze the scope of its recapture audit efforts. We considered the nine recommendations resolved and agreed to close them once corrective actions were completed and verified.

¹³ OMB Memorandum M-11-16, “Issuance of Revised Parts I and II to Appendix C of OMB Circular A-123,” April 14, 2011

¹⁴ NASA Office of Inspector General, “NASA’s Efforts to Identify, Report, and Recapture Improper Payments” (IG-12-015, May 1, 2012).

NASA’s FY 2012 IPIA Reporting Process. NASA began its FY 2012 IPIA process by querying its financial management system for all FY 2011 disbursements. NASA provided this information to the IPIA contractor who segregated the data by mission, ultimately identifying 143 programs within 9 mission areas.¹⁵ With the approval of the Office of the Chief Financial Officer (OCFO) Quality Assurance Division, the contractor removed 2 OIG programs, combined 27 other programs into a single program labeled “Institutions and Management,” and combined 7 other programs into a single program labeled “Education,” bringing the list to a total of 109 programs. All programs with more than \$80 million in disbursements during the fiscal year were subject to further assessment.¹⁶ NASA reported that 44 programs met this threshold.

In performing the risk assessment, the IPIA contractor considered factors consistent with OMB guidance, including the control environment, internal and external monitoring, programmatic and human capital factors, and the materiality of expenditures. Based on this information, the IPIA contractor assigned an overall risk rating to each of the 44 programs and identified 10 programs as susceptible to significant improper payments:

- Center Management and Operations
- Institutions and Management
- International Space Station
- James Webb Space Telescope
- Mars Exploration
- Multipurpose Crew Vehicle
- Reimbursable-Science Mission Directorate Programmatic
- Space Communications and Navigation
- Space Launch System
- Space Shuttle

The IPIA contractor developed a sample from vendor payments, grant drawdowns, letter of credit contracts, government purchase card transactions, and travel expenditures for

¹⁵ Aeronautics Research Mission Directorate, Cross Agency Support Programs, Construction and Environmental Compliance Restoration, Education, Exploration Systems Mission Directorate, Institutions and Management, Office of Inspector General, Science Mission Directorate, and Space Operations Mission Directorate.

¹⁶ This \$80 million threshold assumes an improper payment error rate of 12.5 percent, which could potentially lead to \$10 million in improper payments, which OMB guidance established as the threshold for significant improper payments.

each of the 10 programs. Unlike in the previous year, NASA included grant transactions in its improper payments review. Additionally, NASA reviewed letter of credit transactions, the bulk of which are contract payments to the Jet Propulsion Laboratory (JPL). The IPIA contractor identified no improper payments in the 10 programs.

In addition, NASA contracted with a company to perform recapture audits on all fixed-price contract payments. The auditor contacted vendors to identify whether their records indicated funds due to NASA and tested all payments made on fixed-price contracts during the fiscal year to identify duplicate payments, overpayments, or payments to the wrong vendor. To initiate the audit, NASA provided the recapture auditor with a listing of all non-voided invoices for FY 2010, which totaled \$12.1 billion. The recapture auditor then selected for testing those invoices reflecting payments associated with fixed-price contracts, which totaled \$4.2 billion. From this subset of invoices, the recapture auditor identified two overpayments totaling \$7,335, of which NASA recovered \$3,525.

Objectives

Our audit objective was to determine whether NASA has complied with the requirements of IPIA. In addition, we evaluated the completeness and accuracy of NASA's reporting of IPIA data, its performance in reducing and recapturing improper payments, and its implementation of the recommendations made in our prior year report. We also reviewed internal controls related to the overall objective. See Appendix A for details of the audit's scope and methodology, our review of internal controls, and a list of prior coverage.

NASA COMPLIED WITH IPIA IN FY 2012

Based on our review of NASA's FY 2012 AFR, website, and risk assessments, we concluded that NASA complied with IPIA for FY 2012.

Compliance with IPIA

The IPIA and OMB guidance set forth seven criteria agencies must meet to comply with the statute. As indicated in Table 1 below, NASA met all applicable criteria for FY 2012.

