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Office of Inspector General

Office of Audits

NASA'S COMPLIANCE WITH THE IMPROPER PAYMENTS INFORMATION ACT FOR FISCAL YEAR 2016

May 15, 2017

Report No. IG-17-020





Office of Inspector General

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RESULTS IN BRIEF

NASA's Compliance with the Improper Payments Information Act for Fiscal Year 2016

May 15, 2017

IG-17-020 (A-17-002-00)

WHY WE PERFORMED THIS REVIEW

Each year the Federal Government makes billions of dollars in improper payments to individuals, organizations, and contractors. In fiscal year 2016, the estimated amount of improper payments Government-wide reached \$144.3 billion – an increase of approximately \$7.6 billion from the prior year's estimate.

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 made by their agencies, and report information about those payments. In addition, agency Inspectors General are required annually to evaluate whether their agencies comply with the IPIA requirements.

Our overall objective in this review was to determine whether NASA complied with the requirements of IPIA in fiscal year 2016. We also evaluated the completeness and accuracy of the Agency's IPIA reporting and its implementation of recommendations made in our prior IPIA reports. To conduct this review, we examined applicable laws and regulations, interviewed Agency personnel, and reviewed NASA's Agency Financial Report and supporting documentation.

WHAT WE FOUND

NASA met all applicable OMB criteria and complied with IPIA for fiscal year 2016. However, we identified several areas for improvement in the Agency's risk assessment process. For example, the vast majority of NASA's risk conditions are not rated on program-specific responses. Moreover, one of the few risk conditions that is program-specific and provides independent information on the effectiveness of controls within NASA's payment process, "External Monitoring," was assigned the least weight in computation of overall risk. Additionally, we found NASA's review of external reports insufficient; the scoring criteria for certain risk conditions unreasonable; and several instances in which there was little or no correlation between the question, response, and/or scoring criteria. Finally, several risk factors were either not used properly, excluded, or unnecessary. These issues may have impacted the results of the Agency's risk assessment and resulted in a different outcome regarding susceptibility to significant improper payments.

Consistent with our findings in prior years, NASA continued to limit its annual payment recapture audits to fixed-price contracts and exclude cost-type contracts, grants, and cooperative agreements. Also similar to prior years, we found lacking NASA's documentation of its reasons for this decision.

Although NASA included the required information on recapture audit efforts in its financial report for fiscal year 2016, we noted inaccuracies in the tables reporting overpayments recaptured both within and outside that audit process. Additionally, not all overpayments recaptured outside of its recapture audits were reported. We noted similar errors in NASA's reporting over the past 5 years and believe these types of inaccuracies and incomplete reporting continue because of the Office of the Chief Financial Officer's failure to implement a comprehensive process to obtain recapture data, summarize the transactions, and review the results reported by various NASA offices, as well as report the total amounts in the financial report.

WHAT WE RECOMMENDED

In addition to the recommendations communicated in prior years' audits that remain open, we recommended the Chief Financial Officer: (1) revise the weighted percentages judgmentally assigned to risk conditions to increase the weight for External Monitoring and decrease the weights for those conditions essentially treated as static, (2) revise the Agency's rationale to better reflect each risk condition's impact on the risk of significant improper payments, (3) revisit the description of the scoring criteria for all risk factors, particularly the risk factors under the External Monitoring and Materiality of Disbursements risk conditions, to ensure the criteria for each level is a fair representation of the risk, (4) utilize the Agency's financial management system and, if needed, the corresponding reporting tool to identify the program(s) associated with procurement vehicles referenced in reports, (5) eliminate the practice of disregarding report results if a specific program is not identified; instead, consider the risk of improper payments to all programs that could be impacted by the risk, (6) consult with the issuer of a report to discuss recommendations if there are questions regarding potential duplication, (7) review and revise risk factors, as appropriate, to ensure there is a direct correlation between the question and scoring criteria, responses address the risk being assessed, and questions are not duplicated, (8) reconsider inclusion of the two additional risk factors related to OMB-designated programs and Hurricane Sandy funding since statutes stipulate that such programs are susceptible to significant improper payments, and (9) revisit the risk factor and scoring criteria under the Materiality of Disbursements risk condition to ensure the volume of payments made annually is properly considered as intended by OMB.

In response to a draft of this report, NASA management concurred or partially concurred with eight of nine recommendations and described corrective actions the Agency will take. Our recommendation to revise the weighted percentages for risk conditions remains unresolved pending further discussion with Agency officials.

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Acronyms

AFR	Agency Financial Report
DOI	Department of the Interior
DRAA	Disaster Relief Appropriations Act of 2013
FY	Fiscal Year
GAO	Government Accountability Office
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
IRIS	Invoice Routing and Information System
NSSC	NASA Shared Services Center
OCFO	Office of the Chief Financial Officer
OIG	Office of Inspector General
OMB	Office of Management and Budget
PMS	Payment Management System
SSAE	Statement on Standards for Attestation Engagements
WAWF	Wide Area Workflow

INTRODUCTION

Each year the Federal Government makes billions of dollars in improper payments to individuals, organizations, and contractors. In fiscal year (FY) 2016, the estimated amount of improper payments Government-wide was \$144.3 billion – an increase of approximately \$7.6 billion from the prior year’s estimate.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 and estimate the amount of improper payments made by their agencies. The Act also requires them to report the estimates and any planned actions to reduce improper payments in programs with estimates greater than \$10 million that exceed a specific percentage of disbursements.²

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 to encompass 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; (3) require agencies to conduct payment recapture audits for each program and activity with at least \$1 million in annual program outlays when it is cost effective to do so; and (4) require agency Inspectors General to determine whether their agencies comply with IPIA requirements.³ In their reviews, Inspectors General may also evaluate the accuracy and completeness of agency reporting and performance in reducing and recapturing improper payments.

Our overall objective in this review was to determine whether NASA complied with the requirements of IPIA in FY 2016. 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.

¹ Government Accountability Office (GAO), “Financial Audit: Fiscal Years 2016 and 2015 Consolidated Financial Statements of the U.S. Government” (GAO-17-283R, January 12, 2017). The amounts reported do not include estimates from the Defense Finance and Accounting Service’s Commercial Pay program, which GAO deemed unreliable.

² The Disaster Relief Appropriations Act of 2013 (DRAA), which provided aid for Hurricane Sandy disaster victims and affected communities, requires agencies to consider all programs and activities receiving DRAA funds susceptible to significant improper payments for the purposes of IPIA. NASA received \$15 million in DRAA funding for damages sustained at the Wallops Flight Facility in Virginia and Kennedy Space Center in Florida. It tested a sample of these funds in accordance with DRAA and identified no improper payments.

³ Unless otherwise noted, use of the term “IPIA” refers to IPIA as amended by IPERA and IPERIA.

Background

Office of Management and Budget (OMB) implementing guidance for IPIA defines 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.⁴

According to OMB, to comply with IPIA an agency must

1. publish and post on its website an agency financial report (AFR),
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

In accordance with the statute, the NASA Office of Inspector General (OIG) has assessed the Agency’s compliance with IPIA each year since FY 2011. In each of the last 5 years, we reported NASA complied with the requirements of the statute but noted areas for improvement and made corresponding recommendations to NASA management (see Appendix A). Our recommendations focused primarily on the Agency’s methodology for performing its risk assessment, the scope of recapture audit efforts, and the reporting of improper and recaptured payments. In response to our recommendations, NASA agreed to analyze and modify its risk assessment methodology, increase the scope of testing, improve its reporting process, and analyze the scope of recapture audit efforts. We closed recommendations when the associated corrective actions were completed and verified. For recommendations that were still open when our subsequent year’s report was complete, we closed the recommendations and incorporated them into a new or refined recommendation. In a change from that pattern, starting with our 2015 report we did not close recommendations that required further corrective action. Rather, our recommendations remain open until the Agency satisfies their intent. We continue to follow that pattern with this report. See Appendix B for the status of our 2014 and 2015 recommendations.

