

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 2018

June 3, 2019

Report No. IG-19-020





Office of Inspector General

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NASA Office of Inspector General
Office of Audits

RESULTS IN BRIEF

NASA's Compliance with the Improper Payments Information Act for Fiscal Year 2018

June 3, 2019

IG-19-020 (A-19-001-00)

WHY WE PERFORMED THIS REVIEW

Improper payments are payments the federal government should not have made or made in an incorrect amount. They also include duplicate payments and any payment to an ineligible recipient, for an ineligible good or service, for a good or service not received, or that does not account for credit for applicable discounts. In fiscal year (FY) 2018, the estimated amount of improper payments government-wide was \$151 billion. 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. The Act also requires Inspectors General to determine whether their agencies comply with IPIA requirements.

Our objectives were to: (1) determine whether NASA complied with IPIA requirements in FY 2018, (2) evaluate the completeness and accuracy of the Agency's IPIA reporting, and (3) assess its implementation of recommendations we made in prior IPIA reports. To meet these objectives, we interviewed Agency personnel, reviewed applicable laws and regulations, and examined the IPIA section of NASA's FY 2018 Agency Financial Report (AFR) and supporting documentation.

WHAT WE FOUND

Based on our review, we concluded the Agency complied with IPIA. However, as we reported last year, NASA did not use all available data to determine the risk rating in two categories: Internal Monitoring and Assessments and External Monitoring and Assessments. In addition, NASA failed to provide documentation of the analysis supporting its rationale for using the existing scoring criteria for the Materiality of Disbursements risk condition—a methodology we believe is not representative of NASA's disbursement activity. These two issues impact the basis for assigning ratings within the Agency's risk assessment and the determination of whether programs are susceptible to significant improper payments.

Consistent with our findings in prior years, we also questioned NASA's decision to exclude cost-type contracts and limit its payment recapture audits to fixed-price contracts. We believe this decision increases the risk that improper payments will not be timely identified and recaptured. In addition, we remain concerned about the Agency's lack of adequate documentation explaining this decision.

Further, we continue to find the Agency does not have processes in place to identify certain types of overpayments and resulting collection from sources outside of payment recapture audits. Specifically, NASA has yet to implement an Agency-wide process to gather, track, and report improper payments recaptured through credits on future billings and sustained questioned direct costs from post-award audits. Finally, NASA Centers improperly included or excluded several transactions from the AFR, resulting in an overstatement of the reported net amounts for identified and collected overpayments.

WHAT WE RECOMMENDED

In addition to reiterating recommendations from prior years' audits that remain open, we recommended the NASA Chief Financial Officer: (1) revise existing policies and procedures for reporting overpayments identified and recaptured from sources outside of the payment recapture audit by documenting the processes developed to gather, track, and report improper payments recaptured through credits on future billings and sustained questioned direct costs from post-award audits; (2) provide training to organizations or individuals responsible for reporting overpayments from future billing credits and sustained questioned direct costs from post-award audits to ensure they are aware of NASA's reporting requirements and their responsibility for tracking the information and communicating it to the Office of the Chief Financial Officer; and (3) enhance the annual payment recapture training provided to Centers with a focus on what constitutes an improper payment and how to improve the accuracy of their reporting.

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 completion and verification of those actions.

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Acronyms

| | |
|--------|--|
| AFR | Agency Financial Report |
| FY | fiscal year |
| 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 |
| OMB | Office of Management and Budget |
| OP | Office of Procurement |

INTRODUCTION

Improper payments are payments the federal government should not have made or made in an incorrect amount (including overpayments and underpayments) under statutory, contractual, administrative, or other legally applicable requirements. They also include duplicate payments and any payment to an ineligible recipient, for an ineligible good or service, for a good or service not received (except for such payments where authorized by law), or that does not account for credit for applicable discounts. In fiscal year (FY) 2018, the estimated amount of improper payments government-wide was \$151 billion.¹

The Improper Payments Information Act of 2002 (IPIA or the Act) requires the heads of federal agencies annually to identify programs and activities susceptible to improper payments and estimate the amount of improper payments in each. The Act requires them to report these estimates and any planned actions to reduce significant improper payments in programs with estimates that exceed specified thresholds. If an agency determines that a program or activity is not susceptible to significant improper payments, the agency must reassess that program's improper payment risk at least once every 3 years.

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 should also evaluate the accuracy and completeness of agency reporting.

Our overall objective was to determine whether NASA complied with the requirements of IPIA in FY 2018. 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 and Appendix B for the status of our recommendations from prior years.

¹ For information on improper payments and annual improper payment data for FY 2018, see <https://paymentaccuracy.gov/resources> (accessed March 18, 2019).

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

Background

According to Office of Management and Budget (OMB) implementation guidance for IPIA, to comply with the Act an agency must:

1. publish and post on its website an annual 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.³

NASA's FY 2018 Processes to Estimate and Recover Improper Payments

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. 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

NASA identified 108 programs after reviewing FY 2017 disbursements recorded in NASA's financial management system. NASA compared these to the Agency's approved budget and, based on that analysis, combined related programs to bring the total number of unique programs to 88.⁴ Of the 88 programs, NASA assessed the risk of improper payments on 30 programs this year.⁵

NASA assessed the 30 programs against 7 risk conditions, which were judgmentally weighted based on relevance and significance using a 100-point scale (see Table 1). The risk conditions incorporated the factors NASA considered likely to contribute to the susceptibility of significant improper payments.

³ OMB M-18-20, *Appendix C to OMB Circular A-123, Requirements for Payment Integrity Improvement* (June 26, 2018). Hereafter "OMB guidance" refers to OMB M-18-20, unless noted otherwise.

⁴ NASA combined 14 programs within the Institutions and Management mission, 5 programs within the Education mission, and 4 Commercial Crew and Commercial Cargo programs to form 3 consolidated programs.

⁵ As permitted by statute, a subset of NASA programs is selected for risk assessment each year with all of its programs assessed within a 3-year period.

Table 1: Risk Conditions and Weighted Percentages

| Risk Condition | Weighted Percentage |
|--|---------------------|
| Internal Control over Payment Processing | 25 |
| Internal Monitoring and Assessments | 20 |
| Materiality of Disbursements | 15 |
| Payment Profile | 15 |
| External Monitoring and Assessments | 10 |
| Program Profile | 10 |
| Human Capital Risk | 5 |

Source: NASA, *Fiscal Year 2018 NASA Improper Payment Program (IPP): Risk Assessment Methodology and Report* (September 28, 2018).

NASA developed specific questions for each risk 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. NASA determined these ratings 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. NASA considered a program with an overall risk score of 3.33 or higher as susceptible to significant improper payments and therefore subject to testing on a statistical basis to estimate the amount of improper payments made.⁶ Because none of NASA’s programs reached the 3.33 threshold, no additional testing was undertaken.

Payment Recapture

Annually, NASA reports overpayments identified and collected in two categories: recapture audits and sources other than recapture audits. For FY 2018 reporting, amounts reported from recapture audits were based on FY 2017 disbursements and FY 2018 collections, while sources other than recapture audits were based on overpayments identified and collected in FY 2017.

NASA’s recapture audits test the Agency’s disbursements to vendors under fixed-priced contracts.⁷ These audits review the Agency’s payment transactions and supporting documents and are designed to identify overpayments that result from payment errors. For FY 2018 reporting, NASA tested approximately \$4.2 billion in disbursements for potential overpayments using data analytics and analyst review. For potential overpayments, finance officials at the appropriate NASA Center researched the payments to determine whether an overpayment had been made. Based on their reviews, the Centers concluded there were no overpayments the Agency had not previously identified through routine contract administration activities and vendor self-reporting.

Overpayments from sources other than recapture audits are accumulated through a data collection process that includes 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.

⁶ The overall risk score was determined by taking the highest rating of 5 and dividing it by 3, which equals 1.66. That number was then multiplied by 2 to get an overall risk score of 3.33.

