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Office of Inspector General

Office of Audits

NASA'S COMPLIANCE WITH THE IMPROPER PAYMENTS INFORMATION ACT FOR FISCAL YEAR 2014

May 15, 2015

Report No. IG-15-015





Office of Inspector General

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RESULTS IN BRIEF

NASA's Compliance with the Improper Payments Information Act for Fiscal Year 2014

NASA Office of Inspector General
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May 15, 2015

IG-15-015 (A-15-002-00)

WHY WE PERFORMED THIS AUDIT

In fiscal year (FY) 2014, the Federal Government made an estimated \$125 billion in improper payments to individuals, organizations, and contractors, an increase of approximately \$19 billion from FY 2013. An improper payment is any payment 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; or lacked adequate supporting documentation.

To help identify and reduce improper payments, Congress passed the Improper Payments Information Act of 2002 (IPIA). IPIA requires heads of Federal agencies to annually identify programs and activities susceptible to improper payments and report certain information about those payments. The Improper Payments Elimination and Recovery Act of 2010 and the Improper Payments Elimination and Recovery Improvement Act of 2012 expanded IPIA's scope beyond commercial payments, required Inspectors General to evaluate agency compliance with IPIA, and required agencies to conduct payment recapture audits and report on improper payments in annual agency financial reports (AFR).

Our overall objective was to determine whether NASA complied with IPIA in FY 2014. We also evaluated the completeness and accuracy of the Agency's IPIA reporting and its implementation of recommendations made in prior IPIA reports.

WHAT WE FOUND

We concluded that although NASA complied with IPIA, it can improve its risk assessment process, payment recapture audits, and annual reporting. According to the Office of Management and Budget (OMB), which issues implementing guidance for IPIA, an agency must meet six criteria to comply with the Act, including conducting a program-specific risk assessment for each program or activity and publishing and posting on its website an AFR each year. NASA met all applicable OMB criteria for FY 2014.

However, as discussed in our previous IPIA reports, we continue to believe NASA can improve its risk assessment process to increase the likelihood of identifying improper payments. To conduct the risk assessment for 2014, NASA's contractor identified and weighted seven risk conditions using a 100-point scale based on relevance and significance. The contractor reviewed FY 2013 disbursements recorded in the Agency's financial management system, identified 93 programs, and analyzed these programs for risk of improper payments. NASA rated certain risk conditions the same for all programs, not fully considering what we believe are significant distinctions between programs that merit different ratings. Further, NASA considered only the risk factors listed in IPIA and OMB guidance, and not other relevant factors such as the substantial backlog of Defense Contract Audit Agency incurred cost audits of Agency contracts, which assess the costs contractors charge to the Government and are a key control for detecting improper payments. In addition, NASA used unclear scoring criteria and conducted incomplete research for one of the risk conditions.

We also found NASA limited its annual payment recapture audits to fixed-price contracts, which, of the various procurement vehicles, have the lowest risk of improper payments. By failing to consider cost-type contracts, grants, and cooperative agreements, NASA increased the risk improper payments may go undetected. Further, NASA did not notify OMB of its decision to exclude grants and cooperative agreements or provide OMB with its supporting analysis.

Finally, we found inaccuracies in NASA's FY 2014 AFR, including errors in the tables concerning payment recapture audits, disposition of recaptured funds, and overpayments recaptured from other sources. As a result, NASA's AFR does not provide an accurate picture of NASA's payment recapture efforts.

WHAT WE RECOMMENDED

To assist NASA in improving its risk assessment process and recapture audit program, we made six recommendations to the Chief Financial Officer, including that he modify NASA's risk assessment methodology, include cost-type contract payments in the Agency's recapture audit efforts, and develop a comprehensive justification explaining NASA's determination to exclude grants and cooperative agreements. We also made four recommendations to the Chief Financial Officer to improve the accuracy and completeness of NASA's reporting of its payment recapture efforts.

In response to a draft of this report, the Chief Financial Officer concurred or partially concurred with our recommendations and proposed corrective actions to address them. We find the proposed corrective actions responsive to our recommendations and will close the recommendations upon verification and completion of those actions.

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Acronyms

AFR	Agency Financial Report
CFO	Chief Financial Officer
DCAA	Defense Contract Audit Agency
FY	Fiscal Year
GAO	Government Accountability Office
HHS	Department of Health and Human Services
IPERA	Improper Payments Elimination and Recovery Act of 2010
IPERIA	Improper Payments Elimination and Recovery Improvement Act of 2012
IPIA	Improper Payments Information Act of 2002
NSSC	NASA Shared Services Center
OCFO	Office of the Chief Financial Officer
OI	Office of Investigations
OIG	Office of Inspector General
OMB	Office of Management and Budget
WAWF	Wide Area Workflow

INTRODUCTION

Each year the Federal Government makes billions of dollars in improper payments to individuals, organizations, and contractors, including a reported \$125 billion in fiscal year (FY) 2014 alone – an increase of approximately \$19 billion from the FY 2013 estimate of \$106 billion.¹

The Improper Payments Information Act of 2002 (IPIA) requires the heads of Federal agencies annually to identify programs and activities susceptible to improper payments, estimate the amount of improper payments, and 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) and the Improper Payments Elimination and Recovery Improvement Act of 2012 (IPERIA) amended IPIA to (1) expand its scope beyond commercial payments, including payments made in connection with grants and cooperative agreements, employee disbursements, and Government charge cards; (2) require Federal agencies to report information on improper payments annually to the President and Congress through agency financial reports (AFR); (3) require agencies conduct payment recapture audits for each program and activity with at least \$1 million in annual program outlays when cost effective; and (4) require agency Inspectors General to determine whether their agencies comply with IPIA requirements.² Agency Inspectors General may also evaluate the accuracy and completeness of agency reporting and performance in reducing and recapturing improper payments.

Our overall objective was to determine whether NASA complied with the requirements of IPIA in FY 2014. We also evaluated the completeness and accuracy of the Agency's IPIA reporting and its implementation of recommendations made in our prior IPIA reports. See Appendix A for details of the audit's scope and methodology.

Background

The Office of Management and Budget (OMB) issued implementing guidance for IPIA defining an improper payment as “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.” Improper payments may include payments made to an ineligible recipient or for ineligible goods or services, duplicate payments, payments in an incorrect amount (overpayments or underpayments), payments that lack adequate supporting documentation, or payments for goods and services the agency did not receive.³

¹ Government Accountability Office, “Testimony Before the Committee on Homeland Security and Governmental Affairs, U.S. Senate; Improper Payments: Government-Wide Estimates and Use of Death Data to Help Prevent Payments to Deceased Individuals” (GAO-15-482T, March 16, 2015).