⁴ 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 otherwise noted.

NASA’s FY 2016 Processes to Estimate and Recover Improper Payments

As in prior years, the Quality Assurance Division of NASA’s Office of the Chief Financial Officer (OCFO) was responsible for ensuring compliance with IPIA and reporting on the Agency’s recapture audit program. The OCFO contracted with one private company to conduct a risk assessment and estimate improper payments and with another to perform payment recapture audits.

Assessing Risk and Estimating Improper Payments

As the first step in the risk assessment process, NASA reviewed FY 2015 disbursements recorded in NASA’s financial management system and identified 109 unique programs. NASA compared the 109 programs to the Agency’s approved budget and based on that analysis combined multiple programs to bring the total number of unique programs to 89, which were then analyzed for risk of improper payments.⁵

After NASA identified the 89 programs, they identified 7 risk conditions and judgmentally weighted those conditions based on relevance and significance using a 100-point scale (see Table 1). The conditions incorporated the minimum risk factors specified by OMB plus two additional risk factors identified by NASA.⁶

Table 1: Risk Conditions and Weighted Percentages

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

Source: NASA, “Fiscal Year 2016 NASA Improper Payment Program (IPP): Risk Assessment Methodology and Report” (June 17, 2016).

⁵ NASA combined 14 programs within the Institutions and Management mission, 7 programs within the Education mission, and the Commercial Crew and Commercial Cargo programs to form 3 consolidated programs.

⁶ Appendix C features a complete list of the OMB-required risk factors. The two additional risk factors for FY 2016 were (1) Other Risk Susceptible Programs, which would include programs determined by OMB to be subject to annual AFR reporting and (2) DRAA - Hurricane Sandy.

NASA developed specific questions for each factor to help determine the level of risk for each program and assigned a risk rating of 1 (low), 3 (medium), or 5 (high). The risk condition-level rating corresponded to the highest numerical rating given to the questions for that condition. The Agency computed an overall risk score for each program 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 therefore subject to testing on a statistical basis to estimate the amount of improper payments made. Because none of NASA's programs reached the 3.33 threshold, the Agency did not test any program for improper payments. However, NASA tested a sample of DRAA disbursements and identified no improper payments.

Payment Recapture Audits

NASA annually audits the Agency's prior fiscal year disbursements to vendors under fixed-priced contracts. These audits review the Agency's payment transactions and supporting documents and are designed to identify overpayments to contractors that result from payment errors.

For FY 2016, NASA tested approximately \$4.4 billion in disbursements utilizing a multidisciplinary approach to identify potential overpayments, including data analytics and analyst review. For potential overpayments identified, finance officials at the appropriate Center researched those payments to ascertain whether there had in fact been an overpayment of which the Agency was not aware. The Centers determined there were no actual overpayments the Agency had not previously identified.

NASA reports overpayments identified and collected in two categories: recapture audits and sources other than recapture audits. For FY 2016 reporting, amounts reported from recapture audits were based on FY 2015 disbursements and FY 2016 collections, while sources other than recapture audits were based on overpayments identified and collected in FY 2015.

NASA COMPLIED WITH IPIA IN FY 2016

Based on our review of NASA's FY 2016 AFR, website, and risk assessment, we concluded the Agency met all applicable OMB criteria and complied with IPIA for FY 2016.⁷ See Table 2.

Table 2: IPIA Compliance Summary

Criteria for Compliance	Criteria Met?
Published and posted on Agency website its FY 2016 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	Yes
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	Yes
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	Yes

Source: NASA OIG.

Note: N/A – The criteria is not applicable because NASA did not identify any improper payments during testing.

⁷ See: <http://www.nasa.gov/news/budget/index.html> (last accessed, March 20, 2017).

NASA CAN IMPROVE ITS RISK ASSESSMENT PROCESS

Although we concluded NASA complied with IPIA, we identified several areas for improvement. The vast majority of NASA's risk conditions are not rated on program-specific responses. Moreover, one of the few risk conditions that is program-specific and provides independent information on the effectiveness of controls within NASA's payment process was assigned the least weight in computation of overall risk. Additionally, we found NASA's review of external reports insufficient; the scoring criteria for certain risk conditions unreasonable; and several instances in which there was little or no correlation between the question, response, and/or scoring criteria. Finally, several risk factors were either not used properly, excluded, or unnecessary. These issues may have impacted the results of the Agency's risk assessment and resulted in a different outcome regarding susceptibility to significant improper payments.

Static Risk Conditions and Weighted Percentages Potentially Skew Results

As noted above, for a program to be considered susceptible to significant improper payments the overall risk score had to be 3.33 or higher. The overall risk score was based on the risk rating assigned to the risk factor questions under each risk condition. NASA judgmentally assigned weights to its risk conditions based on a 100-point scale as reflected in Table 1.

NASA reported that based on its policies, the risk conditions Human Capital (10 percent) and Payment Profile (20 percent) were rated at the Agency level (static) because the scores would not vary from program to program. Therefore, NASA reported that 30 percent of the overall risk score was static and the remaining 70 percent variable – i.e., determined by program-unique risk scoring questions. However, we found that an additional 40 percent of the overall risk score was primarily static. Specifically, the majority of the risk scoring criteria questions under the Internal Control over Payment Processing (30 percent) and Internal Monitoring and Assessments (10 percent) risk conditions were answered at the Agency level. Therefore, by our calculation about 70 percent of the weighted average was static. Having such a high percentage of the risk score static leads to a risk assessment that fails to sufficiently differentiate between programs and identifies either most or no programs susceptible. Table 3 reflects the questions NASA informed us were answered as static or as variable.

Table 3: Scoring Questions – Static vs. Variable

Risk Condition	Number of Questions ⁸	
	Static	Variable
Human Capital Risk (10%)	7	0
Payment Profile (20%)	4	0
Remaining 70%		
Internal Control over Payment Processing (30%)	1	2
Materiality of Disbursements (15%)	0	1
Internal Monitoring and Assessments (10%)	4	1
Program Profile (10%)	0	3
External Monitoring (5%)	2	3

Source: NASA OIG analysis of NASA data.

As indicated in Table 3, all but one of the questions under Internal Monitoring and Assessments were static, and the one variable question focused on whether a specific external report existed and whether NASA had reviewed it. However, this question merely duplicated a question related to the External Monitoring risk condition.

Additionally, we disagree with NASA’s assessment that two questions under Internal Control over Payment Processing were variable because NASA considers its controls over payment processing to be the same regardless of the type of payment. Further, NASA stated that the responses to these questions were the same for all but two programs.

Because approximately 70 percent of the weighted average was not impacted by differences between programs, there were only three program-specific risk conditions that could have influenced the overall risk score: External Monitoring (5 percent), Program Profile (10 percent), and Materiality of Disbursements (15 percent). As we reported last year, we believe the External Monitoring condition should have been weighted higher to more appropriately reflect its relevance and significance. In response to last year’s recommendation, NASA revisited the percentages assigned to the risk conditions and documented its rationale. However, we are concerned that in the rationale, NASA considered the Internal Control over Payment Processing, Internal Monitoring and Assessments, and Human Capital conditions “critical” but assigned Internal Control over Payment Processing a weight of 30 percent and the other two conditions a weight of 10 percent each without any explanation for the difference.

⁸ For presentation purposes, the four questions related to the two additional risk factors (DRAA funds and OMB designation) are not shown in Table 3.

Further, NASA referred to the External Monitoring condition as a “second level of assessment of the internal controls” and a “second level of assurance.” However, the American Institute of Certified Public Accountants’ auditing standard AU-C 500, “Audit Evidence,” states that the reliability of audit evidence is increased when it is obtained from independent sources outside the entity. The External Monitoring risk condition is designed to incorporate the findings of independent audits, reviews, and investigations conducted by the OIG and the Government Accountability Office (GAO) that may identify potential or actual improper payments and control weaknesses in the payment process. External Monitoring is the only condition that considers independent and objective assessments of program performance.

Scoring Criteria Unreasonable

Risk conditions External Monitoring (5 percent) and Materiality of Disbursements (15 percent) contained unreasonable scoring criteria that in our view could inappropriately limit the number of programs with the potential to be assessed as high risk.

External Monitoring

Question 4 focused on whether there were any reports of improper payments and the actions taken to remediate the conditions that resulted in the improper payments. As depicted in Table 4, the scoring criteria for low and medium risk was based solely on the number of open recommendations while the criteria for high risk considered both the number of open recommendations and the dollar value of improper payments identified.

Table 4: Scoring Criteria for Question 4 under External Monitoring

External Monitoring	Low	Medium	High
Question 4	No outstanding audit recommendations relating to prior identified deficiencies for improper payments in the program area noted	No more than one to two outstanding audit recommendations relating to prior identified deficiencies for improper payments in the program area noted	Program area has identified significant improper payments resulting from the audits (> 1.5% and \$10M) or significant number of outstanding findings and recommendations relating to payment process

Source: NASA, “Fiscal Year 2016 NASA Improper Payment Program (IPP): Risk Matrix” (September 14, 2016).

We believe NASA should consider a percent or dollar threshold of potential improper payments for all categories and should reduce the current 1.5 percent/\$10 million threshold in its high category. As part of its analysis, audit and investigation reports are reviewed for this question but typically only audit reports contain recommendations. As such, based on the existing scoring criteria, a program may be rated as “low risk” even though an investigation identified an improper payment of \$9 million. Further, OMB guidance stipulates that any program whose gross improper payments exceeds both 1.5 percent of program outlays and \$10 million is susceptible to significant improper payments and thus subject to AFR reporting requirements. However, based on NASA’s criteria a program meeting this dollar threshold would be rated as high risk for this condition but not susceptible to significant improper payments if the combined overall ratings for the program’s other risk conditions was less than 3.33. As such, NASA should develop a mechanism to override any program’s overall rating if identified improper payments exceed OMB’s threshold. Further, NASA should develop thresholds for each rating level lower than OMB’s threshold.

Materiality of Disbursements

The Materiality of Disbursements risk condition was based on the dollar value of disbursements made by the programs. To assign risk, NASA took the difference between its program with the lowest value of disbursements (\$87) and its program with the highest value of disbursements (\$2.76 billion), divided that sum by 3, and used the result to set increments for the three categories of risk as shown in Table 5.

Table 5: NASA Determined Scoring of Materiality and Associated Number of Programs

Risk Rating	Materiality of Disbursements	Programs
Low	Less than \$921 million	85 ^a
Medium	Between \$921 million and \$1.84 billion	2
High	Greater than \$1.84 billion	2

Source: NASA OIG analysis of NASA data (Fiscal Year 2016 NASA Improper Payment Program (IPP): Risk Matrix, September 14, 2016).

^a NASA erred in rating its Commercial Crew and Cargo combined program as low risk even though that program’s \$944 million in disbursements exceeded the \$921 million threshold.

Using NASA’s method, the Space Launch System program – the Agency’s third largest program with approximately \$1.8 billion in FY 2015 disbursements – was rated as a medium risk. We believe the scale NASA used does not accurately represent routine disbursement activity in Agency programs, as the average value of disbursements within its programs is \$205 million (\$18.21 billion in total disbursements divided by 89 programs). Table 6 reflects the scoring criteria for each risk category and the associated number of programs in each using the average value of disbursements as the scale, a method that significantly increases the number of high risk programs.

Table 6: OIG Proposed Scoring of Materiality and Associated Number of Programs

Risk Rating	Materiality of Disbursements	Programs
Low	Less than \$205 million	69
Medium	Between \$205 million and \$410 million	11
High	Greater than \$410 million	9

Source: NASA OIG.

Insufficient Review of Reports and Related Research

One of the questions under the External Monitoring risk condition was based on the results of OIG and GAO audits and investigations that could have an impact on improper payments and payment processes. Reports not used or results inappropriately considered during the risk assessment could lead to an inaccurate risk level.

After NASA determined an audit or investigation identified improper payments or contained indicia of potential improper payments, it attempted to ascertain the associated programs. However, sometimes a report identified a procurement vehicle (e.g., contract, grant, or cooperative agreement) rather than a specific program. In those instances NASA said it used the award number to determine the associated program.⁹ However, we found NASA did not identify the funding program for all the procurement vehicles identified. We conducted our own research of the procurement vehicles identified in two reports NASA did not associate with a program and successfully determined the program that funded both procurements. By failing to identify the applicable programs, NASA did not fully risk assess those programs impacted by the reports' results.

Results from other audit and investigation reports were also omitted from the Agency's risk assessment. For example, we were informed that if improper payment risks are identified within the Agency-wide payment process and not in a specific program, the risk would not be considered for all programs. Since NASA considers its payment process to be the same or similar across all programs, we believe the control weaknesses identified in these reports would impact all programs and should not be ignored.

NASA's scoring criteria for the External Monitoring risk condition considered the number of open recommendations from each report at the time of the assessment. If a report had more than two open recommendations affecting a program, the risk condition should have been rated as high. However, we noted an instance in which an OIG report contained four open recommendations related to improper payments but NASA deemed the recommendations duplicative, and therefore rated the program as if there were only two open recommendations.¹⁰ We do not believe the recommendations were duplicative or that it was appropriate to combine them in this way. Because in our view the Agency failed to consider all open recommendations, it inappropriately rated the associated program as medium instead of high risk.

Disconnect Between Risk Question, Response, and Scoring Criteria

In order to determine which NASA programs may be susceptible to significant improper payments, NASA developed questions for each risk factor and criteria for how the responses would be scored (low, medium, or high risk). The questions and scoring criteria were meant to drive the response and the overall ratings. Based on our review of NASA's risk assessment and underlying support, we identified several instances in which there was little or no correlation between the question, response, and/or scoring criteria. For example, several responses and subsequent risk ratings considered factors different from the established question and scoring criteria. As a result, the risk score may have been different if the program was rated strictly on the scoring criteria. For example, if NASA answered Question 1

⁹ NASA said it used BOBJ (Business Objects) – a reporting and analytical tool that reports data from the Agency's financial management system and other applications – to make this association.

¹⁰ NASA OIG, "Audit of NASA's Cooperative Agreements Awarded to Wise County Circuit Court" (IG-15-022, July 15, 2015).

regarding Internal Control over Payment Processing strictly following the criteria, 7 programs would have been assigned an overall risk rating of at least 3.33 and deemed susceptible to significant improper payments. Additionally, the results could vary from year to year based on the reviewer’s interpretation of the question, response, and criteria. The paragraphs below outline each of the instances noted, and Appendix D provides more details of the questions, responses, and scoring criteria.

Internal Control over Payment Processing – Question 1

This question and the scoring criteria focused on the results of internal assessments of internal controls regarding payment or related processes. NASA’s response and subsequent rating, however, included an additional focus as to whether significant deficiencies or material weaknesses were identified in the assessment and whether those deficiencies were mitigated by compensating controls. The difference between low, medium, and high risk ratings in the scoring criteria was determined by the number of deficiencies reported in an internal assessment. If there were no deficiencies specific to improper payments and/or the payment process, a few (one or two) deficiencies, or several (more than two) deficiencies, the response should have been classified as low, medium, and high, respectively. Even though 12 control deficiencies within the procurement and payment management process were cited in NASA’s FY 2015 report performed in accordance with OMB Circular A-123, Appendix A, NASA’s response was that “no significant internal control deficiencies or material weaknesses were identified over the Procurement and Payment Management disbursement cycle. NASA concluded that deficiencies found presented a low risk of misstatement in the cycle and do not rise to the level of significant deficiency or material weakness given other compensating controls considered.”¹¹ Based on the criteria, the programs that utilize NASA’s payment processes should have been rated as high risk. However, NASA did not rate any program as having more than a medium risk.