⁷ Fixed-price contracts provide a product or service for a set price or, in appropriate cases, an adjustable price with a ceiling and/or target price.

NASA COMPLIED WITH IPIA BUT CAN IMPROVE ITS RISK ASSESSMENT PROCESS

NASA complied with IPIA, but we concluded that the Agency did not use all available data to determine the risk rating under the Internal Monitoring and Assessments and External Monitoring and Assessments risk conditions. Further, NASA did not provide us documentation of the analysis supporting its rationale for using the existing scoring criteria for the Materiality of Disbursements risk condition. These two issues impact the basis for assigning ratings within the Agency’s risk assessment and the determination of whether programs are susceptible to significant improper payments.

Compliance with IPIA in FY 2018

Based on our review of NASA’s FY 2018 AFR, website, and risk assessment, we concluded the Agency met all applicable OMB criteria and complied with IPIA for FY 2018 (see Table 2).⁸

Table 2: IPIA Compliance Summary

| Criteria for Compliance | Criteria Met? |
|--|---------------|
| Published and posted on Agency website its FY 2018 AFR | Yes |
| Conducted program-specific risk assessments for each program or activity | Yes |
| Published improper payment estimates for all programs and activities the risk assessment identified as susceptible to significant improper payments | N/A |
| Published programmatic corrective action plans in the AFR | N/A |
| Published and met annual reduction targets for each program assessed to be at risk and measured for improper payments | N/A |
| Reported a gross improper payment rate of less than 10 percent for each program or activity for which an improper payment estimate was obtained and published in the AFR | N/A |

Source: NASA Office of Inspector General.

Note: N/A refers to criteria 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 a program or activity is susceptible to significant improper payments. NASA developed specific questions and collected data from a variety of sources, including internal and external reports, for each risk factor to help determine the level of risk for each program. Information within these reports may provide indicators of potential control weaknesses within the payment process or payments that were improperly made.

⁸ For NASA’s FY 2018 AFR, see <https://www.nasa.gov/news/budget/index.html> (accessed March 22, 2019).

As we reported last year, NASA did not use all available improper payment data when performing its risk assessments. Specifically, the improper payments reported in the AFR from payment recapture audits and sources other than payment recapture audits were not considered in the Internal Monitoring and Assessments risk condition. Furthermore, if an external report identified improper payments, the amount would only be considered in the risk scoring process if the disbursement was made in the year being assessed.⁹ For example, for FY 2018 reporting NASA only considered improper payments for its risk assessment if the disbursements occurred in FY 2017. 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 reviewed for the risk assessment reporting year would identify improper payments within that disbursement year. Further, we believe NASA should consider improper payments disbursed since the last significant change in controls over its payment processes for the risk assessment.¹⁰ For example, if the last significant change was in FY 2010, we believe NASA should include improper payments identified in external reports for disbursements made since 2010.

NASA concurred with our prior year recommendations on this issue and informed us they plan to implement corrective actions in its FY 2019 risk assessment process; therefore, the recommendations (IG-18-017, recommendations 1 and 2) remain open.

Questionable Scoring Criteria for Materiality of Disbursements

Similar to prior years, NASA based the Materiality of Disbursements risk condition on the dollar value of disbursements made by its programs. To assign risk, NASA took the difference between its program with the lowest value of disbursements (\$414) and its program with the highest value of disbursements (\$2.1 billion), divided that difference by 3, and used the result to set increments for the three categories of risk. Using this methodology, a program received a low risk rating (1) if the annual disbursements were less than \$685.5 million, high (5) if disbursements were greater than \$1.4 billion, and medium (3) for disbursements between those amounts. Given the vast variance of disbursements within NASA's programs, we continue to believe the current methodology used to determine the risk rating levels is not representative of the Agency's disbursement activity.

