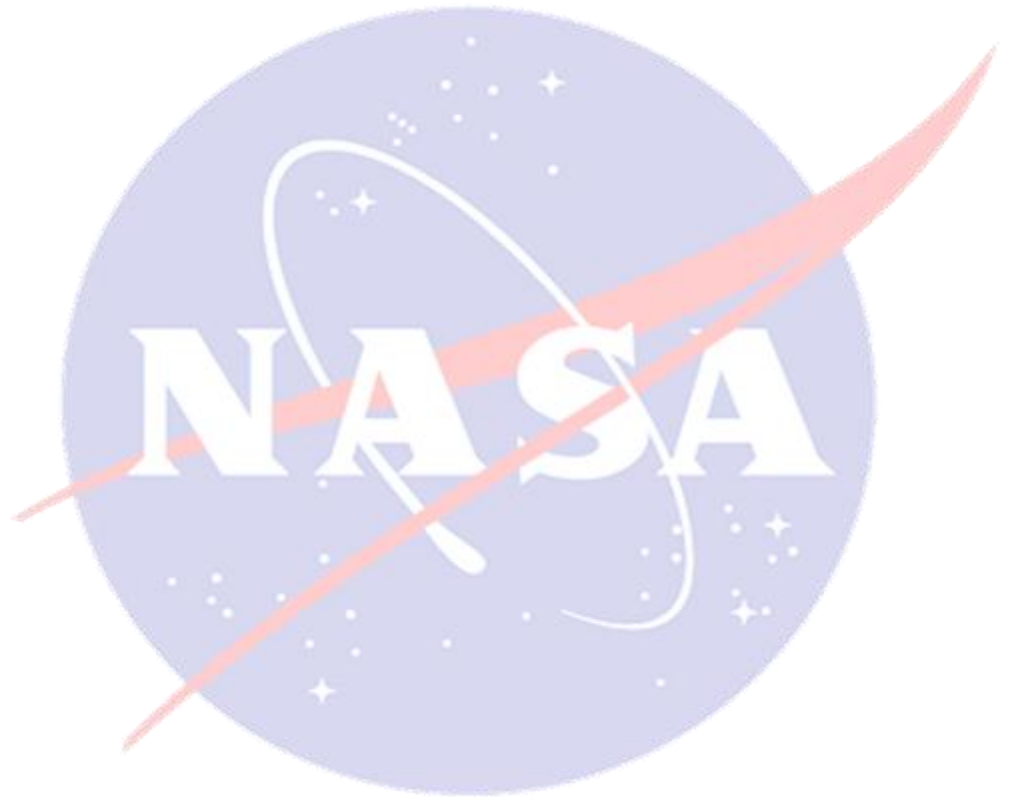




National Aeronautics and Space Administration

OFFICE OF INSPECTOR GENERAL

**NASA's Compliance with the
Improper Payments Information
Act for Fiscal Year 2013**



OFFICE OF AUDITS

AUDIT REPORT
APRIL 15, 2014

IG-14-016

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Final report released by:



Paul K. Martin
Inspector General

Acronyms

AFR	Agency Financial Report
CFO	Chief Financial Officer
DCAA	Defense Contract Audit Agency
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
NSSC	NASA Shared Services Center
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 2013

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 an agency should not have made; 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 Over the past 5 years, the government-wide improper payment rate has decreased to 3.53 percent in fiscal year (FY) 2013, having steadily declined from a high of 5.42 percent in FY 2009. In FY 2013, agencies recovered more than \$22 billion in overpayments through payment recapture audits and other methods.²

Congress passed the Improper Payments Information Act of 2002 (IPIA) to address the identification, estimation, and reduction of improper Government 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 agency Inspectors General to determine whether their agencies comply with IPIA requirements and to evaluate the accuracy and completeness of agencies' reporting and performance in reducing and recapturing improper payments.

In 2013, the NASA Office of Inspector General (OIG) issued its second report on NASA's improper payment and recapture audit efforts. Similar to the results of our first report in 2012, we found that NASA complied with the requirements of IPIA but identified several areas for improvement.⁴ Specifically, we made three recommendations to improve NASA's methodology for its IPIA and recapture audit programs, as well as its

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

² See <http://paymentaccuracy.gov/> (accessed February 10, 2014).

³ From this point forward, the term "IPIA" will refer to IPIA as amended by IPERA. Even though IPERA amends IPIA, the authorizing legislation is still named IPIA.

⁴ NASA OIG, "NASA's Compliance with the Improper Payments Information Act for Fiscal Year 2012" (IG-13-011, March 14, 2013).

annual reporting. We also reported at the time that four of the nine recommendations from our May 2012 report remained unimplemented.

In its FY 2013 Agency Financial Report (AFR), NASA reported that none of its programs encompassing \$19.5 billion in FY 2012 disbursements were susceptible to improper payments.⁵ In addition, NASA reported performing payment recapture testing of FYs 2011 and 2012 disbursements on fixed-price contracts of \$7.48 billion and identifying \$40,269 in overpayments, \$39,351 of which it recouped.

In this audit, we examined whether NASA complied with the requirements of IPIA in FY 2013. We also 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

Based on our review of the FY 2013 AFR and supporting documentation, we concluded that NASA complied with IPIA. However, we also identified opportunities for improvement in NASA's methodology and documentation for its IPIA and recapture audit programs, as well as its annual reporting. In addition, we closed the recommendations from our prior IPIA reports either because NASA had taken appropriate corrective action or because we refined and reissued them based on the results of our current audit.

We found NASA's IPIA contractor did not clearly document the risk factors it considered when assessing the risk of significant improper payments involving NASA programs or the basis for its conclusions. For example, the IPIA contractor did not document that it properly considered all risk factors required by the Office of Management and Budget (OMB), appeared to rely heavily on whether payments were made to beneficiaries or individuals, and did not consistently identify the population of programs to be assessed.

In addition, we found that while NASA conducted recapture audits, those audits remained limited to fixed-price contracts, which represented only 28 percent of procurement-related disbursements during the reporting period. NASA excluded cost-type contracts, representing 69 percent, and grants and cooperative agreements, representing 3 percent, on the grounds that recapture audits on these vehicles was not cost effective. As a result, the Agency may be missing an opportunity to recover additional improper payments. Moreover, the documentation supporting NASA's conclusion for not including grants and cooperative agreements in its recapture audits was not comprehensive and the Agency did not make proper notification and disclosure of its decision.

⁵ See http://www.nasa.gov/sites/default/files/files/FY13_NASA_AFR.pdf (accessed February 10, 2014).

We also found that NASA did not account for or use a small amount of recovered improper payments in accordance with IPIA requirements and as a result may have inappropriately augmented its appropriations. Finally, we identified errors and omissions in NASA's AFR that lead us to question whether NASA's recapture audit reporting efforts are accurate and complete.