Internal Control over Payment Processing – Question 3

While the scoring criteria for this question relates to changes in the payment process, neither the question itself nor NASA’s response mentioned such changes. Specifically, the question asked if the program used the Department of the Interior (DOI), the Payment Management System (PMS), or the Wide Area Workflow (WAWF) prior to invoice/payment requests reaching the NASA Shared Services Center (NSSC) and whether NASA utilizes any other externally provided payment/invoice processing services.¹²

For all but three programs, NASA responded that “[t]his program had WAWF payments and invoice payments related to IRIS [Invoice Routing and Information System]” and classified that response as medium. Since the question related to payments/invoices processed by external service providers, the inclusion of IRIS in the response was not appropriate since IRIS is not an external service provider but rather a web application integrated with NASA’s financial management system for processing vendor invoices. Programs that used IRIS but no other service providers inappropriately received a higher rating.

¹¹ OMB Circular A-123, Appendix A, “Internal Control over Reporting,” (December 21, 2004) provides a methodology for agency management to assess, document, and report on internal controls over reporting.

¹² DOI provides mainframe and client/server computer and telecommunications services necessary to host and operate the Federal Personnel and Payment System and perform processing of payroll transactions for NASA and other Federal agencies. PMS, hosted by the National Institutes of Health, provides grants and management services to NASA and other Federal agencies. 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.

Internal Monitoring and Assessment – Question 6

The focus of this question was whether Statement on Standards for Attestation Engagements (SSAE) No. 16 reports existed for NASA’s service organizations and whether there was evidence of NASA’s review of the reports.¹³ In large part, the scoring criteria focused on the question asked. For most programs impacted by service organizations, NASA’s responded that “SSAE 16 reports for NASA’s service organizations exist and were available for review (DOI - payroll, HHS/PMS - grants, and DoD - WAWF). The independent auditor for DoD identified several internal control deficiencies and expressed a qualified opinion on the SSAE 16 for WAWF; however, internal control deficiencies were documented and the accompanying controls in place were deemed sufficient to mitigate the risk.” Upon questioning, we were informed that NASA’s scoring and response was based on the results of management’s review of the report in terms of how NASA was impacted by any control deficiencies and whether it had any compensating controls to mitigate the risk. This interpretation changed the nature of the question into a repeat of question 5 under the External Monitoring risk condition, which also evaluated the extent of the reported deficiencies. Since SSAE 16 reports are based on work performed by the service organizations’ auditors and not NASA management, we consider it inappropriate for this question to be considered under the Internal Monitoring and Assessment risk condition. By answering the same question within two different risk conditions, the response contributes to both risk scores and could inflate the overall risk score.

External Monitoring – Question 5

This question and the scoring criteria focused on the results of the SSAE 16 reports of NASA’s service providers. NASA’s response and subsequent rating, however, included an additional focus as to whether the risk from internal control deficiencies was mitigated. The indicators for low, medium, and high risk ratings were whether there were no findings, findings but no significant deficiencies, or significant deficiencies, respectively. The SSAE 16 reports for WAWF and Employee Express each cited a significant deficiency in internal control.¹⁴ As such, based on the criteria the programs that utilize these systems should have been rated as high risk. However, NASA rated these programs medium risk based on the assertion that it has controls in place to mitigate the risk posed by its service provider’s deficiency.

¹³ An SSAE No. 16, “Reporting on Controls at a Service Organization,” engagement is performed by a service auditor to report on controls at organizations that provide services to users when those controls are likely to be relevant to a user’s internal control over financial reporting.

¹⁴ Employee Express is an application owned and governed by a consortium comprised of approximately 80 Federal organizations and managed by the U.S. Office of Personnel Management that allows Federal employees to view and change discretionary payroll deductions and personal information in their personnel file.

Risk Factors Improperly Used, Excluded, or Not Necessary

OMB guidance describes the minimum risk factors agencies should consider when performing risk assessments and provides that agencies should consider any risk factors likely to contribute to significant improper payments. NASA considered two additional risk factors in its FY 2016 risk assessment: (1) Other Risk Susceptible Programs, which includes programs determined by OMB to be subject to annual AFR reporting, and (2) Disaster Relief Appropriations Act (DRAA) - Hurricane Sandy. Similar to other risk factors, NASA developed questions and scoring criteria to rate programs based on these additional risk factors. However, statutes require any program or activity designated by OMB or receiving DRAA funding automatically be deemed susceptible to significant improper payment.

NASA incorporated OMB's risk factor for volume of payments made annually in its risk assessment for the Materiality of Disbursements risk condition. However, NASA equated volume with dollar value instead of the number of payments. As such, the risk condition was scored low, medium, and high based on whether the total value of disbursements in the program was below \$921 million, between \$921 million and \$1.84 billion, or above \$1.84 billion. Under NASA's scenario, programs with fewer disbursements but a high dollar value would be at a higher risk of improper payments than a program with a large number of lower-dollar disbursements. NASA should consider the number of payments made by a program in future risk assessments.

Similar to our findings reported the last two years, NASA did not consider the timeliness in which incurred cost audits are performed when assessing the risk of programs susceptible to significant improper payments. An incurred cost audit, a type of post-award audit that serves as a key control for detecting improper payments, assesses whether costs contractors charged the Government are properly applied to the contracts and sufficiently supported and allowable. NASA's contracting officers rely almost exclusively on such audits to identify unallowable, unreasonable, and unallocable costs. As the timeliness of such audits decreases, the risk that improper payments will not be identified timely increases.

Since the Agency still does not consider the timeliness of incurred cost audits when performing the risk assessment, our recommendations from prior years (IG-15-015, recommendation 2 and IG-16-021, recommendation 2) will remain open. In addition, we are recommending additional corrective actions to address NASA's interpretation of OMB's risk factor for volume of payments and the use of the two additional risk factors in its risk assessments.

LIMITED SCOPE OF NASA'S RECAPTURE EFFORTS

Consistent with our findings in prior years, NASA continued to limit its annual payment recapture audits to fixed-price contracts and exclude cost-type contracts, grants, and cooperative agreements. Similar to prior years, we also found lacking NASA's documentation of its reasons for this decision.

Exclusion of Cost-Type Contracts

As we have reported for the last 5 years, NASA continued to exclude cost-type contracts from its payment recapture audits and instead focused exclusively on fixed-price contracts even though fixed-price contracts typically have the lowest risk of improper payments because they are generally not subject to cost fluctuations.

OMB guidance permits agencies to exclude certain programs and activities from their recapture audit programs if they determine inclusion would not be cost-effective. An agency must notify its Inspector General and OMB of this decision and provide an analysis supporting the decision. For the last several years, NASA asserted inclusion of cost-type contracts in recapture audits was not cost-effective because cost-type contracts are subject to post-award audits and therefore recapture audits would be duplicative. While OMB advises that payment recapture activities should not duplicate other audits that employ payment recapture audit techniques, in our view post-award audits do not duplicate recapture audits since the audit purpose and financial records examined are different.¹⁵

NASA also asserted that the results of prior years' improper payment testing, which included tests of disbursements on cost-type contracts, did not yield any significant improper payments. However, IPIA testing and payment recapture audits are not the same, and the results of IPIA testing do not necessarily support a decision to exclude cost-type contracts from recapture audits. 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 specific high-risk payments. Consequently, NASA's limited analysis and justification do not support the exclusion.