² Unless otherwise noted, use of the term IPIA refers to IPIA as amended by IPERA and IPERIA.

³ OMB, “Appendix C to Circular A-123, *Requirements for Effective Estimation and Remediation of Improper Payments*” (M-15-02, October 20, 2014). Hereafter “OMB guidance” refers to OMB M-15-02, unless noted otherwise.

According to OMB, to comply with IPIA an agency must

1. publish an AFR annually and post it and any accompanying materials required by OMB on its website,
2. conduct a program-specific risk assessment for each program or activity,
3. publish improper payment estimates for all programs and activities the risk assessment identifies as susceptible to significant improper payments,
4. publish corrective action plans in its AFR,
5. publish and meet annual reduction targets for each program assessed to be at risk, and
6. report 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 AFR.

Prior Office of Inspector General Reviews of NASA's Compliance with IPIA

As required, the NASA Office of Inspector General (OIG) has assessed the Agency's compliance with IPIA annually since FY 2011. In each of the last 3 years, we reported NASA has complied with the requirements of the statute but at the same time noted areas for improvement, making 22 recommendations to NASA management.⁴ Our recommendations focused primarily on the Agency's methodology for performing its risk assessment, the scope of its recapture audit efforts, and its reporting of improper and recaptured payments. In response to our recommendations in past years, NASA agreed to analyze and modify its risk assessment methodology, increase the scope of its testing, improve its reporting process, and analyze the scope of its recapture audit efforts. We closed recommendations if corrective actions were completed and verified; however, if additional corrective actions were necessary, we closed the prior year recommendation and incorporated the issue into a new or refined recommendation for the subsequent year. See Appendix B for the status of prior year recommendations.

NASA's FY 2014 Processes to Estimate and Recover Improper Payments

As in prior years, for FY 2014 the Quality Assurance Division of NASA's Office of the Chief Financial Officer (OCFO) was responsible for ensuring compliance with IPIA, overseeing the Agency's recapture audit program, and reporting on these efforts. OCFO contracted with an outside company to conduct a risk assessment and estimate improper payments in those programs and with a second company to perform payment recapture audits.

⁴ NASA OIG, "NASA's Efforts to Identify, Report, and Recapture Improper Payments" (IG-12-015, May 1, 2012); "NASA's Compliance with the Improper Payments Information Act for Fiscal Year 2012" (IG-13-011, March 14, 2013); and "NASA's Compliance with the Improper Payments Information Act for Fiscal Year 2013" (IG-14-016, April 15, 2014).

Assessing Risk and Estimating Improper Payments

OMB issued its most current guidance regarding risk assessments in October 2014. However, NASA completed its FY 2014 risk assessment prior to issuance of this guidance and therefore used guidance OMB issued in April 2011 for its FY 2014 assessment.⁵ To conduct the assessment, NASA’s contractor reviewed FY 2013 disbursements recorded in the Agency’s financial management system and initially identified 121 unique programs. The contractor then compared these programs to the Agency’s approved budget and combined some programs to bring the total number of unique programs to 93.⁶ Unlike in prior years, when only programs that exceeded \$80 million in disbursements were assessed, the contractor analyzed all 93 programs for risk of improper payments.

As the first step in the risk assessment process, seven risk conditions were identified and weighted using a 100-point scale based on relevance and significance (see Table 1). Within the risk conditions, the contractor considered the minimum risk factors specified by OMB. Appendix C features a complete list of the OMB-required risk factors.

Table 1: Risk Conditions and Weighted Percentages

Risk Condition	Weighted Percentage
Internal Control over Payment Processing	30%
Internal Monitoring and Assessments	10%
External Monitoring and Assessments	5%
Human Capital Risk	10%
Program Profile	10%
Payment Profile	20%
Dollar/Materiality of Disbursements	15%

Source: NASA, “Fiscal Year 2014 NASA Improper Payment Program: Risk Assessment Methodology and Report” (November 17, 2014).

NASA developed specific questions for each risk condition and scoring criteria that assigned a risk rating to each question. A risk rating of 1 (low), 3 (medium), or 5 (high) was assigned to each question based on a review of various evidence. The condition-level rating corresponded to the highest numerical rating given to the questions for that condition. An overall risk score for the program was computed based on the weighted average of all risk condition ratings. If a program had an overall risk score of 3.33 or higher, it was considered susceptible to significant improper payments and tested on a statistical basis to estimate the amount of improper payments made. None of NASA’s programs scored 3.33 or higher and therefore were not considered susceptible to significant improper payments. As such, no estimate of such payments was made for these programs.

⁵ OMB, “Issuance of Revised Parts I and II to Appendix C of OMB Circular A-123” (M-11-16, April 14, 2011).

⁶ The contractor combined 20 programs within the Institutions and Management mission, 9 programs within the Education mission, and the Commercial Crew and Commercial Cargo programs to form 3 consolidated programs.

Payment Recapture Audits

Payment recapture audits are performed annually on NASA's prior fiscal year disbursements to vendors under fixed-priced contracts. For FY 2014, approximately \$3.97 million in such disbursements were subject to audit. The recapture auditor utilizes a multidisciplinary approach to identify overpayments, duplicate payments, erroneous payments, and other errors (collectively referred to as overpayments). Potential overpayments are identified using data analytics, while potential credits on vendor account statements are identified by sending a request letter to selected vendors. After the recapture auditor identifies a potential overpayment, the appropriate Center's OCFO performs additional research to confirm whether an overpayment has in fact occurred. Upon confirmation, the NASA Shared Services Center (NSSC) is responsible for billing and collecting the overpayment.

In FY 2014, the contractor identified potential overpayments but the process of confirming these transactions as actual overpayments was not completed before the end of the reporting period (September 30, 2014). Accordingly, NASA reported no overpayment recoveries in its FY 2014 AFR and plans to report the FY 2014 results in its FY 2015 AFR.

NASA COMPLIED WITH IPIA IN FY 2014

Based on our review of NASA's FY 2014 AFR, website, and risk assessment, we concluded NASA complied with IPIA for FY 2014.⁷ As indicated in Table 2, NASA met all applicable OMB criteria for FY 2014.

Table 2: IPIA Compliance Summary

Criteria for Compliance	Criteria Met?
Published and posted on Agency website its FY 2014 AFR	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 is meeting, 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 or activity for which an improper payment estimate was obtained and published in the AFR	N/A

Source: NASA OIG.