Table 1. IPIA Compliance Summary

Criteria for Compliance	Criteria Met?
Published the FY 2012 AFR and posted it on NASA's website	Yes
Conducted program-specific risk assessments	Yes
Published improper payment estimates for all programs and activities identified as susceptible to significant improper payments under its risk assessment	Yes
Published programmatic corrective action plans in the AFR	N/A
Published and met annual reduction targets for each program assessed to be at risk and measured for improper payments	N/A
Reported a gross improper payment rate of less than 10 percent for each program/activity for which an improper payment estimate was obtained and published in the AFR	Yes
Reported information on its efforts to recapture improper payments	Yes

N/A – The criteria is not applicable, as NASA did not report improper payments that exceeded 2.5 percent of program payments and \$10 million or \$100 million regardless of percentage.

IMPROVEMENTS NEEDED IN NASA'S IPIA PROGRAM

Although we concluded that NASA complied with IPIA, we identified two areas for improvement in its improper payment testing. First, we are concerned that NASA's method for evaluating the level of risk in its programs was applied inconsistently across programs and that the Agency's reliance on materiality and the IPIA contractor's judgments may have skewed the risk assessment. Second, the Agency continues to exclude payments made by JPL from its risk assessment process. As noted in Table 2 below, NASA implemented sufficient corrective actions to identify programs potentially susceptible to improper payments and expanded the scope of its testing to include payments made by NASA to JPL and Agency grantees. Accordingly, we consider our prior recommendations related to these issues closed. NASA continues to address our prior recommendations related to risk assessments for its IPIA testing as well as inclusion of payments made by JPL.

Inconsistent Execution of NASA's Risk Assessment

NASA's risk assessment process may not be accurately identifying and appropriately measuring risk. Specifically, risk may have been inaccurately assessed and assigned to certain programs as a result of incomplete data, a heavy reliance on materiality, and subjective assignment of risk by the IPIA contractor. We believe that these factors increase the potential that NASA is not accurately identifying or appropriately and consistently measuring risk across its programs and activities. If risk is not appropriately assessed, programs may be inappropriately excluded from testing and, consequently, improper payments not identified and reported.

The IPIA contractor performed a risk assessment for each NASA program or activity exceeding a materiality threshold of \$80 million in disbursements. As part of this assessment, the IPIA contractor considered such factors as the control environment, programmatic risks, materiality of program disbursements, and human capital risks, and used this information to assign risk-rating scores to each of the programs. However, the IPIA contractor did not solicit input from program managers or other Agency personnel who may have knowledge relevant to risk ratings. For example, human resources personnel may be able to provide data on topics such as employee turnover in the program or average tenure. Similarly, procurement personnel may have data on whether the program's contracts or grants have been subject to external audit and the results of such audits.

In addition, we found inconsistencies in how the IPIA contractor assigned risk ratings. We noted instances in which the IPIA contractor rated risk factors for which the program manager had provided no information a "1" (low), while in other programs such factors were rated a "5" (high). We also found that despite identical risk rating descriptions, one

program had a rating of “1” while another program had a rating of “5.” Consistent with the prior year’s process, the IPIA contractor considered the materiality of the program when evaluating other risk factors and therefore, if no other information was provided, one program could be rated differently than another program. However, IPIA states that materiality is only one factor in a risk assessment process. By incorporating materiality into the determination of other risk factors, the IPIA contractor may be amplifying its effect on a program’s overall assessment of risk.

OIG communicated these same concerns about NASA’s risk assessment process in our prior audit.¹⁷ OCFO representatives told us that NASA’s entire approach to risk assessment is under review and that refinements should be complete by the end of the next reporting cycle.

