



Office of Inspector General

---

**OFFICE OF CYBER  
ASSESSMENTS AND DATA  
ANALYTICS**

**MANAGEMENT LETTER**

**THE FEDERAL ENERGY REGULATORY  
COMMISSION'S FISCAL YEAR 2022 FINANCIAL  
STATEMENTS**

**DOE-OIG-23-12  
JANUARY 2023**



**Department of Energy**  
Washington, DC 20585

January 13, 2023

MEMORANDUM FOR THE EXECUTIVE DIRECTOR, FEDERAL ENERGY  
REGULATORY COMMISSION

A handwritten signature in cursive script that reads "Kshemendra Paul".

FROM: Kshemendra Paul  
Assistant Inspector General  
for Cyber Assessments and Data Analytics  
Office of Inspector General

SUBJECT: INFORMATION: Management Letter on The Federal Energy  
Regulatory Commission's Fiscal Year 2022 Financial Statements

The attached letter presents the results of the independent certified public accountants' consideration of the Federal Energy Regulatory Commission's (FERC) internal control over financial reporting during the FERC Fiscal Year 2022 Financial Statement Audit. The letter contains three findings that were issued during the audit. Management concurred with two of the findings and recommendations and partially concurred with one of the findings and recommendations. Management's comments are included with the findings.

To fulfill the Office of Inspector General's (OIG) audit responsibilities, we contracted with the independent public accounting firm of KPMG LLP (KPMG) to conduct the audit, subject to our review. KPMG is responsible for expressing an opinion on FERC's financial statements and reporting on applicable internal controls and compliance with laws and regulations. The OIG monitored audit progress and reviewed the audit report and related documentation. This review disclosed no instances where KPMG did not comply, in all material respects, with generally accepted government auditing standards. The OIG did not express an independent opinion on FERC's financial statements.

We appreciated the cooperation of your staff during the audit.

Attachment

cc: Chief Financial Officer, Federal Energy Regulatory Commission, FERC  
Director, Financial Management Division, Federal Energy Regulatory Commission, FERC

Audit Report: DOE-OIG-23-12

## INDEPENDENT AUDITORS' REPORT



KPMG LLP  
Suite 12000  
1801 K Street, NW  
Washington, DC 20006

December 19, 2022

Federal Energy Regulatory Commission and  
Inspector General, United States Department of Energy:

Ladies and Gentlemen:

In planning and performing our audit of the financial statements of the Federal Energy Regulatory Commission (FERC) as of and for the years ended September 30, 2022 and 2021, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, we considered FERC's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of FERC's internal control. Accordingly, we do not express an opinion on the effectiveness of FERC's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses and/or significant deficiencies and therefore, material weaknesses and/or significant deficiencies may exist that were not identified. In accordance with *Government Auditing Standards*, we issued our report dated November 15, 2022 on our consideration of FERC's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. During our audit, we identified three control deficiencies (i.e., findings) in internal control. The findings related to the improper recording of depreciation expense, controls over financial reporting, and employee benefit forms not readily available. These were communicated in notices of findings and recommendations 22-FERC-01, 22-FERC-02, and 22-FERC-03, included in Exhibit A.

FERC's responses to the findings identified in our audit is described in Exhibit A. FERC's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the responses.

This purpose of this letter is solely to describe the deficiencies in internal control identified during our audit. Accordingly, this letter is not suitable for any other purpose.

Very truly yours,

**KPMG LLP**

KPMG LLP, a Delaware limited liability partnership and a member firm of the KPMG global organization of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee.

**Exhibit A****Current Year Findings and Recommendations**

Finding 22-FERC-01 – Improper Recording of Depreciation Expense

**Background:**

FERC is an independent agency that regulates interstate transmission of natural gas, oil, and electricity, as well as natural gas and hydropower projects. FERC management is responsible for the preparation and fair presentation of the FERC financial statements in accordance with U.S. generally accepted accounting principles (GAAP). This includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

**Criteria:**

The Government Accountability Office's *Standards for Internal Control in the Federal Government* (Green Book) Principle 10, *Design Control Activities*, paragraph 10.03, states that "Transactions are promptly recorded to maintain their relevance to management in controlling operations and making decisions. This applies to the entire process or life cycle of a transaction or event from its initiation and authorization through its final classification in summary records. In addition, management designs control activities so that all transactions are completely and accurately recorded."

Office of Management and Budget Circular No. A-123, Appendix A, *Management of Reporting and Data Integrity Risk*, states that "Management has responsibility for determining the materiality of internal control activities and whether these materiality thresholds align with the level of control activities needed to provide reasonable assurances."

Statement of Federal Financial Accounting Standards 6, *Accounting for Property, Plant, and Equipment*, paragraph 41, states that "Accumulated depreciation/amortization shall be recorded based on the estimated cost and the number of years the property, plant, and equipment has been in use relative to its estimated useful life."

**Condition:**

FERC recorded Property, Plant, and Equipment additions relating to the office modernization project in the current year but with a placed in-service date of prior fiscal years. The depreciation expense for the assets was recorded all in the current fiscal year rather than the period for which the expense was incurred.

**Cause:**

These issues occurred because FERC lacked procedures and controls for the recording of additions relating to the office modernization project and did not document its analysis of the materiality or immateriality of recording prior period depreciation in the current year.

**Effect:**

The lack of procedures and controls over recording of the office modernization project and associated depreciation increases the risk that depreciation is not expensed in the corresponding fiscal year and the presentation of the "Property and Equipment, net" footnote could be misstated. The identified errors resulted in an overstatement of depreciation expense in the current year. Specifically, there was a factual misstatement in which \$606,500 or prior year depreciation expense was recorded in the current year.