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

⁷ See: <http://www.nasa.gov/news/budget/index.html> (last accessed, May 6, 2015).

NASA'S RISK ASSESSMENT PROCESS COULD BE IMPROVED

Although we concluded NASA complied with IPPIA, we continue to believe the Agency can improve its risk assessment process to make identification of improper payments more likely. First, the Agency rated certain risk conditions the same for all programs without fully considering what we believe are significant distinctions between programs that merit different ratings. Second, NASA did not consider that Defense Contract Audit Agency (DCAA) incurred cost audits of NASA contracts are substantially backlogged when assessing the risk a program may be susceptible to significant improper payments. Third, NASA did not clearly define the scoring criteria for the risk factor related to the results of prior improper payment reviews, and the research the Agency performed to determine the programs impacted by these reviews was incomplete.

NASA Did Not Consider Program Uniqueness

Generally the "Payment Profile" and "Internal Control over Payment Processing" risk conditions were rated the same for each NASA program. Specifically, the contractor documented that NSSC was responsible for the payment process for all programs, even though payments for some programs are made by outside organizations. Additionally, the contractor considered NASA's implementation of the Department of Defense's Wide Area Workflow (WAWF) system applicable to all programs even though WAWF is authorized only for certain cost-type contracts.⁸

Payment Processors

While NSSC processes most of NASA's payments, some payments are processed by outside service organizations. For example, Federal financial assistance payments such as grant drawdowns and payroll payments are disbursed by the Department of Health and Human Services (HHS) and the Department of the Interior, respectively. NASA's Payment Profile risk condition contained a question designed to rate risk based on the organization that processes payments. According to the scoring criteria, a risk rating of 5 is assigned when "payment processing was performed by a separate organization, not NASA" and a risk rating of 3 is assigned when "payment processing was performed by NASA but not NSSC (and not a separate organization)." A rating of 5 represents a higher risk of improper payments in the program.

NASA's responses to the payment processor question treated every program the same, stating that all programs have the same payment types (e.g., contracts, travel reimbursements, grant drawdowns, purchase card, and payroll disbursements) with NSSC generally performing payment processing thereby resulting in a rating of 3 (medium risk) for this factor. OCFO justified this rating by asserting that it does not consider HHS to be a payment processor because NSSC has various reconciliation and validation controls to which Federal assistance payments are subjected. We disagree with this assertion. While

⁸ The WAWF system is a web-based information system operated by the Defense Logistics Agency that automates the initiation, receipt, and acceptance of electronic invoices, receiving reports, and payment requests from vendors.

NSSC may have controls in place to reconcile the Agency's records with HHS disbursements, these reconciliations are performed only after HHS has distributed the funds. Further, controls that reconcile amounts disbursed by one entity but are recorded by another may not identify improper payments.

In accordance with the Agency's risk rating instructions, the Payment Profile risk condition should have been rated a 5 for any program that had payments made by a service organization. Assigning a 5 to this condition may have raised the overall risk score for some programs above the 3.33 threshold NASA used to determine whether programs were susceptible to significant improper payments and therefore required further testing of those programs to identify any such payments.

Changes to Payment Process

In addressing the Internal Control over Payment Processing risk condition whether the payment center made any changes to the payment process, NASA officials said Phase I of the WAWF utilization had been implemented across all programs. However, we found this inaccurate because only certain contracts were authorized to use WAWF.⁹ Further, the Agency's response indicated that the new e-invoicing process was "a significant change in the payment process because new controls (including application controls) have to be designed and operating effectively in the new process to ensure that invoices are properly authorized, approved, and disbursed in the right amount."

According to the scoring criteria, a risk rating of 5 is assigned when changes to the payment process were significant, while less significant changes should result in a risk rating of 3. Even though the written response stated that the change to WAWF was significant, NASA assigned a 3 rating, which is contradictory to the scoring criteria. We believe programs that processed invoices through WAWF should have received risk ratings of 5. Assigning a 5 to this condition may have raised the overall risk score for some programs above the 3.33 threshold NASA used to determine whether programs were susceptible to significant improper payments and therefore required further testing to identify any such payments.

NASA's rationale for the rating contradiction was that while WAWF was a significant change in the receipt of invoices and approval documentation there was no a change to the approval itself or to payment processing by NSSC. Subsequent to the Agency's risk assessment, the independent auditors who conducted NASA's FY 2014 financial statement audit found the Agency was unable to assess or provide evidence that the WAWF controls intended to ensure the completeness, accuracy, and validity of invoices processed through the system were designed or operating effectively. Accordingly, in our view NASA relied on a control structure that may not have been sufficient to compensate for risks introduced by the new WAWF process. Further, the design and operating effectiveness of WAWF's controls had not been tested by an independent auditor prior to NASA issuing the AFR. We believe NASA's reliance on WAWF's untested control structure increased the risk that invoices processed through WAWF were not processed appropriately and therefore that improper payments may have been made.

⁹ NASA implemented WAWF in three phases. Phase I was implemented May 6, 2013, and included 14 volunteer vendors with 46 NASA cost-type contracts.

Timeliness of Defense Contract Audit Agency Audits

NASA's FY 2014 risk assessment considered only the risk factors listed in the statute and OMB guidance and did not consider other potentially relevant risk factors affecting NASA programs. Although both the law and guidance describe the basic risk factors agencies should consider, these factors were not intended to be exclusive. Both the statute and guidance direct agencies to consider any risk factors likely to contribute to significant improper payments.

Incurred cost audits that assess whether costs contractors charge the Government are properly applied to the contracts, sufficiently supported, and allowable are a key control for detecting improper payments. While DCAA performs incurred cost audits for NASA under a reimbursable agreement, as discussed in a 2014 OIG audit DCAA has a substantial audit backlog and has changed its selection methodology so that fewer NASA contracts are reviewed.¹⁰ Moreover, NASA's contracting officers rely almost exclusively on DCAA's audits to identify unallowable, unreasonable, and unallocable costs. Although the lack of timely DCAA audits poses a risk that improper payments will not be identified in a timely manner, NASA did not consider this issue as part of its risk assessment.

Unclear Scoring Criteria and Incomplete Research for Risk Factor Related to the Results of Prior Reviews

The distinction between medium and high risk in the scoring criteria for the risk factor related to results from prior improper payment work is ambiguous. The only difference between the two categories is insertion of the word "significant" in the description of improper payments resulting from audits or the number of outstanding audit findings and recommendations relating to the payment process. Without a clear definition, the ratings may be inconsistently applied.