Exclusion of the Jet Propulsion Laboratory

JPL is a federally funded research and development center (FFRDC) operated for NASA by the California Institute of Technology (Caltech). FFRDCs enable agencies to use private sector resources to accomplish tasks that are integral to the mission and operation of the sponsoring agency that cannot be met with normal contractor resources. As such, FFRDCs have access to government resources beyond what is common in the normal contractual relationship and are expected to operate in the public interest and fully disclose their affairs to the sponsoring Agency. JPL received \$1.6 billion from NASA in FY 2011 and was the second largest recipient of Agency funds. In response to one of our previous recommendations, payments made by NASA to JPL were included in NASA’s improper payment testing in FY 2012. However, the Agency continues to exclude payments made by JPL to vendors and others on behalf of NASA.

OMB defines a payment as any payment derived from Federal funds or other Federal sources; ultimately reimbursed from Federal funds or resources; or made by a Federal agency, a Federal contractor, or a governmental or other organization administering a Federal program or activity. This definition includes Federal awards subject to OMB Circular No. A-133, “Audits of States, Local Governments and Non-Profit Organizations,” that are expended by both recipients and sub-recipients.

Because Caltech administers JPL as a Federal program or activity and JPL’s operation is analogous to other NASA Centers, in our view payments by Caltech to subcontractors meet OMB’s definition. In line with OMB guidance, payments are only proper when made for eligible goods and services under the provisions of a contract, grant, lease, cooperative agreement, or other funding mechanism. In addition, JPL is subject to the Single Audit Act requiring A-133 audits that include reviews of disbursements past the primary recipient.¹⁸ Between FYs 2007 and 2010, these A-133 audits of JPL were

¹⁷ NASA Office of Inspector General, “NASA’s Efforts to Identify, Report, and Recapture Improper Payments” (IG-12-015, May 1, 2012).

¹⁸ Public Law 104-156, Single Audit Act Amendments of 1996.

conducted by an external contractor and the Defense Contract Audit Agency (DCAA) and identified approximately \$18 million in questioned costs. While questioned costs are not necessarily improper payments and A-133 audits are not specifically designed to identify such payments, these audits highlight weaknesses that could lead to improper payments at JPL. By excluding payments made by JPL from its IPIA review, NASA may not be identifying all improper payments.

Status of Prior Year Recommendations

Table 2. Status of Prior Year Recommendations – IPIA Program		
Report and Recommendation Number	Recommendation	Status
IG12015 Rec 1	Develop a methodology to identify programs and activities that does not inappropriately mask improper payments.	Closed
IG12015 Rec 2	Require that NASA program managers provide updated and accurate program information to allow for the performance of a comprehensive risk assessment.	In progress
IG12015 Rec 3	Include JPL in NASA’s IPIA review and assess the risk of improper payments by and to JPL consistent with the methodology used for other NASA programs.	In progress
IG12015 Rec 4	Increase the scope of the Agency’s IPIA testing to include grants.	Closed

NASA’s Chief Financial Officer is taking corrective action to address the recommendations we made in our prior year IPIA report relating to these issues. Accordingly, we did not make any additional recommendations relating to these issues in this year’s report.

IMPROVEMENTS NEEDED IN NASA'S RECAPTURE AUDIT PROGRAM

We determined that NASA continued to limit its annual recapture audits to fixed-price contracts, thereby excluding from testing a substantial portion of expenditures related to cost-type contracts, grants, and cooperative agreements. Accordingly, NASA may be missing an opportunity to identify and recover improper payments. As noted in Table 3 below, NASA is taking corrective action to address our prior recommendations related to this issue.

Scope of NASA's Recapture Efforts Limited

In its FY 2012 AFR, NASA reported identifying \$7,335 in improper payments and recovering \$3,525 through recapture audits. We are concerned that NASA is unduly restricting the scope of its recapture audits and therefore not identifying potential improper payments. Specifically, by limiting recapture audits to fixed-price contract payments, only \$4.2 billion or 35 percent of the Agency's total procurement expenditures in FY 2010 were subject to audit. In addition, by only including fixed-priced contracts, which typically provide the lowest risk of improper payments because they are generally not subject to fluctuations in contractor costs, NASA has increased the risk that improper payments may go undetected.

