



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

OFFICE OF THE  
INSPECTOR GENERAL

May 14, 2018

MEMORANDUM TO: Chairman Svinicki

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

SUBJECT: AUDIT OF NRC'S FISCAL YEAR (FY) 2017 COMPLIANCE  
WITH IMPROPER PAYMENT LAWS (OIG-18-A-12)

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. In addition, OIG reviewed the status of an audit recommendation from OIG's audit report on NRC's Fiscal Year (FY) 2016 compliance with improper payment laws.<sup>1</sup>

OIG determined that for FY 2017 the agency is in compliance with the requirements of IPIA,<sup>2</sup> as demonstrated in Table 1. Although NRC had not yet taken final action on OIG's recommendation from the prior OIG audit report regarding questioned costs<sup>3</sup> that potentially should be included in NRC's improper payment reporting, the agency had

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<sup>1</sup> OIG-17-A-13, *Audit of NRC's Fiscal Year (FY) 2016 Compliance with Improper Payment Laws*, May 11, 2017. (Refer to [OIG-17-A-13](#).)

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

<sup>3</sup> In accordance with the *Inspector General Act of 1978*, as amended, questioned costs result from (a) an alleged violation of a provision of a law, regulation, contract, grant, cooperative agreement, or other agreement or document governing the expenditure of funds; (b) costs not supported by adequate documentation at the time of the audit; or (c) the unnecessary or unreasonable expenditure of funds.

taken steps to analyze the issue. Thus, OIG also concluded that agency reporting of improper payments is accurate and complete.

**Table 1: NRC's Compliance with IPIA**

<b>Requirement</b>	<b>Compliant</b>
<b>1.</b> 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
<b>2.</b> Conducted a program specific risk assessment for each program or activity that conforms with 31 U.S.C. 3321 note (if required).	Yes
<b>3.</b> Published improper payment estimates for all programs and activities identified as susceptible to significant improper payments under its risk assessment (if required). (Estimation methodologies are not required or applicable because NRC is not susceptible to significant improper payments based on previous and current risk assessments.)	N/A
<b>4.</b> Published programmatic corrective action plans in the AFR or PAR (if required). (Corrective action plans are not required or applicable because NRC is not susceptible to significant improper payments based on previous and current risk assessments.)	N/A
<b>5.</b> Published, and is meeting, annual reduction targets for each program assessed to be at risk and estimated for improper payments (if required and applicable). (Reduction target rates are not required or applicable because NRC is not susceptible to significant improper payments based on previous and current risk assessments.)	N/A
<b>6.</b> 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

Source: OIG-Generated.

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## BACKGROUND

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Enacted in 2002, IPIA requires each agency to annually estimate its improper payments.<sup>4</sup> IPERA amended IPIA in 2010. IPERA 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. In addition, IPERA requires each agency to conduct recovery audits<sup>5</sup> 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. It amended IPIA by establishing 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 IPIA requirements. Table 1 of this report lists the IPIA 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 PAR or AFR, and accompanying materials, to determine whether the agency complied with IPERA.

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<sup>4</sup> According to IPERA, an improper payment is (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)).

<sup>5</sup> Recovery audits are also referred to as "payment recapture audits."

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## OBJECTIVE

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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.

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## FINDING

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Based on our review of NRC's FY 2017 AFR and other documentation provided by the agency, OIG determined that the agency is in compliance with the IPIA. NRC reported the required information and conducted the mandated risk assessment. Although NRC had not yet taken final action on OIG's recommendation from the prior OIG audit regarding questioned costs that potentially should be included in NRC's improper payment reporting, the agency had taken steps to analyze the issue. Thus, OIG concluded that agency reporting of improper payments is accurate and complete as noted on Table 1.

### NRC Reported Required Information

Agencies are required to report five items regarding improper payments in their AFR or PAR.<sup>6</sup> NRC complied with these requirements, as applicable, by including certain improper payment information in its AFR and reporting a gross improper payment rate of less than 10 percent. Three IPIA reporting requirements were not applicable to NRC. (Refer to Table 1: NRC's Compliance with IPIA, numbers 3-5.)

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<sup>6</sup> See Table 1, item numbers 1, 3, 4, 5, and 6.

### NRC Completed Required Improper Payments Risk Assessment

IPIA requires agencies to review all programs and activities susceptible to significant improper payments every 3 years. In FY 2017, NRC conducted a review to comply with this requirement. NRC assessed the following programs: (1) commercial payments, (2) grants, (3) employee payments, and (4) payroll. The agency performed limited testing over each area. Based on NRC's qualitative risk assessment and testing, the agency did not identify any programs susceptible to significant improper payments.

### Treatment of Questioned Costs from FY 2016

OIG reviewed NRC's progress on implementing a recommendation from OIG-17-A-13, *Audit of NRC's Fiscal Year (FY) 2016 Compliance with Improper Payment Laws*, regarding NRC's improper payment reporting. As part of that prior audit, OIG concluded NRC's improper payment reporting was accurate and complete. However, OIG noted the Defense Contract Audit Agency (DCAA) identified questioned costs totaling \$1.6 million when conducting a contract audit on behalf of OIG.<sup>7</sup> OIG recommended NRC review these questioned costs and determine (1) how the questioned costs affected the agency's improper payment calculation, and (2) if these questioned costs should be mentioned in NRC's AFR improper payments section. As of the issuance of this report, NRC had not yet determined if these questioned costs were improper payments that should be reported under IPIA. The agency took steps to analyze the issue but had not yet finished its review.

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<sup>7</sup> NRC OIG has an interagency agreement with DCAA to perform contract audit services.

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## **AGENCY COMMENTS**

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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.

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## SCOPE AND METHODOLOGY

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To accomplish the audit objectives, OIG reviewed agency documents related to NRC's compliance with IPIA for FY 2017. OIG also reviewed applicable Federal laws, regulations, and requirements for IPIA. OIG interviewed agency personnel and reviewed NRC's *Results of the Fiscal Year 2017 Improper Payments Risk Assessment*, dated November 2, 2017. In addition, OIG reviewed DCAA Audit Report No. 6321-2015V17900001, dated May 6, 2015, and NRC's efforts to examine the questioned costs identified by DCAA.

We conducted our work at NRC headquarters in Rockville, Maryland, from March through April 2018. Internal controls related to the audit objectives were reviewed and analyzed. Throughout the audit, auditors considered the possibility of fraud, waste, or abuse in the program.

This performance 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; Timothy Nelson, Audit Manager; and Michael Steinberg, Senior Auditor.

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## TO REPORT FRAUD, WASTE, OR ABUSE

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Address: U.S. Nuclear Regulatory Commission  
Office of the Inspector General  
Hotline Program  
Mail Stop O5-E13  
11555 Rockville Pike  
Rockville, MD 20852

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## COMMENTS AND SUGGESTIONS

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If you wish to provide comments on this report, please email OIG using this [link](#).

In addition, if you have suggestions for future OIG audits, please provide them using this [link](#).