

NASA

National Aeronautics and Space Administration

Office of Inspector General

Office of Audits

NASA'S COMPLIANCE WITH THE IMPROPER PAYMENTS INFORMATION ACT FOR FISCAL YEAR 2017

May 14, 2018

Report No. IG-18-017





Office of Inspector General

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RESULTS IN BRIEF

NASA's Compliance with the Improper Payments Information Act for Fiscal Year 2017

May 14, 2018

IG-18-017 (A-18-002-00)

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 (FY) 2017, the estimated amount of improper payments Government-wide was \$141 billion – a decrease of approximately \$3 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 and estimate the amount of improper payments made by their agencies. In addition, the Act requires agency Inspectors General to determine whether their agencies comply with IPIA requirements.

Our overall objective in this review was to assess NASA's compliance in FY 2017 and evaluate the completeness and accuracy of the Agency's IPIA reporting and its implementation of recommendations made in our prior IPIA reports. We interviewed Agency personnel, reviewed applicable laws and regulations, and reviewed the IPIA section of NASA's Agency Financial Report and supporting documentation.

WHAT WE FOUND

Based on our review of the NASA's FY 2017 Agency Financial Report and supporting documentation, we concluded that NASA complied with IPIA. However, as in prior years we found that NASA can improve its risk assessment process and expand the scope of its recapture audit program in order to provide a more robust picture of the scope of potential improper payments at the Agency.

With regard to the Agency's risk assessment methodology, NASA did not adequately use available data to determine the risk rating under two of seven risk conditions – Internal Monitoring and External Monitoring. Consistent with our prior year's report, we also found the Materiality of Disbursements risk condition contained questionable and improperly used scoring criteria. These issues may have impacted the results of the Agency's risk assessment and affected the number of programs susceptible to significant improper payments.

Also consistent with our findings in prior years, we question NASA's decision to exclude cost-type contracts and limit its payment recapture audits to fixed-price contracts. In addition, we reiterate our concern about the Agency's lack of adequate documentation explaining this decision. Further, and consistent with our finding from last year, we believe some payments that should have been identified and recaptured through sources other than payment recapture audits were not reported in the Agency Financial Report as required. For example, overpayments returned to the Agency as an offset against future contract billings are not being reported by NASA.

WHAT WE RECOMMENDED

In addition to recommendations in prior years' audits that remain open, we recommended the NASA Chief Financial Officer: (1) implement a procedure to use information regarding known improper payments, including the latest available data used for payment recapture reporting, when performing the annual risk assessment; (2) revise the existing risk assessment process by considering improper payments from prior years identified in external reports reviewed in the assessment year to determine program susceptibility to significant improper payments; and (3) develop a process for tracking overpayments identified and subsequently recovered through reductions in future billings on existing contracts such as contract credits.

We provided a draft of this report to NASA management who concurred with our recommendations and described planned corrective actions. We consider the proposed actions responsive for all three recommendations and will close them upon verification and completion of those actions.

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TABLE OF CONTENTS

Introduction	1
Background	1
NASA Complied with IPIA but Can Improve its Risk Assessment Process	5
Compliance with IPIA in FY 2017.....	5
Inadequate Use of Available Data.....	5
Questionable Scoring Criteria for Materiality	7
Risk Factor for Volume Improperly Used	8
Recapture Audits are Limited in Scope	9
Exclusion of Cost-Type Contracts.....	9
Incomplete Reporting of Overpayments Recaptured Outside of Payment Recapture Audits	11
Overpayments in the Form of Credits to Existing Contracts.....	11
Sustained Questioned Costs from Audits	12
Other Matters of Interest	13
Exclusion of OIG Activities from the Risk Assessment	13
Adjustments to Risk Assessment Weighted Percentages and Rationale.....	13
Conclusion	14
Recommendations, Management’s Response, and Our Evaluation	15
Appendix A: Scope and Methodology	16
Appendix B: Status of Prior Year Recommendations	19
Appendix C: Required OMB Risk Factors	22
Appendix D: Management’s Comments	23
Appendix E: Report Distribution	25

Acronyms

AFR	Agency Financial Report
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
NSSC	NASA Shared Services Center
OCFO	Office of the Chief Financial Officer
OIG	Office of Inspector General
OMB	Office of Management and Budget

INTRODUCTION

Each year the Federal Government makes billions of dollars in improper payments to individuals, organizations, and contractors. In fiscal year (FY) 2017, the estimated amount of improper payments Government-wide was \$141 billion – a decrease of approximately \$3 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.