Exclusion of Grants and Cooperative Agreements. In FY 2010, NASA disbursed almost \$49 million in grants and cooperative agreements. By failing to test these disbursements, NASA excluded payments with a history of internal control weaknesses. In September 2011, the NASA OIG reported that NASA does not have an adequate system of controls in place to ensure proper administration and management of its grant program and, as a result, some grant funds are not being used for their intended purposes.¹⁹ The OIG also reported that NASA did not provide adequate oversight of grantee performance and expenditures and awarded unauthorized and unallowable grant supplements contrary to Federal and NASA regulations. The existence of these internal control weaknesses was substantiated by our audits of three specific grants in FY 2012.²⁰ The exclusion of grants and cooperative agreements increases the risk that improper payments may go undetected by NASA.

OMB guidance stipulates that when agencies determine certain programs and activities should be excluded from recapture audit testing because doing so would not be cost-effective, the agency shall report the program and activities and provide a description of

¹⁹ NASA OIG, "NASA's Grant Administration and Management" (IG-11-026, September 12, 2011).

²⁰ NASA OIG, "Audit of NASA Grants Awarded to The Alabama Science Center Exhibit Commission's U.S. Space and Rocket Center" (IG-12-016, June 22, 2012); "Audit of NASA Grants Awarded to the Philadelphia College Opportunity Resources for Education" (IG-12-018, July 26, 2012); and "Audit of NASA Grant Awarded to the HudsonAlpha Institute for Biotechnology" (IG-12-019, August 3, 2012).

the justification and analysis used to make such a determination. NASA did not include this information in its FY 2012 AFR.

NASA concurred with our prior recommendation to analyze the feasibility of including grants and cooperative agreements in its recapture audit efforts and is in the process of implementing corrective action.

Exclusion of Cost-Type Contracts. NASA asserts that because DCAA audits contractors who do business with NASA and focuses its efforts primarily on cost-type contracts, inclusion of such contracts in its recapture audit services would be duplicative and therefore not cost-effective. Nevertheless, in response to our prior recommendation NASA agreed to reconsider whether cost-type contracts should be included in its recapture audit efforts and the Agency is continuing to analyze this issue.

OMB guidance specifically differentiates recapture audits from post-award audits. Specifically, OMB defines a payment recapture audit as the review and analysis of an agency or program's accounting and financial records, supporting documentation, and other pertinent information supporting its payments that is specifically designed to identify overpayments. Further, a payment recapture audit is not an audit in the traditional sense but rather a detective and corrective control activity designed to identify and recapture overpayments.

In contrast, a post-award audit is defined as an examination of the accounting and financial records of a payment recipient and such audits are normally performed to determine if amounts claimed by the recipient are in compliance with the terms of the award or contract and applicable laws and regulations.²¹ Accordingly, we believe that the purpose of a payment recapture audit and a post-award audit are different and while both may identify improper payments, they will not necessarily identify the same types of improper payments. For example, because the post-award audits performed by DCAA focus on the accounting and financial records of the contractor versus NASA's accounting and financial records, a post-award audit may not identify a duplicate payment made to the contractor by NASA.

²¹ DCAA classifies incurred-cost audits as post-award contract audits.

Status of Prior Year Recommendations

Report and Recommendation Number	Recommendation	Status
IG12015 Rec 8	Analyze and document the feasibility of expanding the scope of the Agency’s recapture audits beyond fixed-price contracts to include other payments such as grants and cooperative agreements.	In progress
IG12015 Rec 9	Reconsider including cost-type contract payments in the Agency’s recapture audit efforts and document any determinations made.	In progress

NASA’s Chief Financial Officer agreed with and is taking corrective action to address the recommendations relating to recapture audit efforts we made in our prior year IPIA report. Accordingly, we did not make any additional recommendations relating to these issues in this report.

