NATIONAL ARCHIVES *and*
RECORDS ADMINISTRATION

OFFICE *of* INSPECTOR GENERAL

AUDIT OF NARA's FY 2015 COMPLIANCE
WITH IMPROPER PAYMENT REQUIREMENTS

MAY 26, 2016

OIG Audit Report No. 16-08

Table of Contents

Executive Summary

The Improper Payments Information Act of 2002 (IPIA; Public Law (Pub. L.) 107-300), as amended by the Improper Payments Elimination and Recovery Act of 2010 (IPERA; Pub. L. 111-204), and the Improper Payments Elimination and Recovery Improvement Act of 2012 (IPERIA; Pub. L. 112-248), requires agencies to annually report information on improper payments to the President and Congress through their annual Performance and Accountability Reports (PAR) or Agency Financial Reports (AFR).

The objective of this audit was to determine National Archives and Records Administration's (NARA) compliance with improper payment requirements based on Office of Management and Budget (OMB) Memorandum 15-02 and OMB Circular A-136. Per IPERA, if an agency does not meet one or more of six requirements[1], the agency is not compliant.

We found NARA's programs and activities were compliant with improper payment requirements. Specifically, NARA was fully compliant with IPERA requirements to publish a PAR or AFR (completed on November 16, 2015) and conduct program specific risk assessments (completed in FY 2014). However, NARA's reporting on improper payments were not complete.

Based on risk assessments for each program or activity (Administrative Overhead, Agency Services, Electronic Records Archives, National Historical Publications and Records Commission, Legislative Archives, Presidential Libraries and Museum Services, Repairs and Restoration and Research Services), NARA determined the programs and activities were not susceptible to significant improper payments and therefore were not required to perform four of six requirements.

This report makes one recommendation to improve NARA's reporting on improper payments in the Agency Financial Report.

1. The six IPERA requirements are ensuring the agency: (1) Published an AFR and PAR for the most recent fiscal year and posted that report and any accompanying materials required by OMB on the agency website; (2) Conducted a program-specific risk assessment for each program or activity that conforms with Section 3321 note of Title 31 United States Code (if required); (3) Published improper payment estimates for all programs and activities identified as susceptible to significant improper payments under its risk assessment (if required); (4) Published programmatic corrective action plans in the AFR or PAR (if required); (5) Published, and has met, annual reduction targets for each program assessed to be at risk and measured for improper payments.; (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.

Background

The United States Government is committed to reducing improper payments—"payments made to the wrong entity, in the wrong amount, or for the wrong reason" (Office of Management and Budget (OMB) Memorandum (M) 15-02, October 20, 2014). To that end, Congress passed the following:

- *The Improper Payments Information Act of 2002* (IPIA). IPIA expanded the programs and activities for which agencies had to determine the risk of erroneous payments beyond those listed in OMB Circular A-11.
- *The Improper Payments Elimination and Recovery Act of 2010* (IPERA). It amended IPIA and redefined significant improper payments and strengthened agency reporting requirements.
- *The Improper Payments Elimination and Recovery Improvement Act of 2012* (IPERIA). IPERIA requires each agency to review prepayment and preaward procedures and to conduct a thorough review of available databases, including the Do Not Pay Initiative, before releasing federal funds.

IPERA defines significant improper payments as improper payments that exceeded $10 million during the fiscal year reported and 1.5 percent of program outlays, or $100 million regardless of percentage of program outlays. In general, an improper payment is any payment that an agency should not have made or made in an incorrect amount. An improper payment also includes any payment made to an ineligible recipient, a payment for an ineligible good or service, or a payment for goods or services not received. In addition, OMB requires agencies to consider a payment improper if the agency lacks sufficient documentation to validate that it was a proper payment.

Pursuant to the Improper Payment Elimination and Recovery Improvement Act of 2012, amendment to the Improper Payments Elimination and Recovery Act of 2010, we audited the National Archives and Records Administration's (NARA) improper payment reporting in NARA's fiscal year (FY) 2015 Agency Financial Report (AFR). NARA has seven programs and activities (Administrative Overhead, Agency Services, Electronic Records Archives, National Historical Publications and Records Commission, Legislative Archives, Presidential Libraries and Museum Services, Repairs and Restoration and Research Services) that were assessed for risk of improper payments in FY 2014. NARA has no programs considered by OMB as a high-priority program.

NARA reported the results of their risk assessments in FY 2014 AFR indicating it had no programs or activities susceptible to improper payments. NARA did not disclose any significant legislative, funding or programmatic changes in FY 2015. Therefore, in accordance with OMB M-15-02, NARA must perform risk assessments at least once every three years for programs that are deemed to be low risk of significant improper payments. No risk assessments were performed in FY 2015 in accordance with OMB guidance.