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.² 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 2017. As in past years, 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

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

¹ Government Accountability Office, “Financial Audit: Fiscal Years 2017 and 2016 Consolidated Financial Statements of the U.S. Government” (GAO-18-316R, February 15, 2018). From year to year, the specific programs and activities included in the Government-wide total of reported improper payment estimates may change. For example, in FY 2017 nine Federal entities did not report estimated improper payment amounts for 27 risk-susceptible programs and activities.

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

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

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 6 years, we reported NASA complied with the requirements of the statute but noted areas for improvement and made corresponding recommendations to NASA management. 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. We closed recommendations when the associated corrective actions were completed and verified, but kept others open since corrective actions were incomplete. See Appendix B for the status of our recommendations for the FY 2014 – 2016 reporting years.

NASA's FY 2017 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 a private company to conduct a risk assessment and estimate improper payments and with another company to perform payment recapture audits.

Assessing Risk and Estimating Improper Payments

As the first step in the risk assessment process, NASA identified 110 unique programs after reviewing FY 2016 disbursements recorded in NASA's financial management system. NASA compared the 110 programs to the Agency's approved budget and, based on that analysis, combined multiple

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.

programs to bring the total number of unique programs to 90.⁴ Of the 90 programs, NASA assessed the risk of improper payments on 30 programs this year.⁵

After NASA chose the 30 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 risk 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 2017 NASA Improper Payment Program (IPP): Risk Assessment Methodology and Report” (December 11, 2017).

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 for that condition. These ratings were assessed using a variety of sources including internal and external reports, questionnaires, and management reviews. 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, no additional testing was undertaken.⁷

⁴ 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.

⁵ In prior years, NASA had analyzed all of the identified programs for the risk of improper payments. Starting this year, NASA plans to review programs once every three years, as permitted by statute, since they consistently have not identified programs to be susceptible to improper payments.

⁶ Appendix C contains a complete list of the OMB-required risk factors. The two risk factors added by NASA for FY 2017 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.

⁷ 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. NASA requested and received relief from the annual reporting requirement by OMB since it attained two consecutive years of improper payment estimates below the thresholds set by IPERA.

Payment Recapture

Annually, NASA reports overpayments identified and collected in two categories: recapture audits and sources other than recapture audits. For FY 2017 reporting, amounts reported from recapture audits were based on FY 2016 disbursements and FY 2017 collections, while sources other than recapture audits were based on overpayments identified and collected in FY 2016.

NASA's recapture audits test the Agency's disbursements to vendors under fixed-priced contracts. These audits review the Agency's payment transactions and supporting documents and are designed to identify overpayments that result from payment errors. For FY 2017, NASA tested approximately \$5.1 billion in disbursements for potential overpayments using data analytics and analyst review. For potential overpayments, finance officials at the appropriate Center researched the payments to determine whether an overpayment had been made. In the end, the Centers found no overpayments the Agency had not previously identified.

Overpayments from sources other than recapture audits are accumulated through a data collection process that involves a query of the Agency's financial management system that generates a list of potential overpayments. Each potential overpayment is then further researched by the reporting offices to determine whether it constitutes an overpayment.

NASA COMPLIED WITH IPIA BUT CAN IMPROVE ITS RISK ASSESSMENT PROCESS

Although we concluded NASA complied with IPIA, we identified opportunities for improvement in NASA's risk assessment methodology. For example, NASA did not adequately use available data to determine the risk rating under the Internal Monitoring and External Monitoring risk conditions. Further, consistent with our prior year's report, the Materiality of Disbursements risk condition still contains questionable and improperly used scoring criteria. These issues may have impacted the results of the Agency's risk assessment and affected the number of programs susceptible to significant improper payments.

Compliance with IPIA in FY 2017

Based on our review of NASA's FY 2017 AFR, website, and risk assessment, we concluded the Agency met all applicable OMB criteria and complied with IPIA for FY 2017.⁸ See Table 2 below.

Table 2: IPIA Compliance Summary

Criteria for Compliance	Criteria Met?
Published and posted on Agency website its FY 2017 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 susceptible to significant improper payments.

