OFFICE OF INSPECTOR GENERAL

U.S. Department of Energy

AUDIT REPORT

DOE-OIG-18-32 May 2018

THE DEPARTMENT OF ENERGY'S IMPROPER PAYMENT REPORTING IN THE FISCAL YEAR 2017 AGENCY FINANCIAL REPORT

Department of Energy
Washington, DC 20585

May 24, 2018

MEMORANDUM FOR THE SECRETARY

FROM: April G. Stephenson
Principal Deputy Inspector General

SUBJECT: INFORMATION: Audit Report on "The Department of Energy's Improper Payment Reporting in the Fiscal Year 2017 Agency Financial Report"

BACKGROUND

The *Improper Payments Elimination and Recovery Improvement Act of 2012* (IPERIA) was signed into law on January 10, 2013, amending the *Improper Payments Elimination and Recovery Act of 2010* (IPERA) and the *Improper Payments Information Act of 2002.* In response to IPERIA, the Office of Management and Budget (OMB) issued Memorandum M-15-02, Appendix C to Circular Number A-123, *Requirements for Effective Estimation and Remediation of Improper Payments* (A-123), as implementation guidance to Federal agencies for IPERIA in October 2014. The Department of Energy's Office of Finance and Accounting, a component of the Office of the Chief Financial Officer (OCFO), communicated instructions for meeting improper payment and payment recapture audit requirements, prescribed by OMB A-123, to its 48 payment reporting sites. The Department's guidance indicated that the OCFO elected to implement a 3-year risk assessment review cycle, as allowed for by OMB Memorandum M-15-02. Consistent with this guidance, the Department performed an improper payment risk assessment in fiscal year (FY) 2015 but did not perform a risk assessment in FY 2017.

OMB requires the Office of Inspector General to perform an annual review of the Department's improper payment reporting in its Agency Financial Report (AFR), and accompanying materials, to determine whether the Department was compliant with IPERA. The objective of this audit was to determine whether the Department met the OMB criteria for compliance with IPERA.

RESULTS OF AUDIT

We found that the Department's FY 2017 improper payment reporting was in accordance with OMB criteria. Specifically, the Department published an AFR for FY 2017 and posted that report, as well as accompanying materials, on its website. While we found that the Department met the criteria for compliance with OMB, we also noted opportunities for the Department to enhance internal controls relative to the payment sites' improper payment reporting certifications. Our report on the Department's compliance with IPERA was delayed because the

Department had not published an AFR for FY 2017 until May 22, 2018, due to allegations that resulted in a delay in issuing the financial statement audit report. We issued a report related to the allegations under a separate cover (DOE-OIG-18-29, April 2018).

Details of Testing

The Department's Office of Finance and Accounting issued guidance that required the completion of a Field Chief Financial Officer or Contractor Chief Financial Officer certification memorandum from each payment reporting site. The certifications confirm that there were no significant: (1) changes in legislation; (2) increases in funding levels; or (3) changes to the site's payment processes that would make the site susceptible to significant improper payments. If a site determined that, due to changes, it was susceptible to significant improper payments, then a risk assessment would have been required. In addition, payment reporting sites were required to submit actual improper payment and payment recapture information related to, among other things, vendor/contracts, payroll, travel, and grants. The Department's guidance included definitions for a payment, improper payment, program area, and payment types/categories. Finally, the Department's guidance required the Field Chief Financial Officer or Contractor Chief Financial Officer to confirm compliance with established laws and regulations, disclosure of any instances of fraud, and any known deficiencies in internal controls.

The OCFO was responsible for collecting and reviewing risk assessments, improper payment results, and the Chief Financial Officer certifications from the payment reporting sites. This information was summarized and reported by the Department in the "Other Information" section of its FY 2017 AFR. Based on these results and the Department's historically low improper payment totals, the Department concluded that its programs were not susceptible to significant improper payment risk and, as a result, not subject to additional reporting requirements such as corrective action plans and annual improper payment reduction targets.