Both IPERA and IPERIA authorize OMB to issue additional guidance related to eliminating and reporting improper payments. OMB guidance also states that Inspectors General may evaluate the accuracy and completeness of agency reporting and the agency's performance in reducing and recapturing improper payments as part of their annual compliance review.

Objectives, Scope, Methodology

IPERA requires agencies to report on actions to recover improper payments, and outline actions that agencies must implement. The law also requires the Office of Inspector General (OIG) to determine annually whether agencies complied with the law's requirements. IPERA states that if an agency does not meet one or more of these six requirements (below), it is not compliant.

1. Published an AFR or PAR for the most recent fiscal year and posted that report and any accompanying materials required by OMB on the agency website.
2. Conducted a program-specific risk assessment for each program or activity that conforms with Section 3321 note of Title 31 United States Code (if required).
3. Published improper payment estimates for all programs and activities identified as susceptible to significant improper payments under its risk assessment (if required).
4. Published programmatic corrective action plans in the AFR or PAR (if required).
5. Published, and has met, annual reduction targets for each program assessed to be at risk and measured for improper payments.
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.

To determine compliance, we reviewed NARA's Agency Financial Report and any accompanying information for the most recent fiscal year. In addition, we evaluated NARA's accuracy and completeness of reporting. We interviewed Chief Financial Officer (CFO) staff. We obtained and reviewed all applicable laws, rules, and regulations pertaining to improper payments including:

a) Improper Payments Information Act of 2002 (IPIA; Pub. L. 107-300), as amended by the Improper Payments Elimination and Recovery Act of 2010 (IPERA; Pub. L. 111-204),
a) Improper Payments Elimination and Recovery Improvement Act of 2012 (IPERIA; Pub. L. 112-248),
b) OMB M-15-02, Appendix C to Circular No. A-123, Requirements for Effective Estimation and Remediation of Improper Payments,
c) OMB Circular No. A-136, Financial Reporting Requirements, and
d) OMB Circular A-136 Section II.5.8 Town Hall, IPIA (as amended by IPERA and IPERIA) Reporting Details slides from September 17, 2015, and
e) OMB IPERA Compliance OIG Town Hall slides from October 13, 2015

We gained an understanding of management procedures and controls to the extent necessary to achieve our audit objectives. The purpose of our audit was not to provide an opinion on internal controls but to evaluate controls over improper payments reporting.

Our audit work was performed at Archives II between February 2016 and May 2016. We conducted this performance audit in accordance with generally accepted government auditing standards (GAGAS). GAGAS requires 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. During the course of our audit, we did not verify information in any of NARA's electronic information systems, and make no representation regarding the adequacy of any agency computer system or the information generated from it.

Audit Results

Compliance

We assessed NARA's improper payment reporting in its fiscal year (FY) 2015 Agency Financial Report and found NARA's programs (Administrative Overhead, Agency Services, Electronic Records Archives, National Historical Publications and Records Commission, Legislative Archives, Presidential Libraries and Museum Services, Repairs and Restoration and Research Services), and activities were compliant with improper payment requirements. Specifically, NARA was fully compliant with IPERA requirements to publish an AFR (completed on November 16, 2015) and conduct program specific risk assessments (completed in FY 2014).

Based on risk assessment for each program or activity listed above, NARA determined these programs and activities were not susceptible to significant improper payments and therefore were not required to perform four of six requirements. NARA reported in its FY 2015 Annual Financial Report that "As required by IPERA, NARA completed a full program inventory and identified no programs or activities that may be susceptible to significant improper payments based on statutory thresholds. NARA assessed all programs with more than $1 million in annual outlays, using a comprehensive questionnaire and risk calculation tool provided by the Department of Treasury, to determine if payment recapture audits would be cost-effective, in compliance with Section 2(h) of IPERA. Given the low risk level for all NARA programs, NARA determined payment recovery audits would not be cost-effective at this time." NARA also did not identify any significant legislative, funding, or programmatic changes in FY 2015.

Reporting

We evaluated the accuracy and completeness of NARA's reporting on IPERA and Do Not Pay Initiative. NARA's reporting on IPERA and Do Not Pay did not satisfy all reporting requirements in OMB Circulate A-136, Financial Reporting Requirements. Specifically:

- NARA did not list all programs and activities that expend $1 million or more annually whereby they've determined conducting a payment recapture audit program would not be cost effective. NARA conducted the required review in FY 2014 and assigned a low risk of improper payments to all NARA programs; however, NARA did not specifically list those programs in its FY 2015 reporting.