When we inquired about these terms, OCFO explained that improper payments and audit findings were considered significant if a report described them as a "material weakness" or if there was more than one report noting deficiencies in the same program. However, even if this unwritten definition was consistently applied, the term material weakness is not typically used to classify deficiencies in performance audits or improper payment reviews. Since most audits performed by the NASA OIG and Government Accountability Office (GAO) follow performance audit standards, it is not likely that the term material weakness would be used. Thus it is unclear what would constitute a material weakness or if the specific term would have to be used in a report for OCFO to score the risk factor as high. Additionally, it is unclear if deficiencies noted in an audit report must be referred to as improper payments or just note a potential for improper payments for OCFO to score the risk factor as high.

Further, the research performed by NASA for this risk factor was not comprehensive. While an audit report may identify a specific procurement vehicle (e.g., contract, grant, or cooperative agreement) by award number, it will not necessarily identify the Agency program funding that vehicle. If an audit report concludes improper payments existed or there was an indicator of potential improper payments, then NASA needs to know the affected program when assessing risk. In order to identify the funding program of the procurement vehicles listed in several audit reports, NASA looked up the procurement

¹⁰ NASA OIG, "Costs Incurred on NASA's Cost-Type Contracts" (IG-15-010, December 17, 2014).

vehicle in the Contract Management Module of the Agency’s financial management system.¹¹ From the documentation supporting OCFO’s review of the audit reports, we found OCFO did not determine the funding program for all of the procurement vehicles identified and thus NASA did not consider the potential for improper payments identified in the reports when assessing the risk of these programs. We conducted our own research using the Agency’s financial management system and were able to determine the program that funded each of the procurement vehicles in question.

¹¹ The Contract Management Module is NASA’s comprehensive tool that supports contract and grant writing and administration, workload management, and data reporting.

SCOPE OF NASA'S RECAPTURE EFFORTS LIMITED

Consistent with our findings in prior years, NASA continued to limit its annual payment recapture audits to fixed-price contracts and exclude from testing cost-type contracts, grants, and cooperative agreements. In addition, we found lacking NASA's documentation of the reasons for the decision to exclude cost-type contracts, grants, and cooperative agreements and its notification regarding this decision. Last year we reported that expenditures from cost-type contracts, and grants and cooperative agreements accounted for 69 percent and 3 percent, respectively, of all NASA procurement-related spending.¹²

Exclusion of Cost-Type Contracts

As we reported for the last 3 years, NASA continued to exclude cost-type contracts from its payment recapture audits and instead focused exclusively on fixed-price contracts. However, fixed-price contracts typically provide the lowest risk of improper payments because they are generally not subject to fluctuations in contractor costs. By only including fixed-price contracts, NASA bypassed review of other Agency procurement-related expenditures and increased the risk that improper payments may go undetected.

OMB guidance permits agencies to exclude certain programs and activities from their recapture audit program if they determine their inclusion would not be cost-effective. The agency must notify OMB and its Inspector General of this decision and provide an analysis underlying the decision. For the last several years, NASA has asserted that inclusion of cost-type contracts in recapture audits was not cost-effective because DCAA audits these contracts and additional review would be duplicative. NASA notified OMB and the OIG of this decision and its underlying reasoning in its January 2011 recapture audit plan.

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* [emphasis added] to identify and recapture overpayments." In our view, DCAA audits do not duplicate recapture audits. Furthermore, DCAA itself has informed NASA 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.

¹² NASA OIG, "NASA's Compliance with the Improper Payments Information Act for Fiscal Year 2013" (IG-14-016, April 15, 2014).

As an additional reason to exclude cost-type contracts, NASA asserted in FY 2013 that the results of its prior years' improper payment testing, which included tests of disbursements on cost-type contracts, had not yielded any significant improper payments. However, IPIA testing and payment recapture audits are not the same, and the results of IPIA testing do not necessarily equate to evidence that exclusion of cost-type contracts from recapture audits is 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 collect in a cost-effective manner.

In response to our FY 2013 recommendation number 4 (see Appendix B), NASA stated the Agency's procure-to-pay process is not susceptible to a risk of significant improper payments as demonstrated by the results of its past improper payment reviews and in light of DCAA audits of cost-type contracts. As such, the Agency declined to expand its recapture audit program and said it would provide additional documentation to support its conclusion. However, NASA did not provide this documentation.

In any event, we continue to believe NASA's decision to exclude cost-type contracts from its recapture audit efforts increases the risk that improper payments will not be timely identified and recaptured. DCAA estimates it has a 6-year backlog of approximately 19,000 incurred cost proposals awaiting review, including 1,153 proposals related to NASA contracts. Approximately 39 percent of those proposals are more than 6 years old.¹³ In an effort to reduce its backlog, DCAA revised its methodology for selecting proposals for incurred cost audits, which will result in fewer NASA cost-type contracts undergoing audit. Between FYs 2009 and 2013, DCAA performed 337 incurred cost audits of proposals submitted by NASA contractors and identified \$313.5 million in questioned costs.¹⁴ Further, for these same years the Agency's sustainment rate ranged between 6 and 71 percent.¹⁵ Again, we believe this underscores our position that NASA can identify and recover improper payments if it conducts recapture audits on its cost-type contracts.

Documentation and Notification of Exclusion of Grants and Cooperative Agreements

As in past years, NASA continued to exclude grants and cooperative agreements from payment recapture audits by asserting that recapture audits for these vehicles would not be a cost-effective method for identifying improper payments. We found the OCFO's justification for this decision insufficient.

¹³ NASA OIG, "Costs Incurred on NASA's Cost-Type Contracts" (IG-15-010, December 17, 2014).

¹⁴ Under Government regulations, a questioned cost is a cost questioned by the auditor because it (1) resulted from a violation of law, regulation, or agreement; (2) was not supported by adequate documentation; or (3) appeared unreasonable. When DCAA questions a cost, the cognizant Federal agency – normally the agency with the largest dollar amount of contracts (including options) with the contractor – must agree the cost was improper or otherwise should not have been charged to the Government before the Government may seek recovery from the contractor. With respect to NASA contracts, the Defense Contract Management Agency or NASA is the cognizant agency.

¹⁵ Sustained costs are incurred costs questioned by an audit organization that management has agreed should not be charged to the Government.

Since the OIG began reporting on NASA's compliance with IPIA, NASA has excluded grants and cooperative agreements from its recapture audit efforts and has not noted the exclusion in its AFR. Although we received written notification of NASA's decision to exclude the agreements from recapture audits for the FY 2013 reporting period, the justification provided was unpersuasive. In its justification, NASA stated 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. Further, NASA did not provide OMB with its decision or the full supporting analysis to exclude this population from the payment recapture audits. In response to our prior year recommendation number 5 (see Appendix B), NASA indicated that a comprehensive analysis had been performed and would be provided to OMB and the OIG and that the required disclosures would be included in the FY 2014 AFR. However, neither of these events occurred in FY 2014.