Inadequate Use of Available Data

The purpose of the risk assessment is to determine whether the risk of improper payments is significant in the Agency programs being assessed. NASA developed specific questions for each factor to help determine the level of risk for each program. In order to determine the risk rating for a program, NASA collects data from a variety of sources, including internal and external reports. Information within these

⁸ See: <https://www.nasa.gov/news/budget/index.html> (last accessed, April 4, 2018).

reports may provide indicators of potential control weaknesses within the payment process or payments that were improperly made. However, we found NASA did not adequately use available data sources when answering questions under the Internal Monitoring and External Monitoring risk conditions.

Internal Monitoring

One method of determining which internal reports and other data affect NASA's payment process is the completion of an OCFO-developed questionnaire by the NASA Shared Services Center (NSSC), the Agency's payment processing center. The questionnaire requests information about recent payment operation audits, other related audits, or internal reviews. The questionnaire also asks about the existence of improper payments identified by the NSSC or other organizations. In response to this question, NSSC indicated that it annually provides a spreadsheet of recorded billing and collection transactions (generated through a query of NASA's financial management system) to each NASA Center who in turn determines which transactions constitute improper payments. This is part of the annual data collection process NASA uses to identify reportable overpayments from sources other than payment recapture audits. The Centers submit any verified overpayments to the OCFO for reporting in the AFR. We found that these known improper payments were not considered by NASA when assessing the risk of improper payments within Agency programs. Even though the process was designed to report overpayments identified from sources other than payment recapture audits, this information should be used within the risk assessment process to determine whether NASA programs are susceptible to significant improper payments.

External Monitoring

External reports considered during the risk assessment process include reports (audits and investigations) issued by the NASA OIG and the Government Accountability Office (GAO). When NASA determines such reports contain indicators that control weaknesses may exist in the payment process or improper payments, the results are taken into consideration to determine the risk score for the associated program. However, a known or potential improper payment amount identified in the report only impacts the risk scoring if the disbursement was made in the year being reported upon. As stated previously, the risk assessment performed in the current reporting year is based upon information from the prior year. As such, NASA only considered improper payments disbursed in FY 2016 to determine susceptibility to significant improper payments when performing its FY 2017 risk assessment. For example, NASA determined that an OIG report issued in 2016 questioned over \$2 million in contracts disbursed in two programs between FYs 2009 – 2014, one of which was selected as part of NASA's FY 2017 risk assessment.⁹ Since the questioned funds were not disbursed in FY 2016, NASA did not consider those costs when determining susceptibility of the program to significant improper payments.

Based on the time lapse between the activity, the audit or investigation of that activity, and reporting of results, it is unlikely that an external report being reviewed for the risk assessment reporting year would identify improper payments within that disbursement year. As such, we believe that improper payments from prior years included in an external report should be considered when assessing the risk score for the affected program.

⁹ NASA OIG, "Review of NASA-funded Institutes" (IG-16-023, June 9, 2016)

Questionable Scoring Criteria for Materiality

In our FY 2016 IPIA report, we found the risk conditions for External Monitoring and Materiality of Disbursements contained unreasonable scoring criteria that, in our view, could inappropriately limit the number of programs with the potential to be assessed as high risk.

Although NASA revised the scoring criteria under the External Monitoring risk condition based on that report, no changes were made for Materiality of Disbursements. Specifically, the dollar value for each risk rating level (i.e., low, medium, and high) was still computed by taking the difference between NASA's program with the lowest value of disbursements (\$26) and its program with the highest value of disbursements (\$2.44 billion) and dividing that sum by 3, resulting in the risk increments shown in Table 3. The table also reflects the number of programs NASA identified for each risk rating level.

Table 3: NASA Scoring of Materiality and Associated Number of Programs

Risk Rating	Materiality of Disbursements	Programs
Low	Less than \$815 million	85
Medium	Between \$815 million and \$1.63 billion	1
High	Greater than \$1.63 billion	4

Source: NASA OIG analysis of NASA data (Fiscal Year 2017 NASA Improper Payment Program (IPP): Program Budget Cross Walk August 24, 2017).

