



UNITED STATES
NUCLEAR REGULATORY COMMISSION
WASHINGTON, D.C. 20555-0001

**OFFICE OF THE
INSPECTOR GENERAL**

May 11, 2017

MEMORANDUM TO: Chairman Svinicki

FROM: Hubert T. Bell */RA/*
Inspector General

SUBJECT: AUDIT OF NRC'S FISCAL YEAR (FY) 2016 COMPLIANCE
WITH IMPROPER PAYMENT LAWS (OIG-17-A-13)

The Office of the Inspector General (OIG) conducted this audit to assess the Nuclear Regulatory Commission's (NRC) compliance with the *Improper Payments Information Act of 2002 (IPIA)*, as amended by the *Improper Payments Elimination and Recovery Act of 2010 (IPERA)*, and the *Improper Payments Elimination and Recovery Improvement Act of 2012 (IPERIA)*, and report any material weaknesses in internal control. OIG determined that the agency is in compliance with the requirements of IPIA¹ as demonstrated in Table 1. OIG also concluded that agency reporting of improper payments is accurate and complete. However, this report makes one recommendation regarding questioned costs that were identified during a contract audit performed by the Defense Contract Audit Agency (DCAA) on behalf of OIG.²

¹ Unless otherwise indicated, from this point forward in this report, the term "IPIA" will imply "IPIA, as amended by IPERA and IPERIA."

² NRC OIG has an interagency agreement with DCAA to perform contract audit services.

Table 1: NRC's Compliance with IPIA

Requirement	Compliant
1. Published an Agency Financial Report (AFR) or Performance and Accountability Report (PAR) for the most recent fiscal year and posted that report and any accompanying materials required by Office of Management and Budget (OMB) on the agency Web site.	Yes
2. Conducted a program specific risk assessment for each program or activity that conforms with 31 U.S.C. 3321 note (if required).	Yes
3. Published improper payment estimates for all programs and activities identified as susceptible to significant improper payments under its risk assessment (if required).	N/A
4. Published programmatic corrective action plans in the AFR or PAR (if required).	N/A
5. Published, and is meeting, annual reduction targets for each program assessed to be at risk and estimated for improper payments (if required and applicable).	N/A
6. Reported a gross improper payment rate of less than 10 percent for each program and activity for which an improper payment estimate was obtained and published in the AFR or PAR.	Yes

BACKGROUND

On July 22, 2010, IPERA was signed into law, which amended IPIA. IPERA directed OMB to issue implementing guidance to agencies. IPERA also requires Federal agencies to periodically review all programs and activities that the agency administers and identify all programs and activities that may be susceptible to significant improper payments.³

³ According to IPERA, an improper payment (A) is any payment that should not have been made or that was made in an incorrect amount (including overpayments and underpayments) under statutory, contractual, administrative, or other legally applicable requirements, and (B) includes any payment to an ineligible recipient, any payment for an ineligible good or service, any duplicate payment, any payment for a good or service not received (except for such payments where authorized by law), and any payment that does not account for credit for applicable discounts. IPERA provides a detailed explanation of what is considered a "significant" improper payment (Section 2 (a) (3) (A)).

In addition, IPERA requires each agency to conduct recovery audits⁴ with respect to each program and activity of the agency that expends \$1,000,000 or more annually, if conducting such audits would be cost effective. IPERIA was signed into law on January 10, 2013. This law established the *Do Not Pay Initiative*, which directs agencies to verify the eligibility of payments using databases before making payments. On October 20, 2014, OMB issued Memorandum M-15-02, Appendix C to Circular No. A-123, *Requirements for Effective Estimation and Remediation of Improper Payments*. Appendix C implements requirements from IPIA. Table 1 of this report lists the IPIA requirements.

OMB guidance also specifies that each agency's Inspector General should review agency improper payment reporting in the agency's annual PAR or AFR, and accompanying materials, to determine whether the agency complied with IPERA.

OBJECTIVE

The audit objective was to assess NRC's compliance with IPIA, as amended by IPERA and IPERIA, and report any material weaknesses in internal control.

FINDINGS

Based on our review of NRC's FY 2016 PAR and other documentation provided by the agency, OIG determined that the agency is in compliance with the requirements of IPIA. OIG also concluded that agency reporting of improper payments is accurate and complete as noted on Table 1. However, this report makes one recommendation regarding questioned costs that were identified during a contract audit performed by DCAA on behalf of OIG.

⁴ Recovery audits are also referred to as "payment recapture audits."

Contract Questioned Costs:

At NRC OIG's request, DCAA performed an audit to determine if costs billed under NRC contracts NRC-08-09-306 and NRC-HQ-11-C-08-0057, for FYs 2011 - 2013 were allowable, allocable, and reasonable per the Federal Acquisition Regulation, Nuclear Regulatory Commission Acquisition Regulation, and contract terms. The DCAA report, dated May 6, 2015, identified questioned costs totaling \$1,647,715 because the billed amounts did not materially comply with contract terms. OIG has included this amount in its last three semiannual reports to Congress as questioned costs with no management decision. At the time this report was issued NRC officials were in the process of determining the amount of questioned costs to recover.

OIG met with NRC representatives from the Office of the Chief Financial Officer, Office of Administration, and Office of the General Counsel to discuss the treatment of these questioned costs in regard to the improper payment compliance reporting. Additional coordination among NRC offices is needed to determine if this information should be reported in the FY 2017 Annual Financial Report.

Recommendation

OIG recommends that the Chief Financial Officer and the Executive Director for Operations

1. Evaluate the questioned costs to be recovered under NRC contracts NRC-08-09-306 and NRC-HQ-11-C-08-0057 to determine (1) how the questioned costs affect the agency's improper payment calculation, and (2) if these questioned costs should be specifically mentioned in the improper payments section of NRC's FY 2017 Agency Financial Report, and (3) provide OIG with supporting documentation justifying the agency's conclusions.

AGENCY COMMENTS

The Office of the Executive Director for Operations and the Office of the Chief Financial Officer reviewed the draft memorandum report and had no comments.

SCOPE AND METHODOLOGY

To accomplish the audit objectives, OIG audited agency documents related to NRC's compliance with IPIA for FY 2016. OIG also reviewed applicable Federal laws, regulations, and requirements for IPIA. OIG reviewed and analyzed internal controls related to the audit objectives. Throughout the audit, auditors considered the possibility of fraud, waste, or abuse in the program.

In addition, OIG reviewed DCAA audit report 6321-2015V17900001, dated May 6, 2015. On March 6, 2017, OIG conducted a meeting with agency staff to discuss the billed and paid questioned costs identified by DCAA.

We conducted our work at NRC headquarters in Rockville, MD, from January through March 2017. This audit was performed 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.

This audit was conducted by Eric Rivera, Team Leader; Terri Cooper, Audit Manager; and Michael Steinberg, Senior Auditor.

If you have any questions, please contact Dr. Brett M. Baker, Assistant Inspector General for Audits, at (301) 415-5915 or me at (301) 415-5930.

cc: Commissioner Baran
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COMMENTS AND SUGGESTIONS

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