

Performance Audit of NSF's Compliance with the Payment Integrity Information Act of 2019 for FY 2021

REPORT PREPARED BY KEARNEY & COMPANY

NATIONAL SCIENCE FOUNDATION
OFFICE OF INSPECTOR GENERAL

May 17, 2022
OIG 22-2-004





AT A GLANCE

Performance Audit of NSF's Compliance with the *Payment Integrity Information Act of 2019* for FY 2021

Report No. OIG 22-2-004

May 17, 2022

AUDIT OBJECTIVE

The National Science Foundation Office of Inspector General engaged Kearney & Company, P.C. (Kearney) to conduct a performance audit of NSF's compliance with the *Payment Integrity Information Act of 2019* (PIIA) for FY 2021. The objectives of the performance audit were to evaluate and report on the effectiveness of NSF's risk assessment process, including the quantitative and qualitative methods utilized and the actions taken by NSF in response to prior-year audit findings, and to report on NSF's compliance status (i.e., compliant or non-compliant) with OMB's Requirements per Table 8, "PIIA Compliance Reporting Table," as described in Appendix C of OMB Circular A-123, Management's Responsibility for Internal Control.

AUDIT RESULTS

Kearney found that NSF complied with PIIA reporting requirements for the Fiscal Year (FY) 2021 performance audit based on their review of NSF's Agency Financial Report (AFR) and risk assessments. Additionally, NSF met all applicable requirements established by OMB Memorandum (M)-21-19 for compliance with PIIA. Kearney is responsible for the attached report and the conclusions expressed in this report. NSF OIG does not express any opinion on the conclusions presented in Kearney's audit report.

RECOMMENDATIONS

This report does not contain any recommendations.

AUDITEE RESPONSE

NSF agreed with Kearney's conclusion. NSF's response to the report is in Appendix B.

FOR FURTHER INFORMATION, CONTACT US AT OIGPUBLICAFFAIRS@NSF.GOV.



National Science Foundation • Office of Inspector General
2415 Eisenhower Avenue, Alexandria, Virginia 22314

MEMORANDUM

DATE: May 17, 2022

TO: Dr. Sethuraman Panchanathan
Director

Teresa Grancorvitz
Office Head and Chief Financial Officer

FROM: Mark Bell [REDACTED]
Assistant Inspector General
Office of Audits

SUBJECT: Audit Report No. 22-2-004, Performance Audit of NSF's Compliance with the *Payment Integrity Information Act of 2019* for FY 2021

This memo transmits the Kearney & Company, P.C. (Kearney) report for the audit of NSF's compliance with the *Payment Integrity Information Act of 2019* for FY 2021. The objectives of the audit were to evaluate and report on the effectiveness of NSF's risk assessment process, including the quantitative and qualitative methods utilized and the actions taken by NSF in response to prior-year audit findings, and report on the agency's compliance status (i.e., compliant or non-compliant) with OMB's Requirements per Table 8, "PIIA Compliance Reporting Table," as described in Appendix C of OMB Circular A-123, Management's Responsibility for Internal Control.

OIG Oversight of Audit

Kearney is responsible for the attached auditors' report and the conclusions expressed in this report. We do not express any opinion on the conclusions presented in Kearney's audit report. To fulfill our responsibilities, we:

- reviewed Kearney's approach and planning of the audit;
- evaluated the qualifications and independence of the auditors;
- monitored the progress of the audit at key points;
- coordinated periodic meetings with Kearney, as necessary, to discuss audit progress, findings, and recommendations;
- reviewed the audit report prepared by Kearney; and
- coordinated issuance of the audit report.

We thank your staff for the assistance that was extended to the auditors during this audit. If you have any questions regarding this report, please contact Laura Rainey at 703.292.7100 or OIGpublicaffairs@nsf.gov.