IMPROVEMENTS NEEDED IN NASA'S ANNUAL REPORTING OF IPIA AND RECAPTURE AUDIT EFFORTS

To comply with IPIA, agencies must publish an AFR each fiscal year and post that report on its website. Although NASA met these requirements with the publication of its FY 2012 AFR, we noted two errors that affect the accuracy and completeness of the information reported. While we reported similar issues for FY 2011, the issues noted in the FY 2012 AFR affected different figures and the reasons for the errors were not the same. As noted in Table 4 below, NASA took sufficient corrective actions to resolve each of the inaccurate and incomplete issues noted in our FY 2011 report, and thus we consider our prior year recommendations closed.

Inaccuracies in NASA's Annual Reporting

Although NASA published an AFR for the most recent fiscal year and posted that report on its website, we noted two errors that affect the accuracy and completeness of the information the Agency reported. Specifically, we noted errors in NASA's reporting of the disposition of recaptured funds and of overpayments recaptured from other sources.

Inaccurate Reporting of the Disposition of Recaptured Funds. OMB guidance requires certain information regarding improper payments and the recapture of such improper payments be included in the agencies annual PAR or AFR.²² One of the required tables is the "Disposition of Recaptured Funds," which details how the recaptured funds were used. Funds may be used in a variety of ways depending on the circumstances. For example, funds may be available to reimburse the agency for actual expenses incurred for the administration of the program, pay contractors for payment recapture audit services, or used for their original purposes.

NASA reported in its FY 2012 AFR that it had recaptured \$3,525 but did not report how it used the funds in its "Disposition of Recaptured Funds" table. Instead, NASA reported the amount paid to its payment recapture auditor and annotated that its administrative costs were estimated to be marginal so the amount had not been accumulated. The remaining columns in the table were completed with zeros. OCFO representatives confirmed that they misunderstood the information required to be reported in this table.

Inaccurate Reporting of Overpayments Recaptured from Other Sources. OMB requires agencies to report on improper payments identified and recovered through sources other than payment recapture audits. Examples of other sources include statistical testing under IPIA; agency post-payment reviews or audits; OIG reviews, audits, and investigations; and Single Audit reports.

²² OMB Circular No. A-136, "Financial Reporting Requirements," August 3, 2012.

NASA included the “Overpayments Recaptured Outside of Payment Recapture Audits” table in its FY 2012 AFR. However, similar to its FY 2011 PAR, NASA populated this table with either a not applicable response or zeros. In FY 2011, NASA informed us that it did not have sufficient time to report this information because this was a new reporting requirement and the information was not readily available. For the FY 2012 reporting period, NASA OCFO indicated that it requested this information from the finance offices at the various NASA facilities and received negative responses.

While we did not attempt to identify all possible amounts recaptured in FY 2012, using our own resources we identified at least three potential amounts that NASA could have reported. One of these potential amounts resulted from an OIG investigation and the other two resulted from management decisions on questioned costs identified as the result of Single Audits. Further, DCAA audits of NASA contractors are another potential source of amounts for recapture. Even though we did not identify any specific examples, DCAA reported that over \$20 million in questioned costs covering multiple years of activity were agreed to in FY 2012 after negotiations between the contractors and the Government contracting officer with cognizant responsibility (e.g., the Defense Contract Management Agency and NASA). We recognize that all questioned costs may not equate to overpayments; however, these audits may be another source of recaptured funds NASA did not report. An example of questioned costs that may also be recaptured funds in this area would be direct costs inappropriately charged and subsequently repaid or offset against future billings.

Status of Prior Year Recommendations

Table 4. Status of Prior Year Recommendations - Reporting		
Report and Recommendation Number	Recommendation	Status
IG12015 Rec 5	Report improper payment estimates for all programs identified as susceptible to improper payments or request relief from the annual reporting requirement.	Closed
IG12015 Rec 6	Evaluate the current process for reviewing the IPIA contractor’s results and develop a process to ensure that information reported in the PAR is correct and based on appropriate supporting documentation.	Closed
IG12015 Rec 7	Include all required tables and data in the IPIA section of the PAR.	Closed

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

In order to improve the accuracy and completeness of the Agency's reporting of its IPIA and recapture audit program efforts, we made the following recommendations to the Chief Financial Officer.