In prior years, we recommended that NASA revisit the scoring criteria for the Materiality of Disbursements risk condition. We identified a possible alternative that we believe is a more representative methodology, using the average value of disbursements by program to set the risk level thresholds. In response to this recommendation, NASA provided documentation stating it performed an analysis and evaluated the impact of several different methodologies on the risk assessment. As a result of this analysis, management decided not to change its methodology. We requested but did not receive this analysis or the evaluation of the methodologies' impact on the risk assessment. Without this support we were unable to determine the sufficiency of the analysis and the reasonableness of management's decision. Therefore, the recommendation (IG-17-020, recommendation 3) remains open.

⁹ External reports include those issued by NASA Office of Inspector General and the Government Accountability Office as a result of audits and investigations.

¹⁰ NASA uses a centralized procurement and payment process for all of its programs.

RECAPTURE AUDITS EXCLUDE COST-TYPE CONTRACTS

OMB guidance permits agencies to exclude certain programs and activities from their recapture audit programs if they determine inclusion would not be cost-effective. However, agencies must provide an analysis to support that decision. In January 2011, NASA notified OMB that it would exclude cost-type contracts in its recapture audit plan but provided no analysis explaining its decision.¹¹ Since then, NASA has excluded cost-type contracts from payment recapture audits and instead has 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.

In response to our audit recommendations over the years, NASA has claimed that the inclusion of cost-type contracts in recapture audits would be duplicative of other efforts and that other testing did not yield improper payments; however, NASA provided limited documentation to support its argument. Further, the analysis the Agency provided in FY 2015 and FY 2016 focused only on test results and did not address cost-effectiveness of excluding cost-type contracts. We continue to believe NASA's decision to exclude cost-type contracts from its recapture audit efforts increases the risk that improper payments will not be timely identified and recaptured. Additionally, NASA has not provided sufficient analysis to support its decision that including these contracts would not be cost-effective. Therefore, our prior recommendation (IG-15-015, recommendation 5) will remain open until OCFO either includes cost-type contract payments in the Agency's recapture audit efforts or substantively justifies why recapture audits would not be a cost-effective method for identifying potential improper payments.

¹¹ A cost-reimbursement type (i.e., cost-type) of contract provides for payment of allowable incurred cost, to the extent prescribed in the contract. These contracts establish an estimate of total cost for the purpose of obligating funds and establishing a ceiling that the contractor may not exceed (except at its own risk) without the approval of the contracting officer.

INCOMPLETE REPORTING OF OVERPAYMENTS IDENTIFIED OUTSIDE OF 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 findings from prior years, the Agency still does not have processes in place to identify overpayments and any resulting collection from all sources.

Overpayments Recaptured in the Form of Credits

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 overpayments from the accounts receivable transactions (amounts others owe NASA). However, when overpayments are returned to the Agency in the form of credits against a future billing, those credits are typically recorded as accounts payable transactions (amounts NASA owes others). As such, improper payments identified and subsequently recovered through credits require another reporting mechanism since the current query does not capture such transactions.

As we reported last year, a contracting officer at the NASA Shared Services Center (NSSC) indicated that there was no process to track and accumulate contract credits from contracting officers at NSSC. This year, the Agency's Office of Procurement (OP) confirmed that such a process still does not exist. OCFO has, however, convened a working group to discuss how to develop a process to effectively and efficiently collect this information.

Since an Agency-wide process has not been implemented to gather, track, and report improper payments identified and subsequently recovered through credits, our prior recommendation (IG-18-017, recommendation 3) remains open. Prior to implementation, personnel will need to be trained on the new process and existing procedural guidance updated.

Sustained Questioned Costs from Audits

Post-award audits, including single audits and incurred cost audits, are potential sources for identifying overpayments.¹² 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.