Under this methodology, NASA identified programs such as Earth Systematic Missions and Crew and Cargo - Space Operations with \$807 million and \$803 million in FY 2016 disbursements, respectively, as low risk. Meanwhile, the Agency's fifth largest program – the Orion Multipurpose Crew Vehicle – with approximately \$1.39 billion in FY 2016 disbursements was identified as medium risk. We continue to believe NASA's methodology does not accurately represent routine disbursement activity in Agency programs because, using a more representative methodology, the average value of disbursements in its 90 programs was \$238 million – \$21.42 billion in total FY 2016 disbursements divided by 90. Table 4 reflects the scoring criteria for each risk category and the associated number of programs using this average value of disbursements, a methodology that results in a significant increase in the number of medium and high risk programs.

Table 4: OIG Proposed Scoring of Materiality and Associated Number of Programs

Risk Rating	Materiality of Disbursements	Programs
Low	Less than \$238 million	70
Medium	Between \$238 million and \$476 million	10
High	Greater than \$476 million	10

Source: NASA OIG.

Since management only addressed one aspect of this issue from last year's report, the recommendation (IG-17-020, recommendation 3) will remain open.

Risk Factor for Volume Improperly Used

Among the minimum risk factors OMB requires agencies to consider when performing risk assessments is the volume of payments made annually (see Appendix C for more detail on the OMB framework). We believe volume means number of disbursements. This OMB risk factor is addressed by NASA under the Materiality of Disbursements risk condition where the Agency equated “volume” with dollar value instead of the number of payments. As such, programs continue to be rated as low, medium, or high based on whether the total value of disbursements in the program was below \$815 million, between \$815 million and \$1.63 billion, or above \$1.63 billion. Under NASA’s methodology, programs with fewer disbursements but a high dollar value would be at a higher risk of improper payments than programs with a large number of lower-dollar disbursements. OCFO officials stated that after analyzing various scenarios and discussing the inclusion of the number of transactions processed into the risk assessment, management decided not to update the risk condition.

Based on our determination that the processing of multiple payments is more susceptible to risk of improper payment than the processing of a payment with a higher dollar value, our prior recommendation (IG-17-020, recommendation 9) will remain open.

RECAPTURE AUDITS ARE LIMITED IN SCOPE

Consistent with our finding in prior years, NASA continued to exclude cost-type contracts and limit its payment recapture audits to fixed-price contracts. 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 6 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. We 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.

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 OMB of this decision and provide supporting analysis. In January 2011, NASA notified OMB of its decision in its recapture audit plan but provided no analysis supporting the decision. In response to our audit recommendations over the years, NASA has claimed the inclusion of cost-type contracts in recapture audits would be duplicative and other testing did not yield improper payments; however, limited documentation was provided to support their argument. We continue to disagree with NASA's decision.

Previously, NASA asserted that 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 specifically 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.¹⁰

NASA also claimed that the results of prior years' improper payment testing on programs assessed as being susceptible to significant improper payments, 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.

Further, in FY 2015 and FY 2016 NASA conducted testing on a random sample of cost-type contract payments focused primarily on recipient eligibility for payment, approval and accuracy of payments

¹⁰ 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.

made, and delivery of goods and services procured. While the results of this testing did not identify improper payments, the testing was not designed to analyze the complete population and identify transactions that were at high risk for being overpayments. Conversely, recapture audits are specifically designed to identify overpayments.

NASA's recapture auditors used data analytics to select transactions for testing. Some of the analytics included the search for duplicate transactions, such as looking for different contract numbers for the same invoice, different vendors for the same invoice, or final invoices and previous invoices with same invoice number. Transactions identified as potential duplicates were scored and ranked and a sample of those potential duplicates were tested to determine if they were overpayments. In addition to duplicate payment testing, a sample of account statements from vendors are analyzed that reflect any open invoices, credit memos, unapplied cash, erroneous payments, duplicate payments, allowances, charge backs, rebates, and items in dispute. Therefore, NASA's testing and payment recapture audits are not the same, and the results of the Agency's testing do not support a decision to exclude cost-type contracts from recapture audits. Additionally, NASA's contract for recapture audit services is on a contingency basis, meaning a fee is only paid if the auditor identifies an improper payment not previously identified by the Agency and the overpayment is collected from the vendor. As such, there is minimal cost to the Agency in altering its approach and including cost-type contracts within the scope of the recapture audit program. NASA's analysis focuses only on testing results and does not address the issue of cost effectiveness.

Lastly, for the past three years NASA has reported collection of overpayments outside of its recapture audits from contracts and some of these overpayments were from cost-type contracts. Specifically, the Agency reported in FY 2015 that it collected \$4.5 million from cost-type contracts. In its FY 2016 and FY 2017 reporting, NASA discontinued identifying the procurement type associated with overpayments (e.g., cost-type, fixed price). However, we were able to determine that at least a portion of the \$4.3 million and \$5 million in overpayments in FY 2016 and FY 2017 reporting, respectively, were related to cost-type contracts by researching the contract number in the Agency's financial management system. In addition, in FY 2013 the population of FY 2012 disbursements provided to the recapture auditors inadvertently included procurement types other than fixed-price contracts, and auditors subsequently identified overpayments of \$5,171 associated with these other procurement types. This amount was 12.8 percent of the total overpayments identified that year. Again, we believe this strengthens our position that NASA can and should conduct 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 why recapture audits would not be a cost-effective method for identifying potential improper payments.

INCOMPLETE REPORTING OF OVERPAYMENTS RECAPTURED OUTSIDE OF PAYMENT RECAPTURE AUDITS

NASA is required to report in its AFR improper payments identified and recaptured through sources other than payment recapture audits. Consistent with our finding from last year, we believe some payments were not reported as required.

Overpayments in the Form of Credits to Existing Contracts

In an effort to streamline the data collection process for overpayments identified and recaptured outside of payment recapture audits, NASA developed a query of its financial management system to generate a listing of potential identified and collected overpayments. However, 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 system. Thus, queries of the system do not include overpayments identified and recaptured through contract credits. As such, improper payments identified and subsequently recovered through contract credits require another reporting mechanism.

Similar to prior years, we did not find any overpayment information concerning contract credits communicated to the OCFO by contracting offices across the Agency. As we reported in our prior year's report, a contracting officer at NSSC indicated that there was no process to track and accumulate contract credits from contracting officers at NSSC. In addition, the contracting officer indicated a lack of understanding of what types of contract credits would constitute an improper payment for reporting purposes. NSSC confirmed that a process still does not exist. The procurement office at Goddard Space Flight Center also confirmed that such a process does not exist at its office. Additionally, Johnson Space Center's OCFO acknowledged that it did not inquire of its contracting office as to whether overpayments were identified and recaptured through contract credits. The Agency OCFO reiterated that responsibility for reporting the identification and recapture of improper payments lies with the respective Center even though NSSC may have processed the transaction. However, the Agency OCFO indicated that it had not specifically requested such improper payment information from the Centers. Based on our inquiries, NASA still lacks an Agency-wide process to track and report contract credits resulting from improper payments.

It is also likely that there were overpayments identified and recaptured through contract credits this reporting period that NASA failed to capture in its reporting. For example, during last year's review we found that a \$1.6 million overpayment involving restitution from a legal case was subsequently recaptured over the course of three months through withholdings from the vendor's invoices. However, these overpayment and recaptured amounts were not reported by the office that administers the contract.

We are recommending a specific corrective action for implementation of a process. Further we are keeping our prior recommendations (IG-15-015, recommendation 10 and IG-16-021, recommendation 3) open as this process will require updates to existing policies and procedures and training for impacted personnel.

Sustained Questioned Costs from Audits

Post-award audits, including single audits and incurred cost audits, are potential sources of overpayments. In FY 2016, NASA contracting offices confirmed approximately \$1.9 million in questioned costs from post-award audits.¹¹ We recognize not all questioned costs identified in these reports constitute 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 relied on the Center OCFOs to coordinate with Center procurement officials to develop a combined response to its data call for payment recapture activities outside of payment recapture audits.¹² However, since the OCFO began requesting payment recapture information from other sources, no Center has reported an overpayment identified as a result of these types of audits. Further, OCFO officials indicated they are still developing a process to obtain management decision letters issued by contracting officers for post-award audits in order to report any improper payments identified by these audits. Upon implementation of the new process, impacted personnel will need to be trained and the existing policies and procedures updated. Accordingly, our prior recommendations (IG-15-015, recommendation 10 and IG-16-021, recommendations 3 and 5) will remain open.

¹¹ 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 future billings or recoup the funds.

¹² The 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.”