Our analysis of NASA's FY 2015 collections of overpayments identified outside of its recapture audit noted the Agency reported procurement-related overpayments identified and collected of \$6.4 million and \$4.3 million, respectively, with some of these overpayments related to cost-type contracts. Again, we believe this underscores our position that NASA can identify and recover improper payments if it conducts recapture audits on cost-type contracts. Based on these results, we are leaving open our prior recommendation (IG-15-015, recommendation 5) until the OCFO includes cost-type contract payments in the Agency's recapture audit efforts or justifies excluding these payments and demonstrates that recapture audits would not be a cost-effective method for identifying improper payments.

¹⁵ A post-award audit examines the 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, a payment recapture audit reviews an agency or program's financial records, supporting documentation, and other information specifically to identify potential overpayments.

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, asserting that recapture audits for these vehicles would not be a cost-effective method for identifying improper payments. NASA disclosed the exclusion in its FY 2016 AFR, stating that these payments are made through its centralized “procure-to-pay” process, which it believes provides reasonable assurance of proper payment.¹⁶

In response to our prior recommendation that NASA 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 (IG-15-015, recommendation 6), the Agency promised to ensure appropriate coverage over the universe of payments and provide documentation for excluded payment types. However, NASA did not provide any such documentation or analysis. Accordingly, we are leaving open our recommendation until the OCFO develops a comprehensive analysis and justification for excluding these agreements from recapture audit efforts.

¹⁶ “Procure-to-pay” is a software industry term that includes activities such as purchase requisition, ordering and receiving the good or service, and verifying and paying the vendor invoice.

INACCURACIES IN NASA'S ANNUAL REPORTING

Although NASA included the required information on its recapture audit efforts in its FY 2016 AFR, we noted inaccuracies in the tables reporting overpayments recaptured through payment recapture audits and overpayments recaptured outside of these audits. Additionally, not all overpayments recaptured outside of its recapture audits were reported. We noted similar errors in NASA's reporting the past 5 years. We believe these types of inaccuracies and incomplete reporting continue each year because of OCFO's failure to implement a comprehensive process to obtain recapture data, summarize the transactions, and review the results reported by various NASA offices, as well as report the total amounts in the AFR.

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 AFRs.¹⁷ Much of the information is reported in table format and includes data on payment recapture audit efforts, the disposition of amounts recovered, and improper payments identified and recovered through sources other than payment recapture audits.

Overpayments Recaptured Outside of Payment Recapture Audits

OMB requires agencies to report on improper payments identified and recovered from sources other than payment recapture audits. Possible sources of this information include statistical samples conducted under IPIA, agency post-payment reviews and audits, OIG audits and investigations, GAO reports, Single Audit reports, self-reported overpayments, and reports from the public.¹⁸

To collect the required information, OCFO sent a data call to a variety of offices including the Center OCFOs, the OIG, NSSC, and the Agency Office of Procurement requesting their assistance "in gathering the necessary information to report payment recapture activities that have been performed by you over and above the activities that are performed by QAD including but not limited to: Travel, payroll, civil actions and contract/vendor payments" that occurred during FY 2015.¹⁹ In an effort to improve and streamline the data collection process, the OCFO ran a query of the financial management system identifying potential overpayments by system-designated document types – DR and DG.²⁰ OCFO populated a Microsoft Excel spreadsheet with the results of the query and distributed it to each of the offices for review with the expectation each transaction would be researched to determine whether it represented an overpayment. Although instructions were also distributed to the responsible offices, we found that four respondents did not follow the instructions on how to calculate the overpayment totals

¹⁷ OMB Circular A-136, "Financial Reporting Requirements" (October 7, 2016).

¹⁸ The Single Audit Act, as amended, provides audit requirements for recipients (State, local and tribal governments, colleges, universities and other non-profit organizations) of Federal awards.

¹⁹ The responses received were used to complete the portion of the table in the FY 2016 AFR for "Overpayments Recaptured Outside of Payment Recapture Audits."

²⁰ Within NASA's financial management system, document types DR and DG are defined as customer invoice and customer credit memo, respectively.

by payment category. As a result, the amounts reported as identified and recaptured were overstated Agency-wide by \$231,198 and \$85,253, respectively (see Table 7). OCFO’s review of the offices’ responses did not validate that the spreadsheet overpayment totals were properly calculated prior to submission, which resulted in reporting incorrect amounts.

Table 7: Inaccuracies Reporting Overpayments Outside of Recapture Audits - Miscalculation of Overpayment Totals

Type of Payment Category	Identified	Collected
Payroll	\$50,161	\$50,798
Procurement	(2,774)	18,366
Travel	18,478	16,044
Other	165,333	45
Total	\$231,198	\$85,253

Source: NASA OIG analysis of NASA data.

Note: The amounts in parenthesis represent understatements.

On a judgmental basis, we reviewed the explanations for why some transactions were included or excluded and requested further explanation. Based on our inquiries, other inaccuracies came to our attention. Specifically, some overpayments were incorrectly included or excluded because the reporting office misunderstood what constituted an improper payment. For example, payroll transactions related to employee health benefits were incorrectly included by one reporting office but appropriately excluded by others. Based on our analysis, the amounts reported as identified and collected were understated by \$74,409 and \$33,031, respectively. Table 8 summarizes the inaccuracies by reporting office.

Table 8: Inaccuracies Reporting Overpayments Outside of Recapture Audits - Misunderstood Definition of Improper Payment

Reporting Office	Identified	Collected
Goddard Space Flight Center	\$ (27,479)	\$ (26,076)
Johnson Space Center	(30,414)	0
Kennedy Space Center	(1,733)	(866)
Marshall Space Flight Center	1,700	0
Office of Investigations	(9,500)	0
Stennis Space Center	(6,983)	(6,089)
Total	\$ (74,409)	\$ (33,031)

Source: NASA OIG analysis of NASA data.

Note: The amounts in parenthesis represent understatements.

As part of the data call process, reporting offices were instructed to explain why transactions were excluded from reporting but we noted a number of transactions with no explanation. On a judgmental basis, we requested more information from one reporting entity on the nature of the excluded transactions. The reporting entity responded that it did not have sufficient information to determine if the transactions should be reported. As such, identified and recaptured overpayments reported could be understated by approximately \$1.3 million and \$48,000, respectively. Since we did not review all transactions that failed to include an explanation, there could be additional transactions that were either improperly included or excluded.

Additionally, similar to prior years, we found that several amounts identified and recaptured were not properly classified by payment type (e.g., procurement, travel, and payroll). Specifically, payroll overpayments (\$83) identified were misclassified as travel, and travel overpayments (\$305) identified were misclassified as payroll. In addition, OCFO assumed \$1,288 reported by one reporting office was part of a larger amount reported by another reporting office because the transactions involved the same employee. However, the two transactions were not related and the amount was incorrectly excluded.

We found OCFO conducted training and developed a job aid and workflow instructions to assist the reporting offices in reporting information on potential overpayments. However, based on the inconsistencies among respondents about what types of transactions should be included or excluded, we believe the guidance and training was ineffective. Further, OCFO has an ineffective review process to ensure accurate reporting of overpayments identified and recaptured from sources other than payment recapture audits.

Given that we continue to find inaccuracies in the reported amounts for overpayments identified and recaptured from sources other than payment recapture audits, recommendations from our prior reports (IG-15-015, recommendations 7, 9, and 10 and IG-16-021, recommendations 3 through 5) will remain open.

Disposition of Funds Recaptured Through Payment Recapture Audit

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.²¹ An agency is required to report this information in its AFR in the “Disposition of Funds Recaptured through Payment Recapture Audits” table. We found the sum of the individual disposition columns exceeded the total amount recaptured.