INACCURACIES IN NASA'S ANNUAL REPORTING

Although NASA included the required information on its recapture audit efforts in its FY 2014 AFR, we noted errors in the tables concerning payment recapture audit reporting, disposition of recaptured funds, and overpayments recaptured from other sources. Additionally, NASA did not report all overpayments recaptured from other sources. We noted similar errors in NASA's reporting the past 3 years.

Inaccurate Reporting of the Payment Recapture Tables

OMB guidance requires agencies to include specific information regarding improper payments and the recapture of such payments in their annual AFR.¹⁶ Much of the information is reported in table format and includes information on payment recapture audit efforts, the disposition of cumulative amounts recovered, and improper payments identified and recovered through sources other than payment recapture audits. NASA has reported payment recapture information annually in its AFR but the reporting continues to include errors.

Payment Recapture Audit Reporting Table

The "Payment Recapture Audit Reporting" table summarizes the Agency's efforts and results of its payment recapture audits. For each payment type within the audit's scope, the table reflects the amount subject to review, the amount actually reviewed, and the current year, prior year, and cumulative amount of overpayments identified, recovered, and outstanding. NASA's FY 2014 AFR underreported the amounts subject to review and actually reviewed by \$758. According to OCFO personnel, the AFR publication process relies on the manual entry of this information and they believe the error occurred as a result of the manual entry process. Given the inherent risk for mistakes with manual input, a more rigorous review of the supporting documentation prior to publication of the AFR should have been performed to ensure accuracy.

Disposition of Recaptured Funds Table

Agencies may use recaptured funds in a variety of ways depending 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.¹⁷ An agency is required to report in its AFR the disposition of recaptured funds on a cumulative basis. Because NASA did not report any overpayments recaptured as a result of payment recapture audits in FY 2014, the disposition of cumulative amounts recaptured from prior years should have been reflected in this table.

¹⁶ OMB Circular A-136, "Financial Reporting Requirements" (September 18, 2014).

¹⁷ 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.

We found inaccuracies in the amounts NASA reported in the “Disposition of Funds” table in FYs 2012 and 2013. For the FY 2012 reporting period, NASA reported a disposition of only \$881 (which it paid to the recapture auditor) when it actually recaptured \$3,525. For the FY 2013 reporting period, NASA reported dispositioning \$48,126 and recapturing \$39,351, which could not have been the case. Moreover, it reported dispositioning \$8,775 twice – once as credited back to the original appropriation and again as having been paid to the recapture auditor. Further, \$72 of the money paid to the auditor came from the current year appropriation rather than recaptured funds.

Because NASA reported no recaptured funds in FY 2014, the amounts reported in the Disposition of Funds table should have been \$42,876, the disposition of the cumulative amount recaptured in FYs 2012 and 2013. Instead, NASA reported a total of \$49,007 because it did not correct the errors in its FYs 2012 and 2013 tables that we previously identified. Table 3 shows the total amounts reported as recaptured and dispositioned, as well as the net cumulative difference between these amounts at the end of FY 2014. According to OCFO personnel, these errors were an oversight.

Table 3: Historical Reporting of Funds Recaptured and Dispositioned

Fiscal Year of AFR	Total Funds Recaptured in the Current Year	Cumulative Funds Dispositioned	Net Dispositioned Funds Incorrectly Reported by NASA
FY 2012	\$3,525	\$881	
FY 2013	39,351	48,126 ^a	
FY 2014	–	49,007	
Cumulative Total	\$42,876	\$49,007	\$6,131

Source: OIG analysis of NASA data.

^a NASA indicated amount reported was not cumulative.

Overpayments Recaptured Outside of Payment Recapture Audits Table

OMB requires agencies to report on improper payments identified and recovered from sources other than payment recapture audits. Possible sources of improper payment information include statistical samples and risk assessments, agency post-payment reviews, prior payment recapture audits, agency OIG reviews, GAO reports, self-reported errors, reports from the public, audit reports, and results of the agency audit resolution and follow-up process.

NASA OCFO requested via a data call information from various Agency offices to complete the “Overpayments Recaptured Outside of Payment Recapture Audits” table for FY 2014. Using the information received, NASA reported \$379,903 as identified and recovered in the current year from self-reported overpayments. Based on our review of the documentation submitted to OCFO and additional inquiry with the NASA Centers that provided the information, we determined \$66,448 of the \$379,903 was not recovered during the reporting period and thus was incorrectly reflected in the table as being recovered in the current year. As a result, the amounts reported as recovered in the current year and cumulatively were overstated. According to OCFO, the initial documentation provided in response to the data call did not include sufficient detail to determine the date when collection of the overpayment was received. OCFO did not make any additional inquiries to obtain the specific collection information.

Incomplete Reporting of Overpayments Recaptured Outside of Payment Recapture Audits

As discussed, NASA is required to report in its AFR improper payments identified and recovered through sources other than payment recapture audits. Annually, OCFO sends a letter to various organizations, including each Center OCFO, the OIG, NSSC, the Agency Office of Procurement, and DCAA, inquiring “whether there are any payment recapture activities or other recovery actions that occurred during fiscal year (FY) 2013 and amounts recovered.” While we did not attempt to identify all improper payments from sources outside of payment recapture audits that were not reported in NASA’s FY 2014 AFR, we identified indications that additional overpayments existed.¹⁸

Center-Identified Overpayments

In prior years, every Center OCFO responded that it had no identified or recovered overpayments. However, this year Glenn Research Center (Glenn) and Langley Research Center (Langley) reported overpayments totaling \$431,709. Both Centers identified these amounts by generating a report from NASA’s financial management system and then researching each individual transaction to determine whether it met the definition of an improper payment. The types of overpayments included employee travel, duplicate payments to vendors, civil fraud settlements, and payments to the incorrect vendor. Given the nature of the overpayments identified, we believe it likely that other Centers would have identified overpayments had they performed a similar exercise.

OCFO excluded \$50,259 of the amount Glenn reported because the overpayment was described as proceeds of a civil fraud settlement. In response to our inquiries, we were informed OCFO had insufficient information to ascertain if the amount was a valid improper payment. However, OCFO did not provide us with evidence supporting that any additional information was obtained or analysis was performed prior to our inquiries. Ultimately, OCFO determined the amount was valid and will be reported in the FY 2015 AFR.

The universe of transactions researched and reported by Langley incorrectly omitted overpayments such as those to Federal employees.¹⁹ Langley stated in its data call response that it only included contractor overpayments but listed other categories that it ignored during its analysis (e.g., employee debts and travel). Langley asked OCFO if additional information was needed or if the request was misinterpreted. According to Langley personnel, they received no further communication from OCFO and thus were unaware that it was incorrect to limit the scope to contractor overpayments.

Other NASA Organizations

Responses from NSSC and the OIG Office of Investigations (OI) also referenced overpayments NASA did not report in the AFR. While NSSC’s response to the data call did not include a listing of overpayments at the transaction level, NSSC stated that it performed an annual cash management review and monthly travel voucher audits that could have identified overpayments and that those reports had already been

¹⁸ FY 2012 referred to the prior year and FY 2013 referred to the current year for the reporting period related to this table within the FY 2014 AFR.

¹⁹ Effective in FY 2014, the term “payment” was expanded to include distributions to a Federal employee for salary, locality pay, travel pay, purchase card use, and other employee payments.

provided to OCFO.²⁰ Our review of the FY 2013 monthly travel audit reports disclosed that overpayments were identified each month for a total of approximately \$35,000. It appears OCFO disregarded NSSC's response and did not retrieve the previously submitted reports since specific details were not provided in response to their data call. Conversely, when OCFO received OI's response regarding approximately \$17 million in overpayments, OCFO requested additional information beyond that provided by OI in response to the original data call. OCFO stated that because OI's follow up response was late and did not contain sufficient information for it to validate the data, it did not include the \$17 million in the AFR. It appears OCFO's validation efforts were a cursory review of the overpayment description to determine if the amount was the result of an improper payment and confirm it was not a duplicate of an overpayment reported from another source. However, OCFO's data call did not include a requirement for organizations to submit descriptions of each overpayment.

Sustained Questioned Costs from DCAA Audits

DCAA audits of NASA contractors are another potential source of overpayments identified and recaptured other than from recapture audits.²¹ We recognize not all questioned costs identified in these reports equate to overpayments; however, questioned direct costs sustained by a contracting officer would qualify.²² Between FYs 2009 and 2013, DCAA identified \$313.5 million in questioned costs and the Agency's rate of sustainment fluctuated between 6 and 71 percent.²³ Although administrative contracting officers render decisions on questioned costs, OCFO does not send them the annual data call letter. NASA OCFO assumes Center OCFOs coordinate with Center Procurement and produce a combined response. However, since OCFO began requesting payment recapture information from other sources, no Center has reported an overpayment identified as a result of a DCAA audit. Further, DCAA has consistently reported that it is not involved in recapture audit activities and thus does not provide improper payment information.

In response to prior year recommendation number 9 (see Appendix B), OCFO held a teleconference in September 2014 with recipients of its data call letter. However, even after the teleconference several respondents indicated that they did not have a clear understanding of the data requested, how to gather the data, or the preferred presentation format.

²⁰ Cash management reviews are designed to (1) determine if funds are being collected and disbursed by electronic funds transfer to the maximum extent possible; (2) determine if billings, collections, and deposits are occurring in a timely manner; (3) determine if disbursements are processed timely and accurately, properly documented, and are being made in accordance with 5 CFR 1315, "Prompt Payment"; (4) determine if opportunities exist to implement new mechanisms or processes or to upgrade existing mechanisms or processes; and (5) determine if adequate internal controls are in place.

²¹ As previously reported, cost-type contracts are excluded from NASA's recapture audit efforts.

²² Sustained costs are incurred costs questioned by an audit organization that management has agreed should not be charged to the Government.

²³ Contractors who incur costs on cost-type or other flexibly priced contracts are required annually to submit an incurred cost proposal outlining their direct and indirect costs.

CONCLUSION

Based on our review of the FY 2014 AFR and supporting documentation, we concluded NASA complied with IPFA. However, similar to our prior audits we found NASA could improve its risk assessment process and expand the scope of its recapture audit program, and that doing so would provide a more robust picture of the scope of potential improper payments at the Agency. We also found that NASA continues to make errors in its AFR that cause the report to provide an inaccurate picture of the Agency's payment recapture efforts.

RECOMMENDATIONS, MANAGEMENT'S RESPONSE, AND OUR EVALUATION

To improve NASA's risk assessment process, we recommended that the Chief Financial Officer (CFO):

1. Modify the risk assessment methodology to recognize the differences in payment processes within the programs.
2. Incorporate a risk factor that considers the timeliness of DCAA's contract audits when assessing the risk of programs susceptible to significant improper payments.
3. Revisit the description of the scoring criteria for all risk factors, particularly the risk factor related to deficiencies in audit reports, to ensure they are clearly defined.
4. Utilize the Agency's financial management system when researching the program(s) associated with procurement vehicles referenced in audit reports.

To improve NASA's recapture audit program, we recommended the CFO:

5. Include cost-type contract payments in the Agency's recapture audit efforts. If NASA determines this proposal is not cost-effective, the CFO should document its justification for excluding these payments, including demonstrating that costs associated with recovering the funds are projected to be greater than the amount recovered.
6. Develop a comprehensive analysis and justification for the Agency's determination that inclusion of grants and cooperative agreements in recapture audit efforts is not cost-effective, provide OMB and the OIG the determination and the analysis used to support the determination, and include the required disclosures in the AFR.

To improve the accuracy and completeness of NASA's reporting of its payment recapture program efforts, we recommended the CFO:

7. Strengthen procedures to verify the accuracy of the information in the draft AFR.
8. Refine the existing process for completing the recapture audit tables by implementing a procedure to verify that errors noted in prior audits impacting the accuracy and completeness of the data are corrected.
9. Improve the data collection, review, and reporting processes to ensure the recapture audit tables are accurately completed.
10. Revisit the existing process to obtain and report on overpayments identified and recaptured from sources other than the recapture audit. At a minimum, the process should address
 - a. identification of the appropriate universe of other sources of overpayment information;
 - b. determination of the organizations and individuals who possess that information;
 - c. implementation of training, as early as possible in the fiscal year, to those organizations or individuals to ensure they are aware of NASA's reporting requirements and their

responsibility for tracking and communicating the information to OCFO, including specific details of the information to be reported and the format; and

- d. coordination and continuous communication with those organizations and individuals to ensure accurate and complete information is provided to OCFO.

We provided a draft of this report to NASA management for review and comment; management's comments are reproduced in Appendix D. Technical comments provided by management have also been incorporated, as appropriate.