Attachment

cc:

Dan Reed	Christina Sarris	Allison Lerner	Catherine Walters
Steve Willard	Jesse Simons	Lisa Vonder Haar	Nacole White
John Veysey	Michael Wetklow	Ken Chason	Karen Scott
Ann Bushmiller	John Lynskey	Jennifer Kendrick	Louise Nelson
Karen Marrongelle	Victor McCrary	Laura Rainey	



***Report on the Performance Audit over
the Payment Integrity Information Act of 2019***

for

***National Science Foundation
Office of Inspector General***

April 27, 2022

**KEARNEY &
COMPANY**

*Point of Contact:
David Zavada, Senior Partner
1701 Duke Street, Suite 500
Alexandria, VA 22314
703-931-5600, 703-931-3655 (fax)
dzavada@kearneyco.com*

Kearney & Company, P.C.'s TIN is 54-1603527, DUNS is 18-657-6310, CAGE Code is 1SJ14

April 27, 2022

Mark Bell
Assistant Inspector General, Office of Audits
2415 Eisenhower Ave
Alexandria, VA 22314

Dear Mr. Bell:

Kearney & Company, P.C. (Kearney) has conducted an audit of the Payment Integrity Information Act of 2019 (PIIA). This performance audit, conducted under Contract Number (No.) GS00Q14OADU210 (Order No. 49100420F0183), was designed to meet the objectives identified in the *Objectives* section of this report.

Kearney conducted this performance audit in accordance with Generally Accepted Government Auditing Standards (GAGAS), 2018 Revision, issued by the Government Accountability Office (GAO). The purpose of this report is to communicate the results of Kearney's performance audit.

Kearney appreciates the cooperation provided by the National Science Foundation's (NSF) personnel during the audit.



David Zavada
Engagement Partner

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Objectives

As requested by the National Science Foundation (NSF) Office of Inspector General (OIG), Kearney & Company, P.C. (defined as “Kearney,” “we,” and “our” in this report) performed an audit to determine compliance with the Payment Integrity Information Act of 2019 (PIIA). Kearney conducted a performance audit of NSF’s compliance with the requirements in Appendix C of Office of Management and Budget (OMB) Circular A-123, *Requirements for Payment Integrity Improvement*, to determine if an agency is compliant under the PIIA.

The objectives of the performance audit are to:

- Evaluate and report on the effectiveness of NSF’s risk assessment process, including the quantitative and qualitative methods utilized and the actions taken by NSF in response to prior-year audit findings
- Report on the agency’s compliance status (i.e., compliant or non-compliant) with OMB’s Requirements per Table 8, “PIIA Compliance Reporting Table,” as described in Appendix C of OMB Circular A-123, *Management’s Responsibility for Internal Control*.

Please see *Appendix A* of this report for the scope and methodology of the audit.

Conclusion

NSF complied with PIIA reporting requirements for the fiscal year (FY) 2021 performance audit based on our review of the Agency Financial Report (AFR) and risk assessments. Additionally, OMB Memorandum (M)-21-19 sets forth 10 requirements that agencies must meet to comply with PIIA. As indicated in *Exhibit 1*, NSF met all applicable criteria in FY 2021.

Background

The President signed Public Law (PL) 116-117, PIIA, in order to further efforts to prevent the loss of taxpayer dollars. PIIA repeals the Improper Payments Information Act of 2002 (IPIA), the Improper Payment Elimination and Recovery Act of 2010 (IPERA), and the Improper Payment Elimination and Recovery Improvement Act of 2012 (IPERIA). For the purpose of PIIA implementation, an Improper Payment (IP) is one that should not have been made or that was made in an incorrect amount, including an overpayment or underpayment, under a statutory, contractual, administrative, or other legally applicable requirement. This 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 those payments where authorized by law), and any payment that does not account for credit for applicable discounts. This guidance requires the head of each executive agency, in accordance with the guidance prescribed by the Director of OMB, to periodically review all programs and activities that the head of the executive agency administers and identify all programs and activities with outlays exceeding the statutory threshold dollar amount that may be susceptible to IPs.

OMB issued Circular A-123, Appendix C (OMB M-21-19), *Transmittal of Appendix C*, to OMB Circular A-123, *Requirement for Payment Integrity Improvement*, as guidance for agencies to implement the requirements of PIIA. If an agency does not meet one or more of these requirements, then it is not compliant. In addition to requiring the agency to conduct risk assessments and publish payment integrity information in the AFR, this circular expands the qualitative risk assessment from seven to 11 risk factors, removes the requirement to include payments related to charge cards in IP risk assessments, and recommends including FY data with the coinciding assessment year.

As stated in Section II.A of OMB M-21-19, agencies should assess all programs with annual outlays greater than \$10 million for IP risk at least once every three years. The purpose of an IP risk assessment is to determine whether the total annual IPs *plus* the Unknown Payments (UP) for a program are collectively likely to be above or below the statutory threshold for the given year.