Management Action

For the past 2 years, we have made recommendations to address the quality of NASA's IPIA program, specifically its risk assessment process. Although the CFO has implemented actions in response to our recommendations, we still have concerns surrounding the quality of those risk assessments. In order to improve the Agency's IPIA program, we recommended that NASA's Chief Financial Officer (CFO) consider performing a quantitative evaluation based on a statistical sample rather than a risk factor approach for its risk assessment. Alternatively, if NASA decides to continue with a risk factor approach, we recommended the CFO restructure the current risk assessment process and implement a consistent methodology to identify programs.

To improve the Agency's recapture audit program, we recommended the CFO reconsider including cost-type contract payments in the Agency's recapture audit efforts or conduct a cost-benefit analysis and document the justification for excluding these payments. We also recommended that the CFO develop a comprehensive analysis and justification for the determination that inclusion of grants and cooperative agreements is not cost-effective, and make the required notifications and disclosures. In addition, we recommended the CFO develop a procedure for the treatment of recaptured funds and communicate this procedure to the parties responsible for posting the funds. Finally, we recommended the CFO consult with the Office of the General Counsel regarding the potentially inappropriate augmentation of its appropriation.

In order to improve the accuracy and completeness of the Agency's reporting of its IPIA and recapture audit program efforts, we recommended the CFO refine the existing process to collect the data necessary to complete the "Disposition of Recaptured Funds" table and take appropriate steps to ensure the accuracy of the data. We also recommended the CFO determine the appropriate universe of other sources of overpayments, identify the parties who would possess that information, and communicate with all parties to ensure they are aware of NASA's reporting requirements and their responsibility for tracking and communicating the information to the Office of the CFO. We further recommended that the CFO determine how best to obtain this data and ensure it is accurately reported.

In response to a draft of this report, the CFO partially concurred with our recommendations to consider performing a qualitative evaluation based on a statistical sample and to determine the appropriate universe of other sources of overpayments when reporting the Agency's recapture audit efforts. The CFO concurred with our remaining recommendations related to the Agency's risk assessment process, recapture audit

program, and reporting of its IPIA and recapture audit program efforts. We consider the Agency's proposed actions to these recommendations to be responsive and will close the recommendations upon completion and verification of those actions.

Although the CFO concurred with our recommendation to reconsider including cost-type contract payments in the Agency's recapture audit efforts or document the cost-benefit analysis justifying exclusion of these payments, she argued that including cost-type contract payments would be duplicative of audits performed by the Defense Contract Audit Agency (DCAA). However, as we pointed out in our report, DCAA does not perform recapture audits, but rather audits that examine a contractor's payment records to determine if amounts claimed comply with the terms of the award and applicable laws and regulations. We believe this difference supports our recommendation to include cost-type contracts in NASA's recapture audit efforts. That said, we will review the documentation supporting the CFO's conclusion that inclusion of these contracts is not cost-effective.

We summarize the CFO's response to each of our recommendations and evaluate those responses in the body of the report. Management's full response is reprinted in Appendix B and their technical comments are incorporated in the report, as appropriate.

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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 agency programs and activities annually and identify those that may be susceptible to significant improper payments.⁶ For each program and activity identified as susceptible, agencies must estimate the annual amount of improper payments and report those estimates to Congress. Agencies are also required to report actions to reduce improper payments for any program in which the estimate exceeds \$10 million. In addition, IPIA requires the Director of the Office of Management and Budget (OMB) to prescribe implementing guidance for agencies to help reduce improper payments and report on its efforts.

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.”⁷ Improper payments may include payments made to an ineligible recipient or for ineligible goods or services; duplicate payments; payments in the incorrect amount; or payments that lack 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) 2013 marked a decade of IPIA implementation and the third 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.⁸

⁶ Significant improper payments are gross annual improper payments in a program exceeding both 2.5 percent of program outlays and \$10 million of all program or activity payments during the fiscal year reported or \$100 million regardless of the improper payment error rate.

⁷ OMB Memorandum M-11-16, “Issuance of Revised Parts I and II to Appendix C of OMB Circular A-123” (April 14, 2011).

⁸ From this point forward, the term “IPIA” will be used to refer to IPIA as amended by IPERA. Even though IPERA amends IPIA, the authorizing legislation is still named IPIA.

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

1. 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;
2. conducted a program-specific risk assessment for each program or activity;
3. published improper payment estimates for all programs and activities identified as susceptible to significant improper payments;
4. published programmatic corrective action plans in the PAR or AFR;
5. published, and has met, annual reduction targets for each program assessed to be at risk and measured for improper payments;
6. 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
7. reported information on its efforts to recapture improper payments.⁹

Additionally, OMB guidance directs agency Inspectors General to

1. evaluate the accuracy and completeness of agency reporting and performance in reducing and recapturing improper payments, and
2. evaluate and report on agency efforts to prevent and reduce improper payments and report any recommendations for improving those efforts.¹⁰

Prior Office of Inspector General Reviews of NASA's Compliance with IPIA. The NASA Office of Inspector General (OIG) issued two previous reports on NASA's efforts to comply with IPIA.¹¹ The OIG found that NASA complied with the requirements of IPIA each year, but noted a number of areas for improvement and made 12 recommendations for corrective action to management.

Among our past findings was that NASA limited the scope of its IPIA and recapture audit efforts, which in turn minimized the Agency's ability to identify, report on, and recapture improper payments. In response to our reports, NASA agreed to analyze and modify its IPIA methodology, increase the scope of its testing, improve its reporting process, and

⁹ OMB Memorandum M-11-16.

¹⁰ Hereafter OMB guidance refers to OMB Memorandum M-11-16, unless noted otherwise.

¹¹ NASA OIG, "NASA's Compliance with the Improper Payments Information Act for Fiscal Year 2012" (IG-13-011, March 14, 2013), and "NASA's Efforts to Identify, Report, and Recapture Improper Payments" (IG-12-015, May 1, 2012).

analyze the scope of its recapture audit efforts. We considered our recommendations resolved and agreed to close them once corrective actions were completed and verified.

NASA's FY 2013 IPIA Reporting Process. NASA began its FY 2013 IPIA process by querying its financial management system for all FY 2012 disbursements.¹² NASA provided this information to a contractor who segregated the data by mission, ultimately identifying 152 programs in 10 mission areas.¹³ NASA subjected all programs with more than \$80 million in disbursements during FY 2012 – a total of 46 – to further risk assessment.¹⁴

In performing this risk assessment, the IPIA contractor stated it considered factors including the control environment, internal and external monitoring, programmatic and human capital factors, and the materiality of expenditures. NASA also considered programs in which payments were made to private individuals and beneficiaries as an additional risk factor. Based on this information and considering NASA's history of positive improper payment testing results, the IPIA contractor identified none of the 46 programs as susceptible to significant improper payments. Therefore, NASA did not test any of its programs to estimate an improper payment amount. This was in contrast to FY 2012, when NASA deemed 10 programs susceptible to significant improper payments. For those 10 programs, NASA reported an estimate of zero dollars of improper payments based on testing of disbursements.

Additionally, similar to prior years, NASA contracted with a company to perform recapture audits on all fixed-price contract payments. The recapture contractor contacted vendors to identify whether their records indicated funds due to NASA and tested all payments made on fixed-price contracts during FYs 2011 and 2012 to identify duplicate payments, overpayments, or payments to the wrong vendor. To initiate the audit, NASA provided the contractor with a listing of all non-voided invoices for FYs 2011 and 2012, and the contractor selected for testing invoices reflecting payments associated with fixed-price contracts, which totaled \$7.5 billion. From this subset of invoices, the contractor identified \$40,269 in improper payments, of which NASA recovered \$39,351.¹⁵

¹² NASA's Office of the Chief Financial Officer is responsible for the IPIA reporting process.

¹³ The identified mission areas were: Aeronautics Research Mission Directorate, Cross Agency Support Programs, Construction and Environmental Compliance Restoration, Education, Exploration Systems Mission Directorate, Mission Support Directorate, Office of Inspector General, Science Mission Directorate, Space Technology Mission Directorate, and Space Operations Mission Directorate.

¹⁴ This \$80 million threshold assumes an improper payment error rate of 12.5 percent, which could potentially lead to \$10 million in improper payments, the level OMB established as the threshold for significant improper payments.

¹⁵ The recapture audit contractor is compensated 25 percent of the amount recovered on fixed-price contracts.

Objectives

Our audit objective was to determine whether NASA complied with the requirements of IPIA in FY 2013. In addition, we evaluated the completeness and accuracy of the Agency's reporting of IPIA data, its performance in reducing and recapturing improper payments, and its implementation of the recommendations made in our prior IPIA reports. 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 2013, BUT IMPROVEMENTS ARE NEEDED

Based on our review of NASA's FY 2013 AFR, website, and risk assessments, we concluded that NASA complied with IPIA for FY 2013. However, we identified opportunities for improvement in NASA's methodology and documentation for its IPIA and recapture audit programs, as well as its annual reporting. The remaining sections of this report discuss the details of the improvements needed.

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, NASA met all applicable criteria for FY 2013.

Table 1. IPIA Compliance Summary

Criteria for Compliance	Criteria Met?
Published the FY 2013 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	N/A
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	N/A
Reported information on its efforts to recapture improper payments	Yes

Source: NASA OIG

N/A – The criteria is not applicable because NASA did not identify any programs as being susceptible to significant improper payments.

IMPROVEMENTS NEEDED IN NASA'S RISK ASSESSMENT PROCESS

Although we concluded NASA complied with IPFA, we identified two areas for improvement in its risk assessment process. First, we are concerned with the quality of the risk assessment and its supporting documentation. Second, NASA inconsistently determined the number of programs subject to a risk assessment. While we have closed all recommendations from prior reports, we are issuing new recommendations to address these issues.

Quality of Risk Assessment and the Supporting Documentation

All agencies must institute a systematic method to perform a risk assessment to identify programs and activities susceptible to significant improper payments. OMB permits agencies two options for this assessment: (1) a quantitative evaluation based on a statistical sample or (2) an evaluation that takes into account risk factors likely to contribute to significant improper payments. NASA chose the second – a systematic review based on risk factors.

If an agency uses the risk factor approach, OMB guidance requires inclusion of the following factors, at a minimum:

- Whether the program or activity is new to the agency.
- The complexity of the program or activity reviewed, particularly with respect to determining correct payment amounts.
- The volume of payments made annually.
- Whether the program or payment eligibility decisions are made outside of the agency, for example, by a state or local government, or a regional Federal office.
- Recent major changes in program funding, authorities, practices, or procedures.
- The level of experience, and quality of training for personnel responsible for making payment eligibility determinations or certifying that payments are accurate.
- Significant deficiencies in the audit reports of the agency including, but not limited to agency Inspector General or Government Accountability Office (GAO) audit findings, or other relevant management findings that might hinder accurate payment certifications.
- Results from prior improper payment work.

For the past 2 years, we have made recommendations to address the quality of NASA's risk assessment process. Although the CFO has implemented actions in response to our recommendations, we still have concerns surrounding the quality of that process. Specifically, in FY 2013, we found NASA's IPIA contractor did not clearly document the risk factors it considered when assessing NASA's programs and are therefore concerned that the contractor did not review each of the OMB-required factors. Further, the contractor's supporting documentation did not provide the basis for its conclusions. Given that OMB permits more than one way to perform a risk assessment and NASA continues to struggle performing a comprehensive and quality risk assessment using risk factors, we believe using the quantitative statistical sample approach, which is more structured and less subjective, may be a better approach for NASA.

Risk Factors. The firm contracted by NASA to perform its risk assessment (hereafter referred to as the IPIA contractor) described using only three risk factors in its evaluation: (1) disbursement materiality (set at \$80 million); (2) recent findings from OIG and GAO audit reports; and (3) programs with payments made to private individuals and/or beneficiaries in its project work plan, risk assessment report, and final management report. This information was consistent with the information included in NASA's FY 2013 AFR.

Upon inquiry, the IPIA contractor told us that it had actually considered all of the OMB-required risk factors, and subsequently provided us with a document supporting this statement that included a list of the documents reviewed. However, the contractor had not assigned a quantitative or qualitative risk rating to the various factors.¹⁶ In addition, the contractor acknowledged that it had not documented the conclusion for each risk factor for the programs that met the materiality threshold and thus ultimately how it determined that no programs were susceptible to significant improper payment.

In addition to the lack of adequate documentation of its decision-making process, the contractor's conclusion appears to have been heavily dependent on whether program payments were to private individuals and/or beneficiaries. The contractor assessed the potential that the programs made payments to individual and/or beneficiaries based on its understanding of the programs and identified six programs as potentially making such payments. The contractor then tested a limited number of disbursements from each of the six programs to confirm whether the payee was an individual or beneficiary. Based on the test results, the contractor found that none of the programs made payments to beneficiaries and any payments made to private individuals were associated with contracts or purchase orders. Aside from this factor and a review of audit reports, we were not convinced programs above \$80 million were subjected to any other risk factors before the contractor concluded that no programs were susceptible to significant improper payments.

¹⁶ A risk assessment methodology typically includes an assessment approach (e.g., quantitative, qualitative, or semi-qualitative) that specifies the range of values those risk factors can assume during the risk assessment and how combinations of risk factors are identified and analyzed so that values of those factors can be functionally combined to evaluate risk.