NASA reported that of the \$14,000 recaptured, \$3,000 was used to pay recapture auditor fees and \$14,000 was returned to its original purpose for a total disposition of \$17,000. However, the recapture auditor fees were not subtracted from the \$14,000 and NASA reported more monies dispositioned than it recaptured. Given that we continue to note inaccuracies in the presentation of the payment recapture tables, our prior recommendation (IG-15-015, recommendation 9) will remain open.

Incomplete Reporting of Overpayments Recaptured Outside of Payment Recapture Audits

As discussed, NASA is required to report in its AFR improper payments identified and recaptured through sources other than payment recapture audits. We determined that some payments may not have been reported as required.

Financial Management System-Generated Query

In an effort to streamline the data collection process for overpayments identified and recaptured from sources outside of payment recapture audits, OCFO, with assistance from one of the Centers, developed a query of the financial management system to generate a listing of potential identified and collected overpayments. The parameters included transactions with document types DR and DG in which a receivable was established and monies against which a receivable was collected. Reporting offices were asked to research the transactions generated from this query in order to determine whether they were overpayments.

By reviewing the transactions researched by the reporting offices, we found that the query did not include all document types that could represent reportable overpayments. For example, in a reporting office’s explanation of an identified overpayment it noted that the collection was received under a transaction with document type DW, which was not included in the query.²² During a teleconference with the reporting office, OCFO acknowledged there were other document types that should be included in the query to provide a more complete listing of transactions that could represent overpayments and related collections. Because not all receivables and collections meet the definition of an improper payment, we were unable to determine the amount of overpayments identified and recaptured that were not reported.

²¹ 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 and before the closing of an account, the account is considered “expired,” and remains available for recording, adjusting, and liquidating obligations properly chargeable to that account.

²² Within NASA’s financial management system, document type DW is defined as a receivable for recurring payments.

Overpayments in the Form of Credits to Existing Contracts

When overpayments are returned to the Agency in the form of credits on an existing contract, a receivable is not established and in turn the corresponding collection (contract credit) is not reflected in the financial management system. Thus, NASA's data collection process by means of the system query mentioned above does not include overpayments identified and recaptured through contract credits. While the Agency's contracting offices may be aware of overpayments being identified and recaptured through credits to existing contracts, we did not find any overpayment information of this nature communicated to the OCFO by contracting offices.

In our review of a transaction that involved restitution from a legal case, we found that a \$1.6 million overpayment was subsequently recaptured over the course of three months through withholdings from the vendor's invoices. However, the overpayment and recaptured amounts were not reported by the office that administers the contract. We were informed by the contracting officer there is no process to track and accumulate contract credits from contracting officers at that office. In addition, the contracting officer indicated a lack of understanding of what types of contract credits would constitute an improper payment for reporting purposes. We believe this situation is an Agency-wide issue.

Sustained Questioned Costs from Audits

Post-award audits, including Single Audits, are potential sources of overpayments. In FY 2015, NASA contracting offices confirmed approximately \$32 million in questioned costs from post-award audits.²³ We recognize not all questioned costs identified in these reports equate to overpayments. Nevertheless, direct costs inappropriately charged and subsequently repaid or offset against future billings would qualify as improper payments.

As in prior years, the OCFO relies on the Center OCFOs to coordinate with Center procurement officials to develop a combined response to the data call. However, since OCFO began requesting payment recapture information from other sources, no Center has reported an overpayment identified as a result of these types of audits.

Based on our evaluation of NASA's efforts to identify and report overpayments recaptured outside of recapture audits for FY 2016, opportunities for improvement remain. Accordingly, our prior recommendations (IG-15-015, recommendation 10 and IG-16-021, recommendations 3 through 5) will remain open.

²³ When questioned costs are identified, the cognizant Government contracting officer – normally the officer from the agency with the largest dollar amount of associated contracts – is responsible for deciding whether management agrees with the auditor's conclusion. With respect to NASA contracts, grants, and cooperative agreements, the Defense Contract Management Agency or NASA is the cognizant agency. If management sustains the questioned cost, then the contracting officer works with the vendor to offset the costs against further billings or recoup the funds.

CONCLUSION

Based on our review of the FY 2016 AFR and supporting documentation, we concluded NASA complied with IPIA. However, similar to our findings in prior years, NASA can improve its risk assessment process and expand the scope of its recapture audit program. We believe taking these actions would provide a more robust picture of the scope of potential improper payments at the Agency. We also found NASA continues to make errors in its AFR. Until NASA takes a comprehensive, targeted approach that addresses the underlying causes of the noted deficiencies it is likely these deficiencies will continue.

RECOMMENDATIONS, MANAGEMENT'S RESPONSE, AND OUR EVALUATION

In addition to the recommendations communicated in prior years' audits that remain open, we made the following recommendations to the Acting Chief Financial Officer:

1. Revise the weighted percentages judgmentally assigned to risk conditions to increase the weight for External Monitoring and decrease the weights for those conditions essentially treated as static.
2. Revise the Agency's rationale to better reflect each risk condition's impact on the risk of significant improper payments.
3. Revisit the description of the scoring criteria for all risk factors, particularly the risk factors under the External Monitoring and Materiality of Disbursements risk conditions, to ensure the criteria for each level is a fair representation of the risk.
4. Utilize the Agency's financial management system and, if needed, the corresponding reporting tool to identify the program(s) associated with procurement vehicles referenced in reports.
5. Eliminate the practice of disregarding report results if a specific program is not identified; instead, consider the risk of improper payments to all programs that could be impacted by the risk.
6. Consult with the issuer of a report to discuss recommendations if there are questions regarding potential duplication.
7. Review and revise risk factors, as appropriate, to ensure there is a direct correlation between the question and scoring criteria, responses address the risk being assessed, and questions are not duplicated.
8. Reconsider inclusion of the two additional risk factors related to OMB-designated programs and Hurricane Sandy funding since statutes stipulate that such programs are susceptible to significant improper payments.
9. Revisit the risk factor and scoring criteria under the Materiality of Disbursements risk condition to ensure the volume of payments made annually is properly considered as intended by OMB.

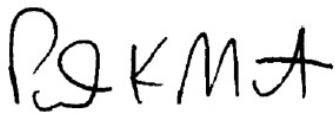
In response to a draft of our report, the Acting Chief Financial Officer concurred or partially concurred with recommendations 2 through 9 and described corrective actions the Agency will take to address them. We find the proposed actions responsive and consider those recommendations resolved. We will close them upon completion and verification of the proposed corrective actions.

Management did not concur with recommendation 1 and therefore that recommendation is unresolved pending further discussion with Agency officials. Management believes the weighted percentages assigned to each risk condition provide a reasonable assessment of risk and no revision is required. However, as discussed in our report, we believe External Monitoring should be weighted higher to more appropriately reflect its significance given that it is the only condition that considers independent and objective assessments of program performance.

Management's full response to our report is reproduced in Appendix E. Technical comments provided by management have been incorporated, as appropriate.

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

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.

A handwritten signature in black ink, appearing to read 'PKMJA'.

Paul K. Martin
Inspector General

APPENDIX A: SCOPE AND METHODOLOGY

We performed this audit from November 2016 through April 2017 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 contractors responsible for conducting the risk assessment and recapture audit activities on NASA's behalf. We also reviewed the IPIA section of the AFR, including the section on payment 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 and the Agency's implementation of recommendations made by the OIG in its improper payments audit reports issued in May 2015 and May 2016.