In prior years, 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 of which no Center has reported an overpayment identified as a result of these types

¹² A single audit encompasses an examination of a non-federal entity's financial statements and federal awards, as well as related internal controls and compliance with certain requirements. An incurred cost audit examines the charges to the government by a contractor under certain types of contracts (e.g., cost-type) to determine whether costs are reasonable, allowable, and allocable to the contracts, and are not prohibited by the contracts, government statute, or regulation.

of audits. In FY 2018, OCFO implemented a new process to obtain information on sustained questioned costs from post-award audits directly from the Agency's OP.¹³ According to OP personnel we interviewed, they did not have a clear understanding of what information should be provided on incurred cost audits. For example, they were unaware that questioned costs of a direct nature sustained by the Administrative Contracting Officer would be considered an improper payment. Further, personnel misunderstood the timeframe of sustained questioned costs that should be reported to the OCFO. Specifically, for the FY 2018 reporting period, costs sustained in FY 2017 should have been reported regardless of the year disbursed or year the audit report was issued. As a result of this misunderstanding, OP did not provide an accurate response to the OCFO's request and without all the correct data, OCFO lacked an effective process to accurately gather and report improper payments from incurred cost audits.

Accordingly, our prior recommendation (IG-16-021, recommendation 5) will remain open. Upon full implementation of the new process, impacted personnel will need to be trained and existing policies and procedures updated.

¹³ Towards the end of FY 2018, the responsibility for tracking and reporting sustained questioned costs from single audits transferred from the Agency's OP to OCFO's Policy Division. Our inquiries of Policy Division personnel confirmed that they have a proper understanding of the information being requested.

INACCURATE REPORTING OF OVERPAYMENTS IDENTIFIED OUTSIDE OF RECAPTURE AUDITS

NASA is required to report in its AFR improper payments identified and recaptured through sources other than payment recapture audits. Through NASA’s data collection process for overpayments identified and recaptured outside of payment recapture audits, Centers research individual transactions listed in a report generated from NASA’s financial management system to determine whether those transactions meet the definition of an improper payment. Based on our review of the Centers’ conclusions as to which transactions were included or excluded from reporting and the rationales for exclusion, we determined several transactions were improperly included or excluded from the AFR, resulting in an overstatement of the reported net amounts for identified and collected overpayments. Table 3 shows the net and absolute values of those transactions broken down by reporting office.

Table 3: Inaccurate Reporting of Identified and Collected Overpayments from Sources Outside Payment Recapture Audits

| Reporting Office | Identified (Net) | Collected (Net) | Identified (Absolute) | Collected (Absolute) |
|----------------------------------|------------------|------------------|-----------------------|----------------------|
| Armstrong Flight Research Center | \$(89,726) | \$0 | \$89,726 | \$0 |
| Goddard Space Flight Center | 512 | 0 | 512 | 0 |
| Headquarters | 16,165 | 0 | 16,165 | 0 |
| Kennedy Space Center | 1,072 | (66) | 1,205 | 66 |
| Marshall Space Flight Center | 2,226 | 0 | 2,226 | 0 |
| NASA Shared Services Center | (2,295) | (2,295) | 2,295 | 2,295 |
| Stennis Space Center | 331,822 | 304,036 | 331,822 | 359,896 |
| Total | \$259,776 | \$301,675 | \$443,951 | \$362,257 |

Source: NASA Office of Inspector General analysis of NASA data.

Note: The amounts in parentheses represent understatements.

While the reasons for the errors varied, the most frequent reason for incorrectly reporting overpayments as identified during the reporting period was due to NASA including receivables that were previously written off but subsequently reestablished when the repayment was collected. The largest value of erroneous transactions, albeit an infrequent occurrence, related to the inclusion of receivables and collections of amounts resulting from adjustments to a contract’s indirect cost rate. The reporting mistakes stem from the Center OCFOs’ misunderstandings of what constitutes an improper payment for reporting purposes and when reporting is appropriate. Therefore, additional training is necessary.

Reestablished Receivables Included as Newly Identified Overpayments

To record the collection of overpayments received from debts that were previously written off, a receivable is reestablished in NASA's accounting system. As a result of this accounting entry, the reestablished receivable appears in the list of potential overpayments generated by the financial management system query. Since overpayments are reported in the year they are identified, reestablished receivables should not be included in reporting as identified overpayments in the year they are reestablished. Presumably, the receivable was reported as an identified overpayment in the year that the debt was originally established. The Center OCFOs incorrectly believed that when the collection of the overpayment is reported, the reestablished receivable should also be reported as an identified overpayment. Approximately \$20,000 of the overstated overpayments identified above were due to reestablished receivables included in reporting by the Centers.