OTHER MATTERS OF INTEREST

Exclusion of OIG Activities from the Risk Assessment

In November 2017, GAO reported that NASA did not include all programs and activities in its FY 2016 risk assessment, specifically citing the exclusion of OIG activities.¹³ GAO recommended NASA revise its procedures for conducting improper payment risk assessments to include the activities of its OIG to help ensure that all programs and activities are assessed for susceptibility to significant improper payments at least once every 3 years as required by IPIA. NASA concurred with GAO's recommendation and plans to implement corrective action in its FY 2018 risk assessment process.

Adjustments to Risk Assessment Weighted Percentages and Rationale

In our FY 2016 report, we recommended that NASA's Acting Chief Financial Officer revisit the weighted percentages judgmentally assigned to risk conditions to increase the percentage for External Monitoring and decrease the weights for those conditions essentially treated as static.¹⁴ We further recommended that the Agency's rationale for the percentages assigned to the risk conditions be revised to better reflect the impact on the risk of significant improper payments. Management did not concur with the recommendation concerning the weighted percentages but did agree to revise the rationale behind the percentages. Subsequent to final report issuance, the OCFO agreed to revisit and change one or more of the weighted percentages during the FY 2018 risk assessment process. Further, the OCFO opted to delay revising the rationale until the percentages assigned to the risk conditions were revised. As such, these two recommendations (IG-17-020, recommendations 1 and 2) remain open.

¹³ GAO, "Improper Payments: Most Selected Agencies Improved Procedures to Help Ensure Risk Assessments of All Programs and Activities" (GAO-18-36, November 16, 2017)

¹⁴ NASA OIG, "NASA's Compliance with the Improper Payments Information Act for Fiscal Year 2016" (IG-17-020, May 15, 2017).

CONCLUSION

Based on our review of the FY 2017 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.

RECOMMENDATIONS, MANAGEMENT'S RESPONSE, AND OUR EVALUATION

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

1. Implement a procedure to use information regarding known improper payments, including the latest available data used for payment recapture reporting, when performing the annual risk assessment.
2. Revise the existing risk assessment process by considering improper payments from prior years identified in external reports reviewed in the assessment year to determine program susceptibility to significant improper payments.
3. Develop a process for tracking overpayments identified and subsequently recovered through reductions in future billings on existing contracts such as contract credits.

We provided a draft of this report to NASA management who concurred with our recommendations and described planned corrective actions. We consider the proposed actions responsive for all three recommendations and will close them upon verification and completion of those actions.

Management's full response to our report is reproduced in Appendix D. 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. Matt Ward provided editorial and graphics assistance.

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 November 2017 through April 2018 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, 2016, and 2017.

Federal Laws, Regulations, Policies, and Guidance

We reviewed applicable federal laws and regulations, as well as NASA policy and guidance, related to improper payments. This review included, but was not limited to, the following:

- Pub. L. No. 114-109, "Federal Improper Payments Coordination Act of 2015," December 18, 2015
- Pub. L. No. 113-2, "Disaster Relief Appropriations Act, 2013," January 29, 2013
- Pub. L. No. 112-248, "Improper Payments Elimination and Recovery Improvement Act of 2012," January 10, 2013
- Pub. L. No. 111-204, "Improper Payments Elimination and Recovery Act of 2010," July 22, 2010
- Pub. L. No. 107-300, "Improper Payments Information Act of 2002," November 26, 2002
- Executive Order 13520, "Reducing Improper Payments," November 20, 2009
- OMB Circular A-136, "Financial Reporting Requirements," August 15, 2017
- 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-13-07, "Accountability for Funds Provided by the Disaster Relief Appropriations Act," March 12, 2013
- NASA Procedural Requirements 9010.3, "Financial Management Internal Control," September 30, 2008
- NASA OCFO, "Procedural Guidance, Improper Payments Information Act and OMB Circular A-123, Appendix C: *Requirements for Effective Measurement and Remediation of Improper Payments*," June 2017
- NASA OCFO, "Payment Recapture Audit Program Administration Guidance," May 24, 2017

Use of Computer-Processed Data

We used computer-processed data extracted from NASA's financial management system that consisted of FY 2016 disbursements used by NASA's IPIA and recapture audit contractors and a query of FY 2016 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. Any internal control weaknesses identified are discussed in this report. Our recommendations, if implemented, should correct the identified control weaknesses.

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/FY18/index.html> and <https://www.gao.gov>, respectively.

NASA Office of Inspector General

NASA's Compliance with the Improper Payments Information Act for Fiscal Year 2016 (IG-17-020, May 15, 2017)

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)

Government Accountability Office

Improper Payments: Most Selected Agencies Improved Procedures to Help Ensure Risk Assessments of All Programs and Activities (GAO-18-36, November 16, 2017)

Improper Payments: Additional Guidance Could Provide More Consistent Compliance Determinations and Reporting by Inspectors General (GAO-17-484, May 31, 2017)

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: DOE's Risk Assessments Should Be Strengthened (GAO-15-36, December 23, 2014)

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

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

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 5 shows the status of the prior years' recommendations.

Table 5: 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.	Closed
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.	Closed
IG-15-015, recommendation 7	Strengthen procedures to verify the accuracy of the information in the draft AFR.	Closed
IG-15-015, recommendation 9	Improve the data collection, review, and reporting processes to ensure the recapture audit tables are accurately completed.	Closed

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 2	Incorporate a risk factor that considers the timeliness of incurred cost audits.	Closed
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.	Closed
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
IG-17-020, 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.	Open

Report and Recommendation Number	Recommendation	Status
IG-17-020, recommendation 2	Revise the Agency's rationale to better reflect each risk condition's impact on the risk of significant improper payments.	Open
IG-17-020, 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.	Open
IG-17-020, 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.	Closed
IG-17-020, 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.	Closed
IG-17-020, recommendation 6	Consult with the issuer of a report to discuss recommendations if there are questions regarding potential duplication.	Closed
IG-17-020, 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.	Closed
IG-17-020, recommendation 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.	Closed
IG-17-020, 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.	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: MANAGEMENT'S COMMENTS

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



MAY 10 2018

Reply to Attn of:

Office of the Chief Financial Officer

TO: Assistant Inspector General for Audits
 FROM: Chief Financial Officer
 SUBJECT: Agency Response to OIG Draft Report, "Audit of NASA's Compliance with the Improper Payments Information Act (IPIA) for Fiscal Year 2017" (A-18-002-00)

NASA appreciates the opportunity to review and comment on the Office of Inspector General (OIG) draft report entitled, "Audit of NASA's Compliance with the Improper Payments Information Act (IPIA) for Fiscal Year 2017" (A-18-002-00), dated April 13, 2018.

In the report, the OIG found that NASA can improve its risk assessment process and expand the scope of its recapture audit program and is making three recommendations to the Chief Financial Officer (CFO) for that purpose.

Specifically, the OIG recommends the CFO:

Recommendation 1: Implement a procedure to use information regarding known improper payments, including the latest available data used for payment recapture reporting, when performing the annual risk assessment.

Management's Response: NASA concurs with the OIG's recommendation to implement a procedure to use information regarding known improper payments, including the latest available data used for payment recapture reporting, when performing the annual risk assessment. Accordingly, the Agency will review the latest data used for payment recapture reporting and incorporate that data into the activities performed to assess NASA programs for susceptibility to significant improper payments, as appropriate.

Estimated Completion Date: May 31, 2019.

Recommendation 2: Revise the existing risk assessment process by considering improper payments from prior years identified in external reports reviewed in the assessment year to determine program susceptibility to significant improper payments.

Management's Response: NASA concurs with the OIG's recommendation to consider improper payments from prior years identified in external reports reviewed in the assessment year to determine program susceptibility. Accordingly, the Agency agrees to reevaluate the time period for including prior year improper payments reports in the current year risk assessment process.

Estimated Completion Date: May 31, 2019.

Recommendation 3: Develop a process for tracking overpayments identified and subsequently recovered through reductions in future billings on existing contracts such as contract credits.

Management's Response: NASA concurs with OIG's recommendation to develop a process for tracking overpayments identified and subsequently recovered through reductions in future billings on existing contracts such as contract credits. To accomplish this task, NASA will research possible automated solutions to further streamline the recapture data collection process to include more fully reporting improper payments identified and recaptured through reductions in future billings on existing contracts.

Estimated Completion Date: May 31, 2019.

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.



Jeff DeWitt

APPENDIX E: REPORT DISTRIBUTION

National Aeronautics and Space Administration

Administrator
Acting Associate Administrator
Acting Chief of Staff
Chief Financial Officer

Non-NASA Organizations and Individuals

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

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Director, Office of Financial Management and Assurance
Director, Office of Acquisition and Sourcing Management

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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-18-002-00)