**Recommendation:**

1. We recommend that the Director, Financial Management Division, FERC:
  - a. Document procedures and controls to ensure that the office modernization project is recorded in the proper period in future years; and
  - b. Evaluate, assess, and document FERC's non-GAAP policies and practices for transactions that warrant such analysis on the financial statements in the current period and expected future periods, as a part of its evaluation and assessment of internal controls over financial reporting.

**Management's Response:**

Partially concur. The Accounting Officer will work with the appropriate personnel to further strengthen the procedures and internal controls currently in place to ensure depreciation expenses are recorded in the proper period for future years. Management believes the accounting methodology FERC uses to record depreciation expenses is in accordance with Statement of Federal Financial Accounting Standards and generally accepted accounting principles practices. As a result, a non- generally accepted accounting principles evaluation would not be warranted for this circumstance.

**Finding 22-FERC-02 – Controls Over Financial Reporting****Criteria:**

The Government Accountability Office's Green Book Principle 10, *Design Control Activities*, paragraph 10.02, states that "Management designs control activities in response to the entity's objectives and risks to achieve an effective internal control system." Further, Principle 12, *Implement Control Activities*, paragraph 12.03, states that "Management documents in policies for each unit its responsibility for an operational process's objectives and related risks, and control activity design, implementation, and operating effectiveness."

**Condition:**

FERC's controls over the preparation and completion of its financial statements were not designed, implemented, or operating effectively to appropriately prevent, or detect and correct errors in certain financial statement line items. Specifically, we noted that an on-top adjustment for stale (invalid) undelivered orders was recorded as an adjustment upward to unpaid prior year undelivered orders rather than downward. Further, additional funds were erroneously included on the Distributing Offsetting Receipts line item on the Statement of Budgetary Resources.

**Cause:**

These issues occurred because FERC's Financial Management Division's review of the financial statements and related disclosures was not performed at the appropriate level of precision to prevent, detect, and correct certain errors.

**Effect:**

The lack of controls over financial reporting increases the risk the financial statements and supporting schedules could be misstated. Specifically, the identified errors resulted in the current year undelivered orders being overstated by \$2.12 million in the "Undelivered Orders at the End of the Fiscal Year" footnote, disclosure 16. Additionally, distributed offsetting receipts on the Statements of Budgetary Resources and the related "Reconciliation of Net Cost to Outlays" footnote were overstated by \$5.56 million.

**Recommendation:**

2. We recommend that the Director, Financial Management Division, FERC, strengthen review controls over the preparation of financial statements and the related supporting schedules.

**Management's Response:**

Concur. The FERC's Accounting Officer will work with the appropriate personnel to further strengthen the internal control reviews related to the preparation of the financial statements, particularly those accounting transactions that currently requires manual input into the financial statement tables and footnotes. Additionally, the Accounting Officer will work with the appropriate personnel to implement more efficient financial statement programing procedures to further detect and mitigate any potential misstatements and/or omissions.

**Finding 22-FERC-03 – Employee Benefit Forms Not Readily Available**

**Criteria:**

The Government Accountability Office's Green Book Section 4, *Additional Considerations*, paragraph OV4.08, states that "Documentation is a necessary part of an effective internal control system. The level and nature of documentation vary based on the size of the entity and the complexity of the operation processes the entity performs. Management uses judgement in determining the extent of documentation that is needed. Documentation is required for the effective design, implementation, and operating effectiveness of an entity's internal control system." Further, Principle 10, *Design Control Activities*, paragraph 10.03, states that "Management clearly documents internal control and all transactions and other significant events in a manner that allow the documentation to be readily available for examination."

**Condition:**

FERC did not have originating employee benefit forms readily available for examination during our test work. Specifically, Standard Form 2809 Health Benefits Election forms were not readily available for 6 of 80 employees reviewed.

**Cause:**

The weakness identified occurred because FERC no longer had an eOPF scanning contract and has recently moved to a new office. Therefore, employee forms that would be included in the individual's eOPF were not readily available for examination.

**Effect:**

The lack of documents that are readily available for examination increases the risk that employee payroll and benefit transactions could be unsupported.

**Recommendation:**

3. We recommend that the Chief, Human Resources Benefit and Payroll Office, FERC, update the electronic filing process for an employee's eOPF so that originating payroll and benefit forms are readily available for examination.

**Management's Response:**

Concur. This has been a long-standing issue because of the Office of Personnel Management not having an adequate or available solution for eOPF scanning for over 6 years. FERC's Human Resources Director, in partnership with the Chief, Human Resources Benefits and Payroll Office, has already been working to procure a mechanism other than the Office of Personnel Management to rectify the lack of personnel document scanning. Facilitating this new contractor, or inter-agency agreement, will ensure payroll and benefits forms are readily available to FERC employees.

**Exhibit B**

**Status of Prior Year Findings and Recommendations**

**Status at September 30, 2022**

Documentation of Non-Generally Accepted Accounting Principles Practices  
and the Impact on Recording Accounting Transactions (21-FERC-01)

Closed in FY 2022

Stale Undelivered Orders, Unpaid Obligations (21-FERC-02)

Closed in FY 2022



## **FEEDBACK**

The Office of Inspector General has a continuing interest in improving the usefulness of its products. We aim to make our reports as responsive as possible and ask you to consider sharing your thoughts with us.

Please send your comments, suggestions, and feedback to [OIG.Reports@hq.doe.gov](mailto:OIG.Reports@hq.doe.gov) and include your name, contact information, and the report number. You may also mail comments to us:

Office of Inspector General (IG-12)  
Department of Energy  
Washington, DC 20585

If you want to discuss this report or your comments with a member of the Office of Inspector General staff, please contact our office at 202-586-1818. For media-related inquiries, please call 202-586-7406.