NSF has four programs and mission support activities that have historically exceeded the \$10 million annual outlay threshold: Grants and Cooperative Agreements, Contracts and Individual Payments, Payments to Employees, and Charge Cards. In addition to OMB removing the requirement to include charge cards in the risk assessment, in the past two years, the NSF Charge Card program did not surpass the \$10 million threshold; therefore, it was not included in the FY 2021 risk assessment. PIIA additionally sets forth guidance on the Do Not Pay Initiative and requires that each executive agency review prepayment and pre-award procedures and ensure a thorough review of available databases to determine program or award eligibility and prevent IPs before the release of any Federal funds. Further, PIIA requires an executive agency to submit payment integrity information to the Inspector General (IG) of the executive agency and OMB, as well as make it available to the public through a website and a report on high-priority IPs.

Audit Results

We conducted this performance audit in accordance with Generally Accepted Government Auditing Standards (GAGAS). 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.

Kearney obtained NSF's AFR and confirmed the agency published payment integrity information with the annual financial statement on its website. Additionally, we evaluated NSF's qualitative risk assessments over the Grants and Cooperative Agreements, Contracts and Individual Payments, and Payment to Employees programs, as well as the quantitative risk assessment over Grants and Cooperative Agreements. Kearney determined NSF's conclusion that the overall low risk level for the qualitative and quantitative risk assessments was reasonable. Kearney also determined NSF adequately concluded the programs have low risk for making IPs and UPs above the statutory threshold. As noted in *Exhibit 1* below, we found that NSF complied with PIIA requirements as outlined by OMB. The "Yes" recorded in the table denotes compliance with the applicable criteria.

We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Exhibit 1: PIIA Compliance Reporting

Item No.	Criteria	Grants and Cooperative Agreements	Contracts and Individual Payments	Payments to Individuals
1	Published Payment Integrity information with the annual financial statement	Yes	Yes	Yes
2	Posted the annual financial statement and accompanying materials on the agency website	Yes	Yes	Yes
3	Conducted IP Risk Assessment for Each Program with Annual Outlays Greater Than \$10 Million	Yes	Yes	Yes
4	Adequately Concluded Whether Each Program is Likely to Make IPs and UPs Above or Below the Statutory Threshold	Yes	Yes	Yes
5	Published IP and UP Estimates for Each Program Susceptible to Significant IPs and UPs	N/A*	N/A*	N/A*
6	Published Corrective Action Plans (CAP) for Each Program for Which an Estimate Above the Statutory Threshold was Published	N/A*	N/A*	N/A*
7	Published an IP and UP Reduction Target for Each Program for Which an Estimate Above the Statutory Threshold was Published	N/A*	N/A*	N/A*
8	Demonstrated Improvements to Payment Integrity or Reached a Tolerable IP and UP Rate	N/A*	N/A*	N/A*
9	Developed a Plan to Meet the IP and UP Reduction Target	N/A*	N/A*	N/A*
10	Reported an IP and UP Estimate of Less Than 10% for Each Program for Which an Estimate was Published	N/A*	N/A*	N/A*

* The Agency did not have programs that were susceptible to significant IPs and UPs based on statutory thresholds listed in OMB M-21-19, Part 1.

We determined that NSF has strengthened the agency’s risk assessment process and methodology since implementing the most recent IPERA audit (i.e., FY 2018) recommendations. Additionally, Kearney found that the risk assessment processes, both quantitative and qualitative, were appropriate for reporting on payment integrity requirements.

APPENDIX A – SCOPE AND METHODOLOGY OF THE AUDIT

Scope and Limitations

The scope of the engagement is limited to the Payment Integrity Information Act of 2019 (PIIA) requirements, as outlined by applicable Public Law (PL), Office of Management and Budget (OMB) Circular A-123, Appendix C, *Requirements for Payment Integrity Improvement*, and OMB Circular A-136 (OMB M-21-19), *Financial Reporting Requirements*. PL 116-117 (PIIA 2019), requires agencies to annually report information on Improper Payments (IP) through the Agency Financial Report (AFR). The audit scope is limited to PIIA information reported within the *Other Information* section of the National Science Foundation’s (NSF) fiscal year (FY) 2021 AFR, specifically *Appendix 3: Payment Integrity Information Act Reporting*.

Kearney & Company, P.C.’s (Kearney) engagement did not include a detailed inspection of every transaction and cannot be relied upon to disclose all errors, fraud, or other illegal acts that may exist. During the audit, we did not identify any fraud or other illegal acts.