The IPIA contractor told us that, although payments to private individuals and beneficiaries is not one of the OMB-required factors, this factor was considered because programs in which such payments are made are known to be susceptible to a high risk of improper payments based on the “high error” programs identified by OMB on the payment accuracy website for FY 2012.¹⁷ According to this website, high-error programs are those 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. No part of the criteria contains the factor that payments are made to certain types of recipients.

While the programs designated as high-error by OMB customarily make payments to individuals and beneficiaries, NASA’s programs are different from those designated programs. Thus, heavily focusing NASA’s risk assessment on characteristics common to those designated programs may not identify NASA programs susceptible to significant improper payments.

Review of Audit Reports. The IPIA contractor’s risk assessment report indicated it reviewed 20 audit reports issued by the GAO, OIG, or NASA. For each report reviewed, the IPIA contractor identified the associated program and summarized the findings and recommendations. However, in its report, the contractor did not specify the rationale for why the findings in each of the reports did or did not result in the identification of a potentially high-risk program. The results section of the report identified two potentially high-risk programs based on two OIG reports. However, the AFR reported no programs as high risk. We found no explanation in the IPIA contractor’s documentation that explained why those two programs were not determined to be high risk for reporting purposes, however, the contractor verbally communicated the rationale.

We noted that the IPIA contractor’s summary of two other reports referenced findings of questioned, unallowed, and unsupported costs or inadequate oversight over expenditures. Because any of these findings could be an indicator of a program susceptible to improper payments, we requested documentation supporting the rationale for not including the programs identified in those reports as high risk in the contractor’s risk assessment report. The contractor responded with a high-level explanation of the rationale and referenced the risk assessment report as supporting documentation. After we pointed out that the risk assessment report did not include the requested information, the contractor provided a document similar to that report containing an additional column with the rationale. This document indicated that for the two audit reports the potential improper payments mostly referenced the associated mission directorate and not specific programs. Therefore, the IPIA contractor did not consider the results of the audit adequate to assess a program susceptible to significant improper payment.

The IPIA contractor acknowledged that it made no additional inquiries to determine the identity of the specific programs referenced in the audits. One of the OIG reports

¹⁷ See <http://www.paymentaccuracy.gov/> (accessed March 12, 2014).

identified the relevant contract, grant, or cooperative agreement number, while the other did not. However, upon inquiry, the OIG would have provided the omitted award numbers. Then the IPIA contractor could have easily queried NASA's financial management system to identify the associated program for each award number.

Inconsistent Combining of Programs

Agencies are required by law to review all programs they administer and identify those that may be susceptible to significant improper payments. According to OMB, the "term 'program' includes activities or sets of activities recognized as programs by the public, OMB or Congress, as well as those that entail program management or policy direction." This definition includes the activities engaged in by the agency in support of its programs, and each agency has flexibility in identifying the programs it administers. NASA identifies most Agency programs based on codes in its financial management system traceable to the President's annual budget. However, in prior years, NASA combined some program codes together to establish a "program" for risk assessment purposes. These programs were cross-cutting administrative areas that supported all programs and missions within NASA. Specifically, in FY 2012, NASA combined 27 program codes into a single program labeled "Institutions and Management" and combined 7 other program codes into a single program labeled "Education."

When reviewing the programs identified in the FY 2013 risk assessment process, we noted that NASA had not combined the individual program codes into Education and Institutions and Management as it had in FY 2012. The IPIA contractor initially told us that the program identification procedures had not changed from prior years and that all programs identified in FY 2013 were the same as those identified in prior years. However, in subsequent communications, the IPIA contractor confirmed that the Agency's methodology had changed, explaining that although some individual programs would not meet NASA's materiality threshold for further risk assessment under the revised approach, individual programs would be selected for further assessment on a rotational basis based on qualitative factors. This change in methodology resulted in NASA subjecting fewer expenditures to a risk assessment in FY 2013. For example, the Agency did not subject any of the Education program's \$164 million in expenditures to further risk assessment. Further risk assessment may have identified the Education program as being susceptible to significant improper payments.

Status of Prior Year Recommendations

As shown in Table 2, we have closed all recommendations from prior reports.

Table 2. Status of Prior Year Recommendations – IPIA Program

Report and Recommendation Number	Recommendation	Status
IG-12-015, recommendation 2	Require that NASA program managers provide updated and accurate program information to allow for the performance of a comprehensive risk assessment.	Closed – NASA changed its risk assessment methodology.
IG-12-015, recommendation 3	Include the Jet Propulsion Laboratory (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.	Closed – JPL is now included in the risk assessment methodology.

Source: NASA OIG.

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

In order to improve the Agency’s IPIA program, we recommended that the Chief Financial Officer (CFO) take the following actions:

Recommendation 1. Consider using as the basis for its risk assessment a quantitative evaluation based on a statistical sample rather than the current risk factor approach.

Management’s Response. The CFO partially concurred, stating her office will continue to utilize its current risk assessment approach for its programs, evaluate NASA’s payment process internal control environment, and consider using quantitative techniques, as appropriate, by September 30, 2014.

Evaluation of Management’s Response. Management’s proposed actions are responsive to our recommendation. Therefore, we consider the recommendation resolved and will close it upon receipt and verification of those actions.

Recommendation 2. If risk assessments continue to be risk factor-based, restructure the process to ensure all OMB-required factors are included, review all available documentation when addressing the risk factors, and prepare comprehensive documentation that clearly supports the conclusions reached.

Management's Response. The CFO concurred, stating that her office will continue to use all of the OMB-required factors as well as other risk factors NASA deems appropriate. The CFO stated that the conclusions will be fully documented by September 30, 2014.

Evaluation of Management's Response. Management's proposed actions are responsive to our recommendation. Therefore, we consider the recommendation resolved and will close it upon receipt and verification of those actions.

Recommendation 3. Implement a consistent methodology to identify programs for purposes of performing annual risk assessments.

Management's Response. The CFO concurred, stating that for FY 2014 and beyond her office will document and execute a detailed methodology that identifies how programs will be evaluated for the purposes of performing the annual risk assessment.

Evaluation of Management's Response. Management's proposed actions are responsive to our recommendation. Therefore, we consider the recommendation resolved and will close it upon receipt and verification of those actions.

IMPROVEMENTS NEEDED IN NASA'S RECAPTURE AUDIT PROGRAM

Consistent with our findings in prior years, NASA continues to limit its annual recapture audits to fixed-price contracts and exclude from testing cost-type contracts – expenditures that account for almost 70 percent of all NASA procurement-related spending. In addition, although the Agency also excluded grants and cooperative agreements, which is an additional 3 percent, its documentation of the reasons for this decision and notification regarding it was lacking. While we have closed all recommendations from prior reports, we are issuing new recommendations to address these issues.