In response to a draft of this report, the CFO concurred or partially concurred with our recommendations and proposed corrective actions to address them. We find the proposed actions responsive to our recommendations and will close the recommendations upon verification and completion of those actions.

Major contributors to this report include, Mark Jenson, Financial Management Directorate Director; Regina Dull, Project Manager; Deirdre Beal; and Bret Skalsky.

If you have questions about this report or wish to comment on the quality or usefulness of this report, contact Laurence Hawkins, Audit Operations and Quality Assurance Director, at 202-358-1543 or laurence.b.hawkins@nasa.gov.



Paul K. Martin
Inspector General

APPENDIX A: SCOPE AND METHODOLOGY

We performed this audit from December 2014 through April 2015 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 OCFO and its contractor responsible for conducting the IPIA risk assessment and testing activities on NASA's behalf. We also reviewed the IPIA section of the AFR, including the part on payment recapture audits, and supporting documentation. Based on our reviews and interviews, we determined that NASA complied with the requirements of IPIA and evaluated the completeness and accuracy of NASA's reporting of IPIA data and the Agency's implementation of recommendations made by the OIG in its improper payments audit report issued in April 2014.

Federal Laws, Regulations, Policies, and Guidance

We reviewed the following in the course of our audit work:

- Pub. L. No. 112-248, "Improper Payments Elimination and Recovery Improvement Act of 2012"
- Pub. L. No. 111-204, "Improper Payments Elimination and Recovery Act of 2010"
- Pub. L. No. 107-300, "Improper Payments Information Act of 2002"
- Executive Order 13520, "Reducing Improper Payments," November 20, 2009
- OMB Memorandum M-15-02, "Appendix C to Circular No. A-123, *Requirements for Effective Estimation and Remediation of Improper Payments*," October 20, 2014
- OMB Circular No. A-136, "Financial Reporting Requirements," September 18, 2014
- OMB Memorandum M-13-20, "Protecting Privacy while Reducing Improper Payments with the Do Not Pay Initiative," August 16, 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
- NASA Procedural Requirement 9050.4, "Cash Management and Improper Payments," September 30, 2008

- NASA Procedural Requirement 9010.3, “Financial Management Internal Control,” September 30, 2008
- NASA OCFO, “Payment Recapture Audit Program Administration Guidance,” September 30, 2014
- 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 extracted from NASA’s accounting system that consisted of the FY 2013 disbursements 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 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 significant relevance to the subject of this report. Unrestricted reports can be accessed at <http://oig.nasa.gov/audits/reports/FY15/index.html> and <http://www.gao.gov>, respectively.

NASA Office of Inspector General

“Costs Incurred on NASA’s Cost-Type Contracts” (IG-15-010, December 14, 2014)

“NASA’s Compliance with the Improper Payments Information Act for Fiscal Year 2013” (IG-14-016, April 15, 2014)

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

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

Government Accountability Office

“Testimony Before the Committee on Homeland Security and Governmental Affairs, U.S. Senate; Improper Payments: Government-Wide Estimates and Use of Death Data to Help Prevent Payments to Deceased Individuals” (GAO-15-482T, March 16, 2015)

“Improper Payments: Inspector General Reporting of Agency Compliance under the Improper Payments Elimination and Recovery Act” (GAO-15-87R, December 9, 2014)

“Improper Payments: DOE’s Risk Assessments Should Be Strengthened” (GAO-15-36, December 23, 2014)

“DOD Financial Management: 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)

“Contract Audits: Role in Helping Ensure Effective Oversight and Reducing Improper Payments” (GAO-11-331T, February 1, 2011)

APPENDIX B: STATUS OF PRIOR YEAR RECOMMENDATIONS

We reported 10 recommendations in last year’s audit of NASA’s compliance with IPIA. Based on this year’s audit, we closed recommendations if corrective actions were completed and verified; however, if additional corrective actions were necessary, we closed the prior year recommendation and incorporated it into a new or refined recommendation in this report. Table 4 shows the status of last year’s recommendations.

Table 4: Status of Prior Year Recommendations

Report and Recommendation Number	Recommendation	Status
IG-14-016, 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.	Closed – A determination was made to use a risk factor approach
IG-14-016, 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.	Closed – OMB factors were used and documentation was comprehensive
IG-14-016, recommendation 3	Implement a consistent methodology to identify programs for purposes of performing annual risk assessments.	Closed – Methodology used to identify programs was consistent
IG-14-016, 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.	Closed – Incorporated in current year recommendation 5
IG-14-016, 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 the OIG the determination and the analysis used to support the determination, and include the required disclosures in the AFR.	Closed – Incorporated in current year recommendation 6
IG-14-016, 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.	Closed – Guidance was updated and distributed
IG-14-016, 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.	Closed – NASA concluded no violations occurred

Report and Recommendation Number	Recommendation	Status
IG-14-016, 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.	Closed – Incorporated in current year recommendations 8 and 9
IG-14-016, 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.	Closed – Incorporated in current year recommendation 10
IG-14-016, 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.	Closed – Determined manual process would be used

Source: NASA OIG.

APPENDIX C: REQUIRED OMB RISK FACTORS

According to OMB guidance, all agencies must institute a systematic method of reviewing all programs and identify programs susceptible to significant improper payments. This is referred to as a risk assessment. NASA took into account the following minimum risk factors likely to contribute to improper payments during the risk assessment:

- whether the program reviewed is new to the agency;
- the complexity of the program reviewed, particularly with respect to determining correct payment amounts;
- the volume of payments made annually;
- whether payments 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, experience, and quality of training for personnel responsible for making program eligibility determinations or certifying that payments are accurate;
- significant deficiencies in the audit reports of the agency, including but not limited to the agency Inspector General or GAO report audit findings, or other relevant management findings that might hinder accurate payment certification; and
- results from prior improper payment work.

APPENDIX D: MANAGEMENT'S COMMENTS

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



May 13, 2015

Office of the Chief Financial Officer

Reply to Attn of:

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 2014" (Assignment No. A-15-002-00)

The National Aeronautics and Space Administration (NASA) appreciates the opportunity to review the Office of Inspector General (OIG) draft report entitled, "NASA's Compliance with the Improper Payments Information Act for Fiscal Year 2014" (Assignment No. A-15-002-00), dated April 22, 2015.

In the draft report, the OIG makes ten recommendations addressed to the Chief Financial Officer (CFO), intended to improve NASA's risk assessment process; improve NASA's recapture audit program; and improve the accuracy and completeness of NASA's reporting of its payment recapture program efforts. Management's response to the OIG recommendations, including planned corrective actions, follows:

To improve NASA's risk assessment process, the OIG recommends that the CFO:

Recommendation 1: Modify the risk assessment methodology to recognize the differences in payment processes within the programs.