Federal Laws, Regulations, Policies, and Guidance

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

- Pub. L. No. 114-109, "Federal Improper Payments Coordination Act of 2015"
- Pub. L. No. 114-92, "National Defense Authorization Act for FY 2016"
- Pub. L. No. 113-2, "Disaster Relief Appropriations Act, 2013"
- 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 Circular No. A-136, "Financial Reporting Requirements," October 7, 2016
- OMB Memorandum M-16-17, "OMB Circular No. A-123, Management's Responsibility for Enterprise Risk Management and Internal Control," July 15, 2016
- 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 Memorandum M-13-20, "Protecting Privacy while Reducing Improper Payments with the Do Not Pay Initiative," August 16, 2013
- OMB Memorandum M-13-07, "Accountability for Funds Provided by the Disaster Relief Appropriations Act," March 12, 2013
- OMB Memorandum M-12-11, "Reducing Improper Payments through the 'Do Not Pay List,'" April 12, 2012

- NASA Procedural Requirement 9010.3, “Financial Management Internal Control,” September 30, 2008
- NASA Procedural Requirement 9050.4, “Cash Management and Improper Payments,” September 30, 2008
- NASA OCFO, “Payment Recapture Audit Program Administration Guidance,” (Draft), October 2016
- 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 financial management system that consisted of FY 2015 disbursements used by NASA’s IPIA and recapture audit contractors and a query of FY 2015 receivables and collections used to review transactions to determine whether they were overpayments that should be reported. 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 14 reports of significant relevance to the subject of this report. Unrestricted reports can be accessed at <https://oig.nasa.gov/audits/reports/FY17/index.html> and <http://www.gao.gov>, respectively.

NASA Office of Inspector General

NASA’s Compliance with the Improper Payments Information Act for Fiscal Year 2015 (IG-16-021, May 12, 2016)

NASA’s Compliance with the Improper Payments Information Act for Fiscal Year 2014 (IG-15-015, May 15, 2015)

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

Improper Payments: Strategy and Additional Actions Needed to Help Ensure Agencies Use the Do Not Pay Working System as Intended (GAO-17-15, October 14, 2016)

Improper Payments: CFO Act Agencies Need to Improve Efforts to Address Compliance Issues (GAO-16-554, June 30, 2016)

Improper Payments: Government-Wide Estimates and Use of Death Data to Help Prevent Payments to Deceased Individuals (GAO-15-482T, March 16, 2015)

Disaster Relief: Agencies Need to Improve Policies and Procedures for Estimating Improper Payments (GAO-15-209, February 27, 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)

Improper Payments: Government-Wide Estimates and Reduction Strategies (GAO-14-737T, July 9, 2014)

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)

APPENDIX B: STATUS OF PRIOR YEAR RECOMMENDATIONS

Based on this year's audit, we closed recommendations from prior years' audits if corrective actions were completed and verified. However, if additional corrective actions were necessary, the prior year recommendation remains open until evidence is provided that adequately satisfies the intent of the recommendation. Table 9 shows the status of the prior years' recommendations.

Table 9: Status of Prior Year Recommendations

Report and Recommendation Number	Recommendation	Status
IG-15-015, recommendation 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.	Open
IG-15-015, recommendation 5	Include cost-type contract payments in the Agency's recapture audit efforts. If NASA determines this proposal is not cost-effective, the Chief Financial Officer 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.	Open
IG-15-015, 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 the OIG the determination and the analysis used to support the determination, and include the required disclosures in the AFR.	Open
IG-15-015, recommendation 7	Strengthen procedures to verify the accuracy of the information in the draft AFR.	Open
IG-15-015, recommendation 9	Improve the data collection, review, and reporting processes to ensure the recapture audit tables are accurately completed.	Open

Report and Recommendation Number	Recommendation	Status
IG-15-015, recommendation 10	<p>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</p> <ul style="list-style-type: none"> 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. 	Open
IG-16-021, recommendation 1	Revisit the percentages assigned to the risk conditions to better reflect their relevance and significance and document the rationale for the percentages assigned.	Closed
IG-16-021, recommendation 2	Incorporate a risk factor that considers the timeliness of incurred cost audits.	Open
IG-16-021, recommendation 3	Develop written policies and procedures detailing the process for reporting overpayments identified and recaptured from sources outside of payment recapture audits. At a minimum the policy should include the expectations, roles, and responsibilities of all involved parties and clear and descriptive instructions regarding how to identify amounts for reporting.	Open
IG-16-021, recommendation 4	Disseminate the appropriate system query logic to identify potential overpayments and train the affected organizations or individuals to execute the query and analyze the results.	Open
IG-16-021, recommendation 5	Obtain management decision letters issued by contracting officers to identify potential overpayments and report any overpayments determined to be improper in the AFR as overpayments identified from outside of payment recapture audits.	Open

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. OMB guidance requires agencies to take 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;
- inherent risks of improper payments due to the nature of agency programs or operations;
- significant deficiencies in the audit reports of the agency, including, but not limited to, the agency Inspector General or GAO audit report findings, or other relevant management findings that might hinder accurate payment certification; and
- results from prior improper payment work.

APPENDIX D: SELECT RISK QUESTIONS AND THEIR CORRESPONDING SCORING CRITERIA AND RESPONSES

Risk Condition	Question No. and Question (paraphrased)	Scoring Criteria	Response (paraphrased) and Rating Score (in parenthesis)	No. of Programs with this Response
Internal Controls over Payment Processing	1. Are assessments of internal controls over payments and disbursements conducted and if yes, were deficiencies with financial accounting and reporting and/or payment processes identified?	<p>Low: Previous assessment(s) of internal controls over the payment or related process (e.g., procurement, accounts payable, undelivered orders, etc.) identified no deficiencies specific to improper payment and/or the payment process.</p> <p>Medium: Previous assessment of internal controls over the payment or related process (e.g., procurement, accounts payable, undelivered orders, etc.) identified few (one to two) deficiencies specific to improper payment and/or the payment process.</p> <p>High: Previous assessment of internal controls over the payment or related process (e.g., procurement, accounts payable, undelivered orders, etc.) identified several (more than two) deficiencies specific to improper payment and/or the payment process.</p>	The results of NASA's FY 2015 assessment of internal controls performed in accordance with OMB Circular A-123, Appendix A disclosed that no significant internal control deficiencies or material weaknesses were identified over the Procurement and Payment Management disbursements cycle. NASA concluded that deficiencies found presented a low risk of misstatement in the cycle and do not rise to the level of a significant deficiency or material weakness given other compensating controls considered. (Medium)	All but 1 program, which was rated as low.

Risk Condition	Question No. and Question (paraphrased)	Scoring Criteria	Response (paraphrased) and Rating Score (in parenthesis)	No. of Programs with this Response
Internal Controls over Payment Processing	3. Does the program use DOI, PMS and WAWF prior to invoice/payment requests reaching NSSC or does NASA utilizes any other externally provided payment/invoice processing services?	<p>Low: N/A.</p> <p>Medium: Payment center made changes to the payment process in the last fiscal year; the changes to the payment process were documented and the accompanying controls in place were deemed sufficient to mitigate the risk.</p> <p>High: Programs impacted by changes to the payment process were not identified.</p>	The program had WAWF payments and invoice payments related to IRIS. (Medium)	All but 3 programs, which were rated as low.
Internal Monitoring and Assessment	6. Are there SSAE 16 reports for NASA's service organization and if there is evidence of NASA's review of those reports.	<p>Low: SSAE 16 reports for NASA's service organization exist, were available for review and did not justify any deficiencies related to improper payments and/or the payment process.</p> <p>Medium: Evidence of SSAE 16 reports for NASA's service organization exist in OMB MAX but were not available for review.</p> <p>High: No evidence of SSAE 16 reports for NASA's service organization exist in OMB MAX and were not available for review.</p>	SSAE 16 reports for NASA's service organizations exist and were available for review (DOI - payroll, HHS/PMS - grants and DoD - WAWF). The independent auditor for DoD identified several internal control deficiencies and expressed a qualified opinion on the SSAE 16 for WAWF; however, internal control deficiencies were documented and the accompanying controls in place were deemed sufficient to mitigate the risk. (Medium)	All but 7 programs, which were rated as low.