Adjustments Related to Indirect Cost Rate Included as Overpayments

One of the objectives of an incurred cost audit is to determine whether costs are reasonable, allowable, and allocable to the contracts, and are not prohibited by the contracts, government statute, or regulation. Such an audit includes an evaluation of both direct and indirect costs.¹⁴ During contract performance, provisional billing rates are established to approximate as closely as possible the expected final indirect cost rates. Those final rates are determined by an incurred cost audit. Billing adjustments resulting from the variance between provisional and final indirect rates are not considered overpayments. One Center incorrectly reported transactions as identified and collected overpayments that were adjustments of indirect rates resulting from an audit. As a result, NASA's identified and collected overpayments were overstated in the FY 2018 AFR by almost \$332,000 each.

¹⁴ Indirect costs are costs incurred that benefit more than one cost objective that share a common purpose. Costs are accumulated and distributed on the basis of benefits accrued by each cost objective.

CONCLUSION

Based on our review of the FY 2018 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 reporting of its recapture audit program and can expand the scope of its recapture audit program. We believe taking these actions would provide a more accurate and complete 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. Revise existing policies and procedures for reporting overpayments identified and recaptured from sources outside of the payment recapture audit by documenting the processes developed to gather, track, and report improper payments recaptured through credits on future billings and sustained questioned direct costs from post-award audits.
2. Provide training to those organizations or individuals responsible for reporting overpayments from future billing credits and sustained questioned direct costs from post-award audits to ensure they are aware of NASA's reporting requirements and their responsibility for tracking the information and communicating it to OCFO, including specific details of the information to be reported and the format it should be reported.
3. Enhance the annual payment recapture training provided to the Centers with a focus on what constitutes an improper payment and how to improve the accuracy of their reporting. Potential topics include, but are not limited to:
 - a. definition of an improper payment,
 - b. sufficiency of explanations for transactions excluded from reporting,
 - c. types of overpayments experienced by each of the Centers and whether the Centers consider the transactions reportable as improper payments, and
 - d. specific transactions that appear often in the system query (e.g., reestablishing receivables for debt previously written off) and how they should be treated.

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 completion and verification of those actions.

Management's comments are reproduced in Appendix C. Technical comments provided by management have also been incorporated, as appropriate.

Major contributors to this report include Mark Jenson, Financial Management Director; Regina Dull, Project Manager; Deirdre Beal; and GaNelle Flemons. Lauren Suls provided editorial and graphics assistance.

If you have questions 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 2018 through May 2019 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 Office of Inspector General in its improper payments audit reports issued in May 2015, 2016, 2017, and 2018.

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:

- Federal Improper Payments Coordination Act of 2015, Pub. L. No. 114-109 (2015)
- Improper Payments Elimination and Recovery Improvement Act of 2012, Pub. L. No. 112-248 (2013)
- Improper Payments Elimination and Recovery Act of 2010, Pub. L. No. 111-204 (2010)
- Improper Payments Information Act of 2002, Pub. L. No. 107-300 (2002)
- Exec. Order No. 13520, *Reducing Improper Payments* (November 20, 2009)
- OMB Circular A-136, *Financial Reporting Requirements—Revised* (July 30, 2018)
- OMB Memorandum M-18-20, *Appendix C to OMB Circular A-123, Requirements for Payment Integrity Improvement* (June 26, 2018)
- NASA Procedural Requirements 9010.3, *Financial Management Internal Control* (September 30, 2008)
- NASA OCFO, *Payment Recapture Audit Program Administration Guidance* (April 2018)
- NASA OCFO, *Procedural Guidance, Improper Payments Information Act and OMB Circular A-123, Appendix C: Requirements for Effective Measurement and Remediation of Improper Payments* (March 2018)

Use of Computer-Processed Data

We used computer-processed data extracted from NASA's financial management system that consisted of FY 2017 disbursements used by NASA's IPIA and recapture audit contractors and a query of FY 2017 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, NASA Office of Inspector General and the Government Accountability Office have issued 11 reports of significant relevance to the subject of this report. Unrestricted reports can be accessed at <https://oig.nasa.gov/audits/auditReports.html> and <https://www.gao.gov>, respectively.