Recommendation 1. Establish a process to collect the data necessary to complete the "Disposition of Recaptured Funds" table.

Management's Response. The Chief Financial Officer concurred with the recommendation and agreed to implement the process by the end of FY 2013.

Evaluation of Management's Response. Management's comments are responsive; therefore, the recommendation is resolved and will be closed upon verification and completion of the proposed corrective actions.

Recommendation 2. Refine its existing process to collect the data necessary to complete the "Overpayments Recaptured Outside of Payment Recapture Audits" table.

Management's Response. The Chief Financial Officer concurred and stated that the process will be refined by the end of FY 2013.

Evaluation of Management's Response. Management's comments are responsive; therefore, the recommendation is resolved and will be closed upon verification and completion of the proposed corrective actions.

Recommendation 3. Develop and disseminate guidance to all parties who participate in the collection and preparation of the required tables to instruct the parties on the data needed, the potential sources of the data, and from whom it should be collected to ensure that the information reported complies with OMB Circular A-123, Appendix C and OMB Circular A-136.

Management's Response. The Chief Financial Officer concurred with the recommendation and stated that the guidance will be developed and disseminated by June 30, 2013.

Evaluation of Management's Response. Management's comments are responsive; therefore, the recommendation is resolved and will be closed upon verification and completion of the proposed corrective actions.

Scope and Methodology

We performed this audit from October 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 that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

To determine whether NASA complied with IPIA, we reviewed applicable laws and regulations and interviewed OCFO personnel and the responsible contractor personnel at the two external firms contracted to conduct the IPIA testing and recapture audits on NASA's behalf. We reviewed the IPIA contractor's work papers and its final reports. We randomly selected 45 disbursements tested by the IPIA contractor and re-performed the contractor's testing procedures. We also reviewed the IPIA section, including the part on recapture audits, of the AFR and supporting documentation. Based on our reviews and interviews, we determined whether NASA complied with the requirements of IPIA and evaluated the completeness and accuracy of NASA's reporting of IPIA data, its performance in reducing and recapturing improper payments, and its implementation of recommendations made by the OIG in its May 2012 improper payments audit report.

Federal Laws, Regulations, Policies, and Guidance. We reviewed the following in the course of our audit work:

- Public Law 111-204, Improper Payments Elimination and Recovery Act of 2010 (IPERA)
- Public Law 107-300, Improper Payments Information Act of 2002 (IPIA)
- Public Law 104-156, Single Audit Act Amendments of 1996
- Executive Order 13520, "Reducing Improper Payments and Eliminating Waste in Federal Programs," November 2009
- OMB Circular No. A-136, "Financial Reporting Requirements," August 3, 2012
- OMB Memorandum M-12-11, "Reducing Improper Payments through the 'Do Not Pay List'" April 12, 2012
- OMB Memorandum M-11-16, "Issuance of Revised Parts I and II to Appendix C of OMB Circular A-123," April 14, 2011

- OMB Memorandum M-11-04, “Increasing Efforts to Recapture Improper Payments by Intensifying and Expanding Payment Recapture Audits,” November 16, 2010
- OMB Memorandum M-10-13, “Issuance of Part III to OMB Circular A-123, Appendix C,” March 22, 2010
- NASA Procedural Requirements (NPR) 9010.3, “Financial Management Internal Control,” September 30, 2008
- NPR 9050.4, “Cash Management and Improper Payments,” September 30, 2008

Use of Computer-Processed Data. We used computer-processed data that was extracted from NASA’s accounting system of the FY 2011 and FY 2010 disbursements that was used by NASA’s IPIA and recapture audit contractors, respectively. Although we did not independently verify the reliability of all this information, we compared it with other available supporting documents to determine data consistency and reasonableness. From these efforts, we believe the information we obtained is sufficiently reliable for this report.

Review of Internal Controls

We reviewed and evaluated the internal controls associated with NASA’s sampling, testing, and reporting of improper payment information and the Agency’s efforts to reduce and recapture improper payments. We found internal control deficiencies as discussed in this report. Our recommendations, if implemented, should correct the deficiencies we identified.

