



OFFICE OF THE
INSPECTOR GENERAL

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

May 12, 2020

MEMORANDUM TO: Chairman Svinicki

FROM: David C. Lee */RA/*
Deputy Inspector General

SUBJECT: AUDIT OF NRC'S FISCAL YEAR (FY) 2019 COMPLIANCE
WITH IMPROPER PAYMENT LAWS (OIG-20-A-07)

The Office of the Inspector General (OIG) conducted this audit to (1) assess the Nuclear Regulatory Commission's (NRC's) 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 (2) report any material weaknesses in internal control.

OIG found that NRC is generally compliant with IPIA, IPERA, and IPERIA. OIG did not identify any material weaknesses in internal control during this audit.

BACKGROUND

Improper Payment Laws

Enacted in 2002, the Improper Payments Information Act (IPIA) requires each agency to annually estimate its improper payments. The Improper Payments Elimination and Recovery Act (IPERA),¹ amended IPIA² in 2010, and requires Federal agencies to periodically review all programs and activities the agency administers and identify all programs and activities that may be susceptible to significant improper payments. In addition, IPERA requires each agency to conduct recovery audits³ 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.

The Improper Payments Elimination and Recovery Improvement Act of 2012 (IPERIA) was signed into law on January 10, 2013. It amended IPIA by establishing the *Do Not Pay Initiative*, which directs agencies to verify the eligibility of payments using databases before making payments.

Federal Improper Payment Guidance for Executive Agencies

On June 26, 2018, the Office of Management and Budget (OMB) issued Memorandum M-18-20, *Appendix C to OMB Circular A-123, Requirements for Payment Integrity Improvement*. Appendix C⁴ implements IPIA requirements. Table 1 of this report lists the IPIA

¹ IPERA defines an improper payment as (A) 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)).

² Unless otherwise indicated, from this point forward in this report, the term "IPIA" will imply "IPIA, as amended by IPERA and IPERIA."

³ Recovery audits are also referred to as "payment recapture audits."

⁴ For simplicity, the term "Appendix C" will be used in this report to refer to OMB M-18-20, *Appendix C to OMB Circular A-123, Requirements for Payment Integrity Improvement*.

requirements established in OMB's memorandum. OMB guidance also specifies that each agency's Inspector General should review agency improper payment reporting in the agency's annual Agency Financial Report (AFR), and accompanying materials, to determine whether the agency complied with IPIA.

New Guidance

The Payment Integrity Information Act of 2019 (PIIA) was signed into law on March 2, 2020.⁵ PIIA incorporates provisions from IPIA, IPERA, and IPERIA, and introduces new payment integrity statutory guidance.

⁵ Upon implementation, PIIA will revoke IPIA, IPERA, and IPERIA. However, OMB will issue implementing guidance for PIIA, as directed in the law, and agencies were instructed to continue to follow OMB Circular A-123, Appendix C (M-18-20) until PIIA implementation guidance is published.

OBJECTIVES

The objectives of this audit were to assess NRC's compliance with IPIA, as amended by IPERA, and IPERIA, and report any material weaknesses in internal control. The appendix of this report contains information on the audit scope and methodology.

FINDING

NRC is compliant with IPIA, as amended by IPERA, and IPERIA, and does not have any material weaknesses in internal control. NRC reported the required information and conducted the mandated risk assessment. OIG concluded that agency reporting of improper payments is accurate and complete as noted in Table 1.

Compliance with Improper Payment Laws

OIG determined that for FY 2019 the agency is in compliance with the requirements of IPIA, as demonstrated in Table 1.

Table 1: NRC's FY 2019 Compliance with IPIA

Program⁶ Name	Publish an AFR	Conducted a Risk Assessment	Published an Improper Payment Estimate	Published Corrective Action Plans	Published and is Meeting Reduction Targets	Reported Improper Payment Rate of < 10%
Commercial Payments	Compliant	Compliant	N/A	N/A	N/A	N/A
Grants	Compliant	Compliant	N/A	N/A	N/A	N/A
Employee Payments	Compliant	Compliant	N/A	N/A	N/A	N/A
Payroll	Compliant	Compliant	N/A	N/A	N/A	N/A

Source: OIG-generated from Appendix C requirements

Per Appendix C, NRC is required to publish improper payment information in the most recent agency AFR and any accompanying materials required by OMB on the agency website. NRC complied with these requirements, as applicable, by including sufficient improper payment information in its FY 2019 AFR. Four IPIA reporting requirements were not applicable to NRC. (Refer to Table 1)

NRC Completed Required Improper Payments Risk Assessment

Appendix C requires agencies to triennially review all programs and activities that meet the statutory significance threshold to determine if it is susceptible to significant improper payments. In FY 2017, NRC hired a

⁶ Per OMB Circular A-123, Appendix C, “the term ‘program’ includes activities or sets of activities recognized as programs by the public, OMB, or Congress, as well as those that entail program management or policy direction. This definition includes, but is not limited to, all grants including competitive grant programs and block/formula grant programs, non-competitive grants such as single-source awards, regulatory activities, research and development activities, direct Federal programs, all types of procurements (including capital assets and service acquisition), and credit programs. It also includes the activities engaged in by the agency in support of its programs.”

contractor⁷ to conduct reviews in compliance with this requirement. NRC's contractors considered a universe of approximately 80,000 transactions, comprising of approximately \$716 million distributed across four programs: commercial payments, grants, employee payments, and payroll. NRC's contractors performed limited testing and qualitative analysis over each area. Based on the qualitative risk assessment and testing, NRC did not identify any programs susceptible to significant improper payments.

⁷ In FY 2017, NRC hired Ernst & Young (EY) Limited Liability Partnership (LLP) to perform the Appendix C requirement of conducting a risk assessment to determine program or activity susceptibility to significant improper payments. Recently, in FY 2019, NRC hired Castro & Company to perform the OMB Circular A-123 assessment. The next Improper Payment risk assessment will be performed in FY 2020.

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

Objectives

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

Scope

The audit focused on improper payment compliance for FY 2019. OIG conducted this audit from March through April 2020 at NRC headquarters in Rockville, Maryland. Internal controls related to the audit objectives were reviewed and analyzed.

Methodology

To accomplish the audit objectives, OIG reviewed agency documents related to NRC's compliance with IPIA for FY 2019. OIG also reviewed applicable Federal laws, regulations, and requirements for IPIA.

Since NRC is subject to a triennial Appendix C risk assessment, OIG reviewed NRC's FY 2017 Improper Payments Risk Assessment report and documentation supporting the risk assessment report as a part of the FY 2019 audit review.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require 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 the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Throughout the audit, auditors considered the possibility of fraud, waste, and abuse in the program. The audit was conducted by Terri Cooper, Team Leader; Felicia Silver, Audit Manager; and Jimmy Wong, Audit Manager.

TO REPORT FRAUD, WASTE, OR ABUSE

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COMMENTS AND SUGGESTIONS

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