Scope of NASA's Recapture Efforts Limited

As we reported was the case the last 2 years, NASA continued to exclude cost-type contracts from its recapture audits in FY 2013. By only including fixed-price contracts, NASA bypasses review of almost three-quarters of Agency procurement-related expenditures, thereby increasing the risk that improper payments may go undetected. Of the population of procurement-related disbursements during the reporting period, cost-type contracts accounted for 69 percent, while fixed-price contracts totaled 28 percent. In addition, fixed-price contracts typically provide the lowest risk of improper payments because they are generally not subject to fluctuations in contractor costs. As in past years, NASA also continued to exclude grants and cooperative agreements from recapture audits, concluding that payment recapture audits would not be a cost-effective method for identifying improper payments in these vehicles. We identified several issues with the notification and documentation supporting that decision.

Exclusion of Cost-Type Contracts. OMB guidance permits agencies to exclude certain programs and activities from a recapture audit program if they determine that their inclusion would not be cost-effective. The agency must notify OMB and its agency Inspector General of this decision and include any analysis used by the agency to reach this decision. For the last several years, NASA has asserted that the inclusion of cost-type contracts was not cost-effective, arguing that the Defense Contract Audit Agency (DCAA) audits contractors who do business with NASA and those audits focus primarily on cost-type contracts. Therefore, NASA concluded that inclusion of this type of contract in its recapture audit effort would be duplicative. NASA notified OMB and the OIG of this decision and its underlying reasoning in its January 2011 recapture audit plan but noted that the Agency planned to consider expanding the scope of its recapture audits by adding additional payment categories in order to increase the amounts collected.

In response to our prior year recommendation, NASA agreed to reconsider whether cost-type contracts would be included in its recapture audit efforts but again concluded in FY 2013 that the DCAA audits are adequate and including these contracts in recapture audits would be duplicative. The OIG continues to believe that NASA's decision to exclude cost-type contracts from its recapture audit efforts is inappropriate and increases the risk that improper payments are not timely identified and recaptured.

OMB guidance states that “payment recapture auditing activities should not duplicate other audits of the same (recipient or agency) records that specifically employ payment recapture audit techniques to identify and recapture overpayments” (emphasis added). However, in response to a 2013 letter from the Office of the Chief Financial Officer (OCFO) requesting data concerning overpayments, DCAA stated that it does not perform recapture audit services. Rather, DCAA performs post-award audits that examine the accounting and financial records of payment recipients to determine if amounts claimed comply with the terms of the award or contract and applicable laws and regulations. In contrast, in a payment recapture audit the auditor reviews an agency or program's accounting and financial records, supporting documentation, and other pertinent information supporting payments to identify potential overpayments. We believe this difference supports our contention that the inclusion of cost-type contracts in NASA's recapture audit efforts would not be duplicative of DCAA's efforts.

In FY 2013, as an additional reason to exclude cost-type contracts, NASA asserted that the results of its prior years' improper payment testing under IPIA (which included tests of disbursements on cost-type contracts) had not yielded any significant improper payments. However, since the testing required by IPIA and recapture audits are not the same, the results of IPIA testing do not automatically equate to evidence that exclusion of cost-type contracts from recapture audits would be appropriate. As explained in OMB guidance, for IPIA testing an agency evaluates a small number of payments in a program or activity to determine if they were improper. In contrast, payment recapture audits are not statistical samples but targeted examinations of high-risk payments the Agency may likely collect in a cost-effective manner.

To our point, we found that when contract types other than fixed-price were inadvertently included in the data the recapture auditor analyzed, the auditor sometimes identified improper payments in those contracts. Specifically, of the \$40,269 in improper payments identified by the recapture auditor for the current reporting period, \$5,171, or 12.8 percent, was associated with those other contracts, and NASA recovered 82 percent of the overpayments. Again, we believe this example underscores our position that NASA can identify and recover improper payments if it subjects cost-type contracts to recapture audit efforts.

Documentation and Notification of Exclusion of Grants and Cooperative Agreements. While OMB guidance requires agencies to consider all programs and activities expending \$1 million or more annually for payment recapture audits, they may exclude payments from certain programs and activities if they determine that recapture audits are not a cost-effective method for identifying and recapturing improper payments.

OMB guidance stipulates that in such cases agencies must take several actions, including notifying OMB and their Inspectors General of the decision, providing them with the analysis used to reach the decision, and reporting in the AFR the program or activity excluded and a description of the justification and analysis used to make that determination. While OMB suggests criteria for consideration when performing this analysis, agencies have the discretion to determine the most relevant criteria.

The OIG received written notification of NASA's decision to exclude grants and cooperative agreements from recapture audits; however, we found the notification not comprehensive. In its justification, NASA cited only that grants and cooperative agreements were included in the sample of payments tested under its IPIA testing in the prior year and that no improper payments had been identified. NASA did not provide OMB with its decision or the full supporting analysis to exclude this population from recapture audits. Furthermore, NASA did not disclose its exclusion of grants and cooperative agreements in its FY 2013 AFR or provide a description of the justification and analysis used to support that decision.

Appropriateness of Disposition of Funds Recaptured

OMB guidance stipulates that agencies may use recaptured funds in a variety of ways depending on the nature and timing of their recovery, including as reimbursement for actual expenses incurred for administration of the recapture audit program, paying contractors for payment recapture audit services, and using the funds for their original purpose. Use of these funds, however, is dependent on when the overpayment was funded (i.e., before or after enactment of IPERA) and the status of the appropriation (i.e., active, expired, or closed) from which the overpayment was funded.¹⁸ OMB guidance stipulates that for "funds that were appropriated prior to IPERA's enactment but which have expired, the remainder of the recovered funds (after reimbursing the agency and paying the contractor) should be returned to Treasury as miscellaneous receipts." OMB guidance further states that if amounts recovered were from expired funds appropriated after enactment of IPERA, then, after reimbursing the agency and paying the contractor, agencies may use recovered amounts for specific purposes up to set limits and return any amount over those limits to Treasury as miscellaneous receipts. The specific purposes and limits include up to 25 percent for a financial management improvement program, up to 25 percent for the original purpose, and up to 5 percent for Inspector General activities related to the law's requirements.

NASA primarily recovered amounts from appropriations that had expired and appropriated both before and after the enactment of IPERA. Most of the time, NASA

¹⁸ On September 30 of the fifth fiscal year after the period of availability for obligation of a fixed appropriation account ends, the account is considered "closed" and any remaining balance (whether obligated or unobligated) in the account shall be canceled and thereafter shall not be available for obligation or expenditure. After the end of the period of availability for obligation of a fixed appropriation account and before the closing of that account, the account is considered "expired;" retains its fiscal year identity; and remains available for recording, adjusting, and liquidating obligations properly chargeable to that account.

returned the recaptured amount minus the amount paid to the recapture auditor to the original appropriation. However, we noted several errors in NASA’s treatment of recovered funds.