NASA Office of Inspector General

NASA's Compliance with the Improper Payments Information Act for Fiscal Year 2017 (IG-18-017, May 14, 2018)

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)

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

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 4 shows the status of the prior years' recommendations.

Table 4: Status of Prior Year Recommendations

| Report and Recommendation Number | Recommendation | Status |
|----------------------------------|---|--------|
| IG-18-017 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. | Open |
| IG-18-017 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. | Open |
| IG-18-017 Recommendation 3 | Develop a process for tracking overpayments identified and subsequently recovered through reductions in future billings on existing contracts such as contract credits. | 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. | Closed |
| 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. | Closed |
| 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 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. | Closed |

| Report and Recommendation Number | Recommendation | Status |
|----------------------------------|---|--------|
| 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. | 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-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 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. | Closed |

Source: NASA Office of Inspector General.

APPENDIX C: MANAGEMENT'S COMMENTS

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



May 29, 2019

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, "NASA's Compliance with the Improper Payments Information Act for Fiscal Year 2018" (A-19-001-00)

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 2018" (A-19-001-00), dated May 6, 2019.

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

Specifically, the OIG recommends the CFO:

Recommendation 1: Revise existing policies and procedures for reporting overpayments identified and recaptured from sources outside of the payment recapture audit by documenting the processes developed to gather, track, and report improper payments recaptured through credits on future billings and sustained questioned direct costs from post-award audits.

Management Response: NASA Concur. NASA will update the Payment Recapture Audit Program Administration Guidance manual to include instructions on how to report improper payments. The manual serves as NASA's internal guidance on the implementation and execution of NASA's Payment Recapture Audit Program as required by OMB Circular A-123, Appendix C, Requirements for Payment Integrity Improvement and additional OMB memorandums.

Estimated Completion Date: April 2020

Recommendation 2: Provide training to those organizations or individuals responsible for reporting overpayments from future billing credits and sustained questioned direct costs from post-award audits to ensure they are aware of NASA's reporting requirements and their responsibility for tracking the information and communicating it

to OCFO, including specific details of the information to be reported and the format it should be reported.

Management Response: NASA Concurrs. NASA will offer enhanced training to individuals/organizations responsible for reporting overpayments from future billing credits and sustained questioned direct costs from post-award audits to ensure awareness of NASA's reporting requirements and the POC's responsibility for tracking and communicating information to the OCFO.

Estimated Completion Date: April 2020

Recommendation 3: Enhance the annual payment recapture training provided to the Centers with a focus on what constitutes an improper payment and how to improve the accuracy of their reporting. Potential topics include, but are not limited to:

- a. definition of an improper payment,
- b. sufficiency of explanations for transactions excluded from reporting,
- c. types of overpayments experienced by each of the Centers and whether the Centers consider the transactions reportable as improper payments, and
- d. specific transactions that appear often in the system query (e.g., reestablishing receivables for debt previously written off) and how they should be treated.

Management Response: NASA Concurrs. NASA will enhance the payment recapture training provided annually to the Centers emphasizing what constitutes an improper payment and how to improve the accuracy of their reporting.

Estimated Completion Date: April 2020

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 Kelly Barnes on (202) 358-7334.


for
Jeff DeWit

APPENDIX D: REPORT DISTRIBUTION

National Aeronautics and Space Administration

Administrator
 Deputy Administrator
 Associate Administrator
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 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 Contracting and National Security Acquisitions

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 Aviation and Space

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 Reform
 Subcommittee on Government Operations

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

(Assignment No. A-19-001-00)