Methodology and Work Performed

Kearney’s performance audit engagement was conducted in accordance with the performance audit standards established by Generally Accepted Government Auditing Standards (GAGAS). Those standards require that we obtain reasonable assurance that evidence is sufficient and appropriate to support our findings and conclusions in relation to the audit objectives.

To determine compliance with PIIA, we reviewed NSF’s FY 2021 AFR and conducted the following:

- Performed walkthroughs and interviews with applicable NSF personnel to gain an understanding of the PIIA risk assessment conducted and reported results in the FY 2021 AFR (*Appendix 3, Payment Integrity Information Act Reporting*)
- Reviewed the risk assessment implemented by NSF, along with applicable supporting documentation, to corroborate the results reported on the AFR
- Reviewed documentation over IP estimates, grant monitoring activities, internal control program activities, and Corrective Action Plans (CAP) implemented as a result of findings noted within the FY 2018 Improper Payment Elimination and Recovery Act of 2010 (IPERA) Compliance Report
- Developed test plans to reperform testing conducted by NSF over each major high-risk program activity.

Work Related to Internal Controls

NSF management is responsible for establishing and maintaining effective internal controls to identify and prevent IPs in its programs and activities. While planning and performing our audit, Kearney considered NSF’s internal controls over PIIA processes and methodology to understand the policies and procedures relevant to NSF’s PIIA risk assessment. We also considered NSF’s

select program testing results reported in its AFR to evaluate its compliance with PIIA requirements and risk factors.

Prior Office of Inspector General (OIG) Reports

Kearney's previous performance audit over IPs concluded with the FY 2018 IPERA audit, in which there were two reportable findings: 1) improve risk assessment process and 2) improve recapture amount process. We found that NSF did not include input from the Office of Polar Programs (OPP) to fully evaluate the agency's susceptibility to IPs and had not adequately developed formal written policies and procedures to document its IP recapture amount process. Kearney made four recommendations to improve NSF's risk assessment process and its reporting of IP recapture amounts.

Improve Risk Assessment Process

Kearney made one recommendation related to the risk assessment process, stating NSF should include all relevant leadership and key personnel of the program and activities to obtain adequate risk assessment results. During the FY 2021 performance audit, Kearney noted that NSF elected to perform qualitative risk assessments for three programs (Grants and Cooperative Agreements, Contracts and Individual Payments, and Payments to Individuals), which met the outlay requirements for review. NSF's qualitative risk assessment methodology consisted of discussions with all process owners across the organization who are responsible for managing, executing, and monitoring activities and controls related to IPs. NSF outlined the key responsibilities for the process owners in each program and classified them as a leading or supporting role regarding OMB's 11 risk factors. To conclude the qualitative risk assessment, NSF assigned scores based on the process owners' input. The three programs under review each resulted in low risk for susceptibility to IPs.

NSF also performed a quantitative risk assessment for the Grants and Cooperative Agreements program, to gather additional evidence about potentially elevated risks associated with the Coronavirus Disease 2019 (COVID-19) pandemic at the time of the agency's assessment. The methodology for the quantitative assessment was completed in two phases. The first phase consisted of a risk-based sampling approach for payments, followed by the second phase, where NSF completed a detailed examination to determine if grantee expenses complied with Federal and NSF requirements. The quantitative assessment's overall risk level was low, as the unallowable cost was an immaterial amount. As of the date of this report, the recommendation from the prior OIG audit report was closed.

Improve the Recapture Amount Process

Kearney made three recommendations related to the Recapture Amount process. First, NSF should develop policies and procedures to provide formal instructions on the Recapture Table process. Secondly, NSF should strengthen communication between the Division of Financial Management (DFM) and Division of Institution and Award Support (DIAS) Resolution and Advanced Monitoring Branch (RAM) to ensure accurate reports are used to develop recapture amounts.

Finally, NSF should include payment credits processed via the Invoice Processing Platform (IPP) to further ensure the recapture amounts are complete.

NSF provided us with reports that contained recapture amounts on a quarterly basis in addition to a yearly summary, along with its Standard Operating Procedures (SOP) document. We were able to utilize the SOP to develop our understanding of the amounts recorded in the reports. Kearney also noted that NSF has documented recapture data from the DFM and DIAS in accordance with their procedures and that NSF reported these final amounts in the OMB Data Call Recapture Table. Finally, Kearney was able to confirm that NSF did include IPP payment credits as part of the recapture payments process, signifying that each recommendation has been implemented. As of the date of this report, the three recommendations from the prior OIG audit report were closed.



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