First, NASA did not take into consideration the percentage limitations, instead returning the remainder to the original appropriation. Second, in two cases totaling \$135, NASA returned the monies to a different appropriation with a different purpose, and by doing so may have inappropriately augmented its appropriations and potentially violated the Antideficiency Act.¹⁹ Third, by returning the funds to an original appropriation that had expired and is no longer available for obligation, NASA did not retain the money for the original permitted purpose. When recaptured funds are to be used for the original purpose, OMB guidance states that “funding shall be credited to the appropriation or fund, if any, available for obligation at the time of collection for the same general purposes as the appropriation or fund from which the overpayment was made, and shall remain available for the same period of availability and purposes as the appropriation or fund to which credited.”

We computed how the money should have been used assuming NASA (1) used the funds to pay recapture audit fees when permitted, (2) returned the full monies to Treasury when required because the appropriation had expired and the appropriation was pre-IPERA, (3) opted to use the funds for its original purpose (limited to 25 percent when permitted), and (4) made 5 percent available to the Inspector General when permitted. Table 3 compares our calculations against how NASA actually used the funds.

Table 3. Disposition of Funds Comparison

Use of Recaptured Funds	Per OIG	Per NASA
Payment recapture auditor fees	\$8,703	\$8,703
Original purpose	2,994	30,228
Returned to Treasury ^a	27,055	285
Available to Inspector General	599	-
Different purpose ^b	-	135
Total	\$39,351	\$39,351

Source: OIG Analysis of NASA data.

^a \$20,857 was from pre-IPERA expired funds and thus the balance, after contractor fees, was to be returned to Treasury. \$285 was from pre-IPERA cancelled funds and thus the entire amount was to be returned to Treasury.

^b Not allowable per OMB guidance.

¹⁹ 31 U.S.C. §§ 1341(a), 1342, or 1517(a).

Status of Prior Year Recommendations

As shown in Table 4, we have closed all recommendations from prior reports.

Table 4. Status of Prior Year Recommendations – Recapture Audit Program

Report and Recommendation Number	Recommendation	Status
IG-12-015, recommendation 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.	Closed – Incorporated in current year recommendation 5
IG-12-015, recommendation 9	Reconsider including cost-type contract payments in the Agency's recapture audit efforts and document any determinations made.	Closed – Incorporated in current year recommendation 4

Source: NASA OIG.

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

In order to improve the Agency's recapture audit program, we recommended the CFO:

Recommendation 4. Reconsider including cost-type contract payments in the Agency's recapture audit efforts. If NASA determines this proposal is not cost-effective, the CFO should document the justification for excluding these payments, including demonstrating that the costs associated with recovering the funds are projected to be greater than the amount recovered.

Management's Response. The CFO concurred, stating NASA will continue to evaluate its procure-to-pay-process and recapture audit program. However, she stated that the results of NASA's past improper payment and quality assurance reviews, coupled with DCAA audits of cost-type contracts, demonstrate that NASA's procure-to-pay process is not susceptible to a risk of significant improper payments. As such, the Agency has determined that its current risk posture does not warrant an expansion of its recapture audit program. NASA will provide documentation supporting its conclusion by September 30, 2014.

Evaluation of Management's Response. Although the CFO concurred with our recommendation to reconsider including cost-type contract payments in the Agency's recapture audit efforts or document the cost-benefit analysis justification for excluding these payments, she argued that including cost-type contract payments would be duplicative of the audits DCAA performs of NASA contractors. However,

DCAA does not perform recapture audits, but rather post-award audits that examine the payment records of contractors to determine if amounts claimed comply with the terms of the award and applicable laws and regulations. We believe this difference supports our recommendation to include cost-type contracts in NASA's recapture audit efforts. That said, we will review the CFO's documentation supporting her conclusion that inclusion of these contracts is not cost-effective. Therefore, we consider the recommendation resolved and will close it upon reviewing the justification provided.

Recommendation 5. Develop a comprehensive analysis and justification for its determination that inclusion of grants and cooperative agreements in recapture audit efforts is not cost-effective, provide OMB and OIG the determination and the analysis used to support the determination, and include the required disclosures in the AFR.

Management's Response. The CFO concurred and indicated that NASA has performed a comprehensive analysis and will share the results with OMB and OIG. She also stated that the required disclosures will be included in the FY 2014 AFR.

Evaluation of Management's Response. Management's proposed actions are responsive to our recommendation. Therefore, we consider the recommendation resolved and will close it upon receipt and verification of those actions.

Recommendation 6. Develop a procedure describing the appropriate uses for recaptured funds and communicate this procedure to the parties responsible for posting the recaptured funds in NASA's financial management system.

Management's Response. The CFO concurred, stating procedural documentation will be updated and provided to parties responsible for posting recaptured funds by September 30, 2014.

Evaluation of Management's Response. Management's proposed actions are responsive to our recommendation. Therefore, we consider the recommendation resolved and will close it upon receipt and verification of those actions.

Recommendation 7. Consult with the Office of the General Counsel to determine whether the application of funds for purposes other than the original appropriation resulted in an inappropriate augmentation to NASA's appropriations.

Management's Response. The CFO concurred and stated that her office will consult with the Office of the General Counsel to determine whether recaptured funds were applied appropriately.

Evaluation of Management's Response. Management's proposed actions are responsive to our recommendation. Therefore, we consider the recommendation resolved and will close it upon receipt and verification of those actions.

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

Although NASA included the required information on its IPIA and recapture audit efforts in its FY 2013 AFR, we noted errors that affect the accuracy and completeness of that information. These errors related to the reporting of the disposition of recaptured funds and overpayments recaptured from other sources. In FY 2012, we noted similar errors in NASA's reporting and have closed the prior recommendations and issued new recommendations to address these issues.

Inaccuracies in NASA's Annual Reporting

We identified errors in NASA's reporting of the disposition of recaptured funds and overpayments recaptured from other sources.

Inaccurate Reporting of the Disposition of Recaptured Funds. OMB guidance requires agencies include specific information regarding improper payments and the recapture of such improper payments in the annual PAR or AFR.²⁰ One of the required tables – “Disposition of Recaptured Funds” – details how the recaptured funds were used. As noted previously, such funds may be used in a variety of ways depending on the circumstances, including reimbursing the agency for actual expenses incurred for the administration of the recapture audit program, paying contractors for payment recapture audit services, and using the funds for their original purpose.

NASA reported in its FY 2013 AFR that it had recaptured \$39,351; however, the Agency reported a total of \$48,126 in the Disposition of Recaptured Funds table. The table below shows the amounts NASA reported versus the actual disposition of the amounts recovered based on the documentation provided to us during the audit. Table 5 shows that the amount reported in several columns was incorrect and that NASA returned a small amount (\$135) to an appropriation not in keeping with OMB guidelines.

²⁰ OMB Circular A-136, “Financial Reporting Requirements,” October 21, 2013.

Table 5. Disposition of Funds Analysis

Use of Recaptured Funds	Per AFR	Actual	Variance
Administration of the program	-	-	-
Payment recapture auditor fees	\$8,775	\$8,703	\$72
Financial management improvement activities	-	-	-
Original purpose	39,066	30,228	8,838
OIG	-	-	-
Returned to the U.S. Treasury	285	285	-
Different purpose ^a	-	135	(135)
Total	\$48,126	\$39,351	\$8,775

Source: OIG analysis of NASA data

^a Not a reportable category in the AFR as it is not allowable per OMB guidance.

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-performance reviews or audits; OIG reviews, audits, and investigations; and Single Audit reports.

NASA requested information from various offices within the Agency in order to complete the “Overpayments Recaptured Outside of Payment Recapture Audits” table in its FY 2013 AFR and reported identifying \$44,567 in a prior year that was recaptured in the current year. Based on our review of the documentation, we determined that the amount was actually identified in the current year and recovered in a period not included in NASA’s AFR. This error affected the prior year, the current year, and cumulative amounts reported.

Incomplete Reporting of Overpayments Recaptured from Other Sources. Even though the OCFO indicated receiving negative responses from all parties except the OIG to its data call regarding overpayments from other sources, our own limited inquiries identified additional amounts that should have been reported as overpayments.²¹ For example, \$1,482 reported as a questioned cost in a Single Audit report of a NASA contractor was sustained by NASA management in FY 2012 but not yet returned and thus should have been reflected as an identified overpayment. For the same contractor, another \$8,470 was identified and collected in FY 2011 as the result of a Single Audit report for a prior year and also not reported. In addition, \$1,825 previously reported as a questioned cost in a Single Audit report of a NASA grantee was sustained by NASA

²¹ FY 2011 referred to the prior year and FY 2012 referred to the current year for the reporting period related to this table within the FY 2013 AFR.

management and returned to NASA in FY 2011, and thus should have been reflected as identified and recovered in the prior year. In the cases involving Single Audit reports, we obtained the information from contracting officers who said the OCFO had not contacted them to obtain this information and that they were unaware of the reporting requirement.

In addition to Single Audit reports, DCAA audits of NASA contractors are another potential source of overpayments identified and recaptured from sources other than recapture audits.²² We recognize not all questioned costs included in these reports may equate to overpayments; however, questioned costs of a direct nature claimed on a NASA contract would be an identified overpayment when the Administrative Contracting Officer made the decision to sustain the questioned cost. As part of this year's review, we reviewed 22 DCAA audit reports, 5 of which contained questioned costs of a direct nature. For each of the 5 reports, we were unable to determine whether the Administrative Contracting Officer had made a decision to sustain the questioned costs. Therefore, we were unable to ascertain if the questioned cost from the DCAA reports should have been reported in the table.

Several recipients of the OCFO's data call cited a lack of communication on the information OCFO was requesting in its data call. For example, we identified approximately \$6 million that could have been jointly reported by the OIG's Office of Investigations and NASA's Acquisition Integrity Program. While the Office of Investigations received the data call, the request contained little information about the data requested, and consequently the OIG did not provide all responsive information. Moreover, the OCFO did not contact the Acquisition Integrity Program and that Program was unaware of the OCFO's data call.

Another common theme voiced by a number of recipients of OCFO's data call was the assumption that the NASA Shared Services Center (NSSC) tracked the identification and collection of all overpayments. In fact, the NSSC tracks only overpayments and collections that result from recapture audits in which it issues a bill for collection.

²² As reported in an earlier finding, cost-type contracts are excluded from NASA's recapture audit efforts.

Status of Prior Year Recommendations

As shown in Table 6, we have closed all recommendations from prior reports.

Table 6. Status of Prior Year Recommendations - Reporting

Report and Recommendation Number	Recommendation	Status
IG-13-011, recommendation 1	Establish a process to collect the data necessary to complete the “Disposition of Recaptured Funds” table.	Closed – Implemented.
IG-13-011, recommendation 2	Refine its existing process to collect the data necessary to complete the “Overpayments Recaptured Outside of Payment Recapture Audits” table.	Closed – Incorporated in current year recommendation 9.
IG-13-011, 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.	Closed – Incorporated in current year recommendation 10.

Source: NASA OIG.

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

In order to improve the accuracy and completeness of NASA’s reporting of its IPIA and recapture audit program efforts, we recommend the CFO do the following:

Recommendation 8. Refine existing processes to collect the data necessary to complete the “Disposition of Recaptured Funds” table and take appropriate steps to ensure the accuracy of the data.

Management’s Response. The CFO concurred and stated that enhancements will be made to the current processes by July 30, 2014.

Evaluation of Management’s Response. Management’s proposed actions are responsive to our recommendation. Therefore, we consider the recommendation resolved and will close it upon receipt and verification of those actions.

Recommendation 9. Determine the appropriate universe of other sources of overpayment information outside of recapture audits, identify the parties who would possess that information, and coordinate with those parties to ensure they are aware of NASA's reporting requirements and their responsibility for tracking and communicating appropriate information to the OCFO.

Management's Response. The CFO partially concurred, stating NASA will expand communication to include other appropriate parties and identify potential sources using the examples provided by OMB no later than September 30, 2014.

Evaluation of Management's Response. Management's proposed actions are responsive to our recommendation. Therefore, we consider the recommendation resolved and will close it upon receipt and verification of those actions.

Recommendation 10. Determine how overpayment data can be obtained in the most efficient manner (manual or automated) and develop the processes necessary to collect and accurately report the data.

Management's Response. The CFO concurred, stating her office will make refinements to the current processes and will coordinate with the appropriate parties to determine the most cost-effective approach by September 30, 2014.

Evaluation of Management's Response. Management's proposed actions are responsive to our recommendation. Therefore, we consider the recommendation resolved and will close it upon receipt and verification of those actions.

Scope and Methodology

We performed this audit from August 2013 through March 2014 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 various personnel including, but not limited to, those from the OCFO and its contractor responsible for conducting the IPIA risk assessment and testing activities on NASA's behalf. We reviewed the IPIA contractor's work papers and its final reports. We also reviewed the IPIA section of the AFR, including the part on recapture audits, 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 improper payments audit reports issued in March 2013 and May 2012.