Risk Condition	Question No. and Question (paraphrased)	Scoring Criteria	Response (paraphrased) and Rating Score (in parenthesis)	No. of Programs with this Response
External Monitoring	5. What were the results of the SSAE 16 audit reports for service providers?	<p>Low: There were no findings in the most recent SSAE 16 audit reports.</p> <p>Medium: There were findings and recommendations in the most recent SSAE 16 audit reports - but no significant deficiencies.</p> <p>High: There were significant deficiencies in the most recent SSAE 16 audit reports.</p>	There were findings and recommendations in the most recent SSAE 16 audit reports; however, internal control deficiencies were documented and the accompanying controls in place were deemed sufficient to mitigate the risk. (Medium)	All but 7 programs, which were rated as low.

Source: NASA OIG using NASA Data.

APPENDIX E: MANAGEMENT'S COMMENTS

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



May 11, 2017

Reply to Attn of: Office of the Chief Financial Officer

TO: Assistant Inspector General for Audits
 FROM: Acting Chief Financial Officer
 SUBJECT: Agency Response to OIG Draft Report, "NASA's Compliance with the Improper Payments Information Act for Fiscal Year 2016" (A-17-002-00)

The National Aeronautics and Space Administration (NASA) appreciates the opportunity to review and comment on the Office of Inspector General (OIG) draft report entitled, "NASA's Compliance with the Improper Payments Information Act for Fiscal Year 2016" (A-17-002-00), dated April 14, 2017.

In the draft report, the OIG makes nine recommendations addressed to the Chief Financial Officer (CFO) intended to improve NASA's risk assessment process and expand the scope of its recapture audit program.

Specifically, the OIG recommends the following:

To improve NASA's risk assessment process, the CFO should:

Recommendation 1: Revise the weighted percentages judgmentally assigned to risk conditions to increase the weight for External Monitoring and decrease the weights for those conditions essentially treated as static.

Management's Response: NASA does not concur with the OIG's recommendation to increase the weight for the External Monitoring risk condition and decrease the weights for those conditions treated as static. On an annual basis, NASA evaluates the relevance and accuracy of the weighting assigned to each risk condition and determines if adjustments are required. As a result of this assessment, NASA concluded that the current percentages assigned to the risk conditions are appropriately aligned with the Government Accountability Office's (GAO) principles and standards as well as the design of NASA's Procure-to-Pay internal control environment and operational framework. The weighted percentages assigned to each risk condition provide a reasonable assessment of risk. In addition, NASA does not agree with the OIG's assertion that the vast majority of risk conditions are static. The Agency is committed to ensuring the risk assessment approach accurately detects the risk of significant improper payments and that the risk assessment methodology is up to date. Accordingly, the

Agency will continue the annual process of reviewing the risk assessment methodology and rationale for assigning risk condition percentages and update each, as necessary.

Estimated Completion Date: Not Applicable

Recommendation 2: Revise the Agency's rationale to better reflect each risk condition's impact on the risk of significant improper payments.

Management's Response: NASA concurs with the OIG's recommendation to revise the Agency's rationale to better reflect each risk condition's impact on the risk of significant improper payments. Accordingly, the Agency will revise as appropriate.

Estimated Completion Date: May 31, 2018

Recommendation 3: Revisit the description of the scoring criteria for all risk factors, particularly the risk factors under the External Monitoring and Materiality of Disbursements risk conditions, to ensure the criteria for each level is a fair representation of the risk.

Management's Response: NASA concurs with the OIG's recommendation to revisit the description of the scoring criteria for the risk factors, particularly the risk factors under the External Monitoring and Materiality of Disbursements risk conditions, to ensure the criteria for each level is a fair representation of the risk.

Estimated Completion Date: May 31, 2018

Recommendation 4: Utilize the Agency's financial management system and, if needed, the corresponding reporting tool to identify the program(s) associated with procurement vehicles referenced in reports.

Management's Response: NASA concurs with the OIG's recommendation to utilize the Agency's financial management system and, if needed, the corresponding reporting tool to identify the program(s) associated with procurement vehicles referenced in reports. The Agency has utilized the financial management systems to identify programs impacted by external reports in the past; however, the Agency will reassess and update its procedures to ensure programs associated with all procurement vehicles are appropriately identified and considered in the risk assessment.

Estimated Completion Date: May 31, 2018

Recommendation 5: Eliminate the practice of disregarding report results if a specific program is not identified; instead, consider the risk of improper payments to all programs that could be impacted by the risk.

Management's Response: NASA partially concurs with the OIG's recommendation to eliminate the practice of disregarding certain report results if a specific program is not identified; and to instead, consider the risk of improper payments to all programs that could be impacted by the risk. NASA will continue to review, evaluate, and identify whether the results of external reports impact on specific program improper payment risk profiles. NASA does not consider it appropriate to apply improper payment risk to all programs if the report results or findings do not afford a reasonable probability that all programs are affected by findings identified in an external report.

Estimated Completion Date: May 31, 2018

Recommendation 6: Consult with the issuer of a report to discuss recommendations if there are questions regarding potential duplication.

Management's Response: NASA partially concurs with the OIG's recommendation to consult with the issuer of certain reports to discuss recommendations if there are questions regarding potential duplication. NASA will continue to review, evaluate, and identify whether the results of external reports impact on specific program improper payment risk profiles and will consult with the report issuer where recommendations or findings are not clear or are considered duplicative.

Estimated Completion Date: May 31, 2018

Recommendation 7: Review and revise risk factors, as appropriate, to ensure there is a direct correlation between the question and scoring criteria, responses address the risk being assessed, and questions are not duplicated.

Management's Response: NASA concurs with the OIG's recommendation to review and revise risk factors, as appropriate, to ensure there is a direct correlation between the questions and scoring criteria, responses address the risk being assessed, and questions are not duplicated. The Agency is committed to ensuring the risk assessment approach accurately detects the risk of significant improper payments and risk conditions, questions, criteria, and responses are aligned up to date.

Estimated Completion Date: May 31, 2018

Recommendation 8: Reconsider inclusion of the two additional risk factors related to Office of Management and Budget (OMB)-designated programs and Hurricane Sandy funding since statutes stipulate that such programs are susceptible to significant improper payments.

Management's Response: NASA concurs with the OIG's recommendation to reconsider inclusion of the two additional risk factors related to OMB-designated programs and Hurricane Sandy funding since statutes stipulate that such programs are susceptible to significant improper payments. The Agency will revisit the two Agency-developed risk factor in the improper payment risk assessment and determine if updates to the risk assessment and risk factors are required.

Estimated Completion Date: May 31, 2018

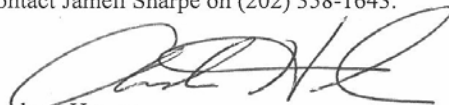
Recommendation 9: Revisit the risk factor and scoring criteria under the Materiality of Disbursements risk condition to ensure the volume of payments made annually is properly considered as intended by OMB.

Management's Response: NASA concurs with the OIG's recommendation to revisit the risk factor and scoring criteria under the Materiality of Disbursements risk condition to ensure the volume of payments made annually is properly considered as intended by OMB. The Agency will revisit the scoring criteria under the Materiality of Disbursements risk condition and determine if the criteria provides a reasonable assessment of risk.

Estimated Completion Date: May 31, 2018

We have reviewed the draft report for information that should not be publicly released. As a result of this review, we have not identified any information that should not be publicly released.

Once again, thank you for the opportunity to review and comment on the subject draft report. If you have any questions or require additional information regarding this response, please contact Jamell Sharpe on (202) 358-1643.



Andrew Hunter

APPENDIX F: REPORT DISTRIBUTION

National Aeronautics and Space Administration

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

Non-NASA Organizations and Individuals

Office of Management and Budget
Deputy 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-17-002-00)