Management's Response: The Office of the Chief Financial Officer (OCFO) concurs. NASA will enhance its risk assessment methodology to ensure differences in payment processes are considered.

Estimated Completion Date: September 30, 2015.

Recommendation 2: Incorporate a risk factor that considers the timeliness of the Defense Contract Audit Agency's (DCAA) contract audits when assessing the risk of programs susceptible to significant improper payments.

Management's Response: The OCFO partially concurs. NASA will continue to consider the results of the DCAA audits as a part of its risk assessment process and will now include analysis of the timeliness of DCAA contract audits as a consideration.

Estimated Completion Date: September 30, 2015.

Recommendation 3: Revisit the description of the scoring criteria for all risk factors, particularly the risk factor related to deficiencies in audit reports, to ensure they are clearly defined.

Management's Response: The OCFO concurs. NASA will revisit the description of the scoring criteria for risk factors, particularly the risk factor related to deficiencies in audit reports, to ensure they are clearly defined.

Estimated Completion Date: September 30, 2015

Recommendation 4: Utilize the Agency's financial management system when researching the program(s) associated with procurement vehicles referenced in audit reports.

Management's Response: The OCFO concurs. NASA will utilize the Agency's financial management systems when researching the program(s) associated with procurement vehicles, as appropriate.

Estimated Completion Date: September 30, 2015.

To improve NASA's recapture audit program, the OIG recommends the CFO:

Recommendation 5: Include cost-type contract payments in the Agency's recapture audit efforts. If NASA determines this proposal is not cost-effective, the CFO should document its justification for excluding these payments, including demonstrating that costs associated with recovering the funds are projected to be greater than the amount recovered.

Management's Response: The OCFO partially concurs. NASA will continue to execute an effective and efficient internal control platform that provides reasonable assurance that payments are proper and that NASA is in compliance with the Improper Payments Information Act (IPIA). We will continue to evaluate our internal control environment and ensure it has appropriate coverage over the universe of payments made. To the extent that certain payment types are excluded, we will provide documentation, as appropriate.

Estimated Completion Date: September 30, 2015.

Recommendation 6: Develop a comprehensive analysis and justification for the Agency's 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 Agency Financial Report (AFR).

Management's Response: The OCFO partially concurs. NASA will continue to execute an effective and efficient internal control platform that provides reasonable assurance that payments are proper and that NASA is in compliance with IPERIA. We will continue to evaluate our internal control environment and ensure it has appropriate coverage over the universe of payments made. To the extent that certain payment types are excluded, we will provide documentation, as appropriate, and include the required disclosures in the Agency Financial Report (AFR).

Estimated Completion Date: September 30, 2015.

To improve the accuracy and completeness of NASA's reporting of its payment recapture program efforts, the OIG recommends the CFO:

Recommendation 7: Strengthen procedures to verify the accuracy of the information in the draft AFR.

Management's Response: The OCFO partially concurs. It is important to note, that the information presented in the AFR encompasses entity-wide activities regarding NASA's approximately \$18 billion annual budget. The payment recapture program is not a high-impact activity, and the information reported here is not significant relative to the information conveyed in the overall AFR. Given that, we will strengthen procedures to verify the accuracy of the information in the payment recapture program section of the AFR, to the extent practical.

Estimated Completion Date: September 30, 2015.

Recommendation 8: Refine the existing process for completing the recapture audit tables by implementing a procedure to verify that errors noted in prior audits impacting the accuracy and completeness of the data are corrected.

Management's Response: The OCFO partially concurs. Minor inaccuracies noted do not indicate a material misrepresentation of amounts reported. These reporting inaccuracies have no impact on our compliance with IPIA and are not significant in relation to the overall AFR. Given that, we will strengthen procedures to verify errors noted in prior audits, to the extent practical.

Estimated Completion Date: September 30, 2015.

Recommendation 9: Improve the data collection, review, and reporting processes to ensure the recapture audit tables are accurately completed.

Management's Response: The OCFO partially concurs. NASA will continue to enhance data collection efforts to the extent practical.

Estimated Completion Date: September 30, 2015.

Recommendation 10: Revisit the existing process to obtain and report on overpayments identified and recaptured from sources other than the recapture audit. At a minimum, the process should address:

- a. Identification of the appropriate universe of other sources of overpayment information.
- b. Determination of the organizations and individuals who possess that information.
- c. Implementation of training, as early as possible in the fiscal year, to those organizations or individuals to ensure they are aware of NASA's reporting requirements and their responsibility for tracking and communicating the information to OCFO, including specific details of the information to be reported and the format.
- d. Coordination and continuous communication with those organizations and individuals to ensure accurate and complete information is provided to OCFO.

Management's Response: The OCFO partially concurs. NASA will continue to request and report on overpayments identified and recaptured from sources other than the recapture audit. Additionally, NASA will continue to enhance awareness and the knowledge of reporting requirements related to overpayments recaptured outside of the recapture audit and work to ensure communication is timely and more frequent during the fiscal year.

Estimated Completion Date: September 30, 2015.

We have reviewed the draft report for information that we believe should not be publicly released and have not communicated any concerns regarding the public release of information contained in your report.

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 Kelly Barnes at (202) 358-7334.



David P. Radzanowski

APPENDIX E: REPORT DISTRIBUTION

National Aeronautics and Space Administration

Administrator
 Associate Administrator
 Chief of Staff
 Chief Financial Officer
 Deputy Chief Financial Officer for Finance

Non-NASA Organizations and Individuals

Office of Management and Budget
 Controller
 Deputy Associate Director, Energy and Space Programs Division

Government Accountability Office
 Managing Director, Office of Financial Management and Assurance
 Director, Office of Financial Management and Assurance
 Director, Office of Acquisition and Sourcing Management

Congressional Committees and Subcommittees, Chairman and Ranking Member

Senate Committee on Appropriations
 Subcommittee on Commerce, Justice, Science, and Related Agencies

Senate Committee on Commerce, Science, and Transportation
 Subcommittee on Space, Science, and Competitiveness

Senate Committee on Homeland Security and Governmental Affairs

House Committee on Appropriations
 Subcommittee on Commerce, Justice, Science, and Related Agencies

House Committee on Oversight and Government Reform
 Subcommittee on Government Operations

House Committee on Science, Space, and Technology
 Subcommittee on Oversight
 Subcommittee on Space

(Assignment No. A-15-002-00)