Prior Coverage

During the last 5 years, the NASA OIG and GAO have issued numerous reports of particular relevance to the subject of this report. Unrestricted reports can be accessed over the Internet at <http://oig.nasa.gov/audits/reports/FY13/index.html> (NASA OIG) and <http://www.gao.gov> (GAO).

NASA Office of Inspector General

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

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

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

“NASA’s Efforts to Identify, Report, and Recapture Improper Payments” (IG-12-015, May 1, 2012)

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

Government Accountability Office

“Improper Payments: Remaining Challenges and Strategies for Governmentwide Reduction Efforts” (GAO-12-573T, March 28, 2012)

“Improper Payments: Moving Forward with Governmentwide Reduction Strategies” (GAO-12-405T, February 7, 2012)

“Improper Payments: Recent Efforts to Address Improper Payments and Remaining Challenges” (GAO-11-575T, April 15, 2011)

“Improper Payments: Status of Fiscal Year 2010 Federal Improper Payments Reporting” (GAO-11-443R, March 25, 2011)

“Improper Payments: Progress Made But Challenges Remain in Estimating and Reducing Improper Payments” (GAO-09-628T, April 22, 2009)

“Improper Payments: Status of Agencies’ Efforts to Address Improper Payment and Recovery Auditing Requirements” (GAO-08-438T, January 31, 2008)

“Improper Payments: Federal Executive Branch Agencies’ Fiscal Year 2007 Improper Payment Estimate Reporting” (GAO-08-377R, January 23, 2008)

“Improper Payments: Weaknesses in USAID’s and NASA’s Implementation of the Improper Payments Information Act and Recovery Auditing” (GAO-08-77, November 9, 2007)

MANAGEMENT COMMENTS

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



MAR 11 2013

Reply to Attn of: Office of the Chief Financial Officer

TO: Assistant Inspector General for Audits

FROM: Chief Financial Officer

SUBJECT: Response to OIG Draft Audit Report, "NASA's Compliance with the Improper Payments Information Act for Fiscal Year 2012"
(Assignment No. A-13-003-00)

The Office of the Chief Financial Officer (OCFO) appreciates the opportunity to review your draft report entitled "NASA's Compliance with the Improper Payments Information Act for Fiscal Year 2012" (Assignment No. A-13-003-00).

In the draft report, the Office of the Inspector General (OIG) articulates that NASA is in compliance with the Improper Payment Information Act (IPIA); however, three recommendations have been made which are intended to improve the accuracy and completeness of the Agency's reporting of its IPIA and recapture audit program efforts. NASA's response to the recommendations, including planned corrective actions, follows:

Recommendation 1: Establish a process to collect data necessary to complete the "Disposition of Recapture of Funds" table.

Management's Response: The OCFO concurs. The process to collect data necessary to complete the "Disposition of Recapture of Funds" table will be implemented by the end of Fiscal Year 2013.


Recommendation 2: Refine its existing process to collect the data necessary to complete the "Overpayments Recaptured Outside of Payment Recapture Audits" table.

Management's Response: The OCFO concurs. The process of collecting data necessary to complete the "Overpayments Recaptured Outside of Payment Recapture Audits" table will be refined by the end of Fiscal Year 2013.

Recommendation 3: Develop and disseminate guidance to all parties who participate in the collection and preparation of the required tables to instruct the parties on the data needed, the potential sources of data, and from whom it should be collected to ensure that the information reported complies with OMB Circular A-123, Appendix C and OMB Circular A-136.

Management's Response: The OCFO concurs. Guidance regarding the methodology for the preparation of required tables and potential sources necessary to ensure that information reported is in compliance with OMB Circular A-123, Appendix C and OMB Circular A-136 will be developed and disseminated by June 30, 2013.

Again, thank you for the opportunity to review and comment on the subject draft report. If you have any questions or require additional information regarding this response, please contact Angela Herring at (202) 358-1698.


Elizabeth (Beth) Robinson

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