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," October 21, 2013
- 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
- OMB Circular No. A-133, “Audits of States, Local Governments and Non-Profit Organizations,” June 26, 2007
- NASA Procedural Requirements (NPR) 9010.3, “Financial Management Internal Control,” September 30, 2008
- NPR 9050.4, “Cash Management and Improper Payments,” September 30, 2008
- NASA OCFO, “Payment Recapture Audit Program Administration Guidance,” June 25, 2013
- NASA OCFO, “Procedural Guidance, Improper Payments Information Act and OMB Circular A-123, Appendix C: Requirements for Effective Measurement and Remediation of Improper Payments,” November 2012

Use of Computer-Processed Data. We used computer-processed data that was extracted from NASA’s accounting system of the FYs 2012 and 2011 disbursements that was used by NASA’s IPIA and recapture audit contractors. 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 the Government Accountability Office (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/FY14/index> (NASA OIG) and <http://www.gao.gov> (GAO).

NASA Office of Inspector General

“NASA’s Compliance with the Improper Payments Information Act for Fiscal Year 2012” (IG-13-011, March 14, 2013)

“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

“Significant Improvements Needed in Efforts to Address Improper Payment Requirement,” (GAO-13-227, May 13, 2013)

“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)

MANAGEMENT COMMENTS

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



APR 10 2014

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 Report, "NASA's Compliance with the Improper Payments Information Act for Fiscal Year 2013" (Assignment No. A-13-019-00)

The Office of the Chief Financial Officer (OCFO) appreciates the opportunity to review and provide comments on the Office of Inspector General (OIG) draft report entitled, "NASA's Compliance with the Improper Payments Information Act for Fiscal Year 2013" (Assignment No. A-13-019-00), dated March 21, 2014.

In the draft report, the OIG makes ten recommendations intended to improve the Agency's Improper Payment Information Act and recapture audit program efforts. Specifically, the OIG recommends the following:

Recommendation 1: Consider using for its risk assessment a quantitative evaluation based on a statistical sample rather than the current risk factor techniques.

Management's Response: The OCFO partially concurs. NASA will continue to utilize its current risk assessment approach for its programs. In addition, we will continue to evaluate NASA's payment process internal control environment and consider using a qualitative evaluation approach, as appropriate, by September 30, 2014.

Recommendation 2: If risk assessments continue to be risk factor-based, restructure the process to ensure all OMB-required factors are included, review all available documentation when addressing the risk factors, and prepare comprehensive documentation that clearly supports the conclusions reached.

Management's Response: The OCFO concurs. NASA will continue to use all of the Office of Management and Budget (OMB) required factors, as well as other risk factors NASA deems appropriate to assess risk. We will ensure that conclusions are fully documented by September 30, 2014.

Recommendation 3: Implement a consistent methodology to identify programs for purposes of performing annual risk assessments.

Management's Response: The OCFO concurs. For Fiscal Year (FY) 2014 and beyond, we will document and execute a detailed methodology that identifies how programs will be evaluated for the purposes of performing the annual risk assessment. This will be implemented by September 30, 2014.

Recommendation 4: Reconsider including cost-type contract payments in the Agency's recapture audit efforts. If NASA determines that it is not cost-effective, the CFO should document the justification for excluding these payments, including demonstrating that the costs associated with recovering the funds are greater than the amount recovered.

Management's Response: The OCFO concurs. NASA will continue to evaluate its procure to pay process and recapture audit program. During the past decade, NASA has performed extensive evaluation of its payment program, including cost-type contract payments. NASA's improper payment review encompasses all types of payment contracts. Furthermore, NASA evaluated its procure to pay process, including cost-type contracts for FY 2013 disbursements. The review found no improper payments. In addition, during the past 7 years, NASA reviewed over 13,000 payment transactions and found only 76 improper payments; resulting in a "proper" payment percentage of approximately 99.5 percent. NASA also employs the Defense Contract Audit Agency (DCAA) to audit cost-type contracts, and during the close-out procedures, discrepancies that are identified will be determined and negotiated between the vendor and the contracting officer. Therefore, it would be duplicative in nature and not cost-effective to include cost-type contracts in a separate recapture audit. The results of our past improper payment and quality assurance reviews coupled with the DCAA audits clearly demonstrate that NASA's procure to pay process is not susceptible to a risk of significant improper payment. As such, the Agency has determined that its current risk posture does not warrant an expansion of its recapture audit. NASA will provide documentation supporting our conclusion by September 30, 2014.

Recommendation 5: Develop a comprehensive analysis and justification for its determination that inclusion of grants and cooperative agreements in recapture audit efforts is not cost-effective, provide OMB and OIG the determination and the analysis used to support the determination, and include the required disclosures in the AFR.

Management's Response: The OCFO concurs. NASA has performed a comprehensive analysis; the results will be shared with OMB and OIG. The required disclosures will be included in the Agency Financial Report (AFR) by September 30, 2014.

Recommendation 6: Develop a procedure describing the appropriate uses for recaptured funds and communicate this procedure to the parties responsible for posting the recaptured funds in NASA's financial management system.

Management's Response: The OCFO concurs. Procedural documentation will be updated and provided to parties responsible for posting recaptured funds by September 30, 2014.

Recommendation 7: Consult with the Office of the General Counsel to determine whether the application of funds for purposes other than the original appropriation resulted in an inappropriate augmentation to NASA's appropriations.

Management's Response: The OFCO concurs. Consultation with the Office of the General Counsel will occur to ascertain whether recaptured funds were applied appropriately by September 30, 2014.

Recommendation 8: Refine existing processes to collect the data necessary to complete the "Disposition of Recaptured Funds" table and take appropriate steps to ensure the accuracy of the data.

Management's Response: The OCFO concurs. NASA will make enhancements to the current processes by July 30, 2014.

Recommendation 9: Determine the appropriate universe of other sources of overpayment information outside of recapture audits, identify the parties who would possess that information, and coordinate with those parties to ensure they are aware of NASA's reporting requirements and their responsibility for tracking and communicating appropriate information to the OCFO.


Management's Response: The OCFO partially concurs. NASA will expand communication to include other appropriate parties and identify potential sources per the examples provided by OMB no later than September 30, 2014.

Recommendation 10: Determine how overpayment data can be obtained in the most efficient manner (manual or automated) and develop the processes necessary to collect and accurately report the data.

Management's Response: The OCFO concurs. Although we feel the data call is reasonably effective, refinements will be made to the current process for enhancing and collecting the data. OCFO will coordinate with the appropriate parties to determine the most cost-effective approach by September 30, 2014.

We have reviewed the draft report for information that we believe should not be publicly released and have provided our concerns regarding public release of that information to the OIG, as applicable.

Again, thank you for the opportunity to review and comment on the subject draft report. If you have further questions or require additional information on the NASA response to the draft report, please contact Kelly Barnes at (202) 358-7334.



Elizabeth (Beth) Robinson

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