- NARA did not report on improper payments identified and recovered through sources other than payment recapture audits, even if information regarding the actual collection is not available. NARA tracked improper payments and recoveries in FY 2015, but did not include that information in FY 2015 reporting.
- NARA did not indicate when OMB was notified (month and year) that it was not cost effective to conduct a payment recapture audit and the program would be excluded from a payment recapture audit program. NARA notified OMB in September 2014, but did not include this information in its report, as required. and
- NARA did not include the justification and summary of analysis used to determine that conducting a payment recapture audit program was not cost effective. As required by IPERA, NARA evaluated the use of software and contracted services to conduct payment recovery audits, and determined they would not be cost effective. However, these analyses are not described as required in NARA's AFR narrative.

NARA also did not provide a brief narrative discussing the agency's actions attributable to the Do Not Pay Initiative and respective databases. OMB A-136 requires each agency to provide this narrative on an annual basis, regardless of the agency's susceptibility to improper payments. Per the guidance, the narrative shall:

- include an evaluation of whether the Do Not Pay Initiative has reduced improper payments or improper awards;
- identify the frequency of corrections or identification of incorrect information; and
- include completion of Table 7, Results of the Do Not Pay Initiative in Preventing Improper Payments.

Accounting Policy and Operations (BCA) is responsible for NARA's on-going program of detecting, mitigating, and recovering improper payments, and Financial Reporting and Analysis (BCF) is responsible for NARA external financial reporting, including compliance with OMB Circular A-136. Despite the overlap in responsibilities, NARA's Chief Financial Officer did not clearly assign responsibility to either organization for external reporting on improper payments and Do Not Pay. As a result, the Office of the Chief Financial Officer did not satisfy all IPERA and Do Not Pay reporting requirements in OMB A-136, and NARA's reporting on improper pay in the FY 2015 AFR is not complete.

Recommendation 1.

We recommend the CFO ensure NARA follows OMB Circular A-136 for improper payment reporting and Do Not Pay Initiative reporting.

Management Response.

Management concurs with the recommendation and has already issued clarifying guidance that specifies roles and responsibilities for relevant offices in preparing agency reporting on improper payments and Do Not Pay.

Appendix A – Acronyms

AFR – Agency Financial Report

ARC – Administrative Resource Center

BCA –Accounting Policy and Operations

BCF – Financial Reporting and Analysis

CFO – Chief Financial Officer

FY – Fiscal Year

GAGAS – Generally Accepted Government Auditing Standards

IPIA – Improper Payments Information Act of 2002

IPERA – Improper Payments Elimination and Recovery Act of 2010

IPERIA – Improper Payments Elimination and Recovery Improvement Act of 2012

M – Memorandum

NARA – National Archives and Records Administration

OIG – Office of Inspector General (OIG)

OMB – Office of Management and Budget

PAR – Performance and Accountability Reports

Pub. L – Public Law

Appendix B – Management Response

NATIONAL
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Date: MAY 24 2016

To: James Springs, Inspector General

From: David S. Ferriero, Archivist of the United States

Subject: OIG Draft Report 16-08, *Audit of NARA's FY 2015 Compliance with Improper Payment Requirements*

Thank you for the opportunity to review and comment on your draft report. We concur with the recommendation in this audit and will take corrective action to ensure NARA follows OMB Circular A-136 for improper payment reporting and Do Not Pay initiative reporting.

Since receiving your draft report, NARA's Chief Financial Officer has issued clarifying guidance that specifies roles and responsibilities for relevant offices in preparing agency reporting on improper payments and Do Not Pay. In addition, the Office of the CFO will revise planning documents for the Agency Financial Report (AFR) to: (a) add separate actions unique to improper payment reporting; and (b) include improper payment reporting in each of the AFR drafts that are due to the financial statement auditors during the course of the annual financial statement audit.

I fully expect that NARA's FY 2016 AFR will satisfy A-136 requirements for improper payment and Do Not Pay reporting when it is submitted to OMB on November 15, 2016. Because IPERA, as amended, requires Inspectors General to assess their agencies' compliance each fiscal year, Management will not submit additional documentation to your office and will instead ask that you re-test the conditions identified in your report when you assess NARA's FY 2016 AFR.

If you have questions about these planned actions, please contact Kimm Richards at kimm.richards@nara.gov or by phone at 301-837-1668.

DAVID S. FERRIERO
Archivist of the United States

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