According to OMB, an agency is required to meet six specific requirements to comply with IPERA. Based on our review of the Department's FY 2017 AFR, we found that the Department complied with IPERA reporting requirements, as indicated below. Compliance under IPERA means that the agency has:

OMB Criteria for Compliance	Was Criteria Met?
1) Published an AFR for the most recent fiscal year and posted that report and any accompanying materials required by OMB on the agency website.	Yes[1]
2) Conducted a program specific risk assessment for each program or activity that conforms to Section 3321 note of Title 31 U.S.C. (if required).	Not Applicable[2]
3) Published improper payment estimates for all programs and activities identified as susceptible to significant improper payments under its risk assessment (if required).	Not Applicable[3]
4) Published programmatic corrective action plans in the AFR (if required).	Not Applicable[3]
5) Published, and is meeting, annual reduction targets for each program assessed to be at risk and estimated for improper payments (if required and applicable).	Not Applicable[3]
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.	Not Applicable[2]

During our review of the Department's compliance with IPERA criteria, we noted opportunities for the Department to enhance internal controls relative to the payment sites' improper payment reporting certifications. During our review of the payment reporting sites' certifications, we identified four payment sites that did not confirm there were no significant: (1) changes in legislation; (2) increases in funding levels; or (3) changes to the site's payment processes that would make the site susceptible to significant improper payments. As a result, and in accordance with the instructions contained in the guidance issued by the Department's Office of Finance and Accounting, these payment reporting sites conducted risk assessments and submitted those to appropriate personnel within the Department's OCFO. One payment site's certification and risk assessment disclosures required the OCFO to make an adjustment to the Department's total outlays amount reported in the "Payment Integrity Reporting" section of the FY 2017 AFR because that payment site included a cumulative total for grant outlays instead of current year outlays. According to OCFO personnel, the impact of this adjustment was immaterial to the Department's total outlays and did not impact the actual improper payments, improper payment rate, or the recapture data required by OMB. In addition, as a result of payment sites conducting risk assessments, the OCFO revised the language in the "Payment Integrity Reporting" section of

[1] Due to allegations that resulted in a delay in issuing the financial statement audit report, the Department had not published its final FY 2017 AFR until May 22, 2018. However, the Department had published the payment integrity information in accordance with OMB direction in November 2017.

[2] Per OMB Memorandum M-15-02, for programs that are deemed to be low risk for significant improper payments, agencies must perform risk assessments at least once every 3 years. Accordingly, the Department's OCFO elected to implement a 3-year risk assessment review cycle, as allowed for by OMB Memorandum M-15-02. As such, risk assessments were not performed in FY 2017.

[3] The Department concluded that its programs were not susceptible to significant improper payments, as defined by OMB guidance. Therefore, reporting of statistical estimates of improper payments, corrective actions, and reduction targets in the AFR was not required.

the AFR to state that the Department, instead of the payment sites, experienced no significant: (1) changes in legislation; (2) increases in its funding levels; or (3) changes to its sites' payment processes that would make it susceptible to significant improper payments. Therefore, the Department did not perform a risk assessment in FY 2017.

We also identified a site that reported no significant increases in funding levels for FY 2017 even though the site had a funding increase of more than $123.5 million (81 percent) due to a 1-year contract. According to OCFO officials, the payment reporting site indicated that this increase did not justify disclosure on its certification and subsequent completion of a risk assessment due to the short-term contract that was in place and because there was no impact on its overall susceptibility to improper payments. Further, OCFO personnel stated that the payment reporting site conducted evaluations of various controls that included sub-processes of grant awards, grant application reviews, and closeouts. Moreover, the OCFO indicated that the outcome of these site evaluations did not identify any high-risk areas or internal control failures. Finally, OCFO personnel stated that the decision not to report the increase was based on management's judgment. While we agree that it was management's decision whether an updated risk assessment was warranted, we are concerned that the sudden significant increase in funds could have presented additional financial management risks.

Furthermore, during a comparison of payroll expenditures reported in FY 2016 and FY 2017, we identified a discrepancy with the Headquarters' payroll balance. Specifically, the balance reported for FY 2016 was understated by approximately $363 million. This understatement impacted the total payment expenditures reported in the "Improper Payments Information and Reporting" section of the FY 2016 Agency Financial Report. According to OCFO personnel, the impacts of this error were not material to the Department's total outlays and did not impact actual improper payments, the improper payment rate, or recapture data. However, we are concerned that the internal control process used by the OCFO did not identify the error prior to our test work.

To their credit, OCFO personnel stated they are planning to implement process improvements over improper payments. These improvements include:

- Incorporating the results of internal control evaluations captured in the Financial Management Assurance Tool for use in the FY 2018 risk assessment process;
- Developing and implementing a software application by March 2019 to enhance the Department's A-123 process and will include controls mitigating improper payments;
- Developing and testing a comparison function to identify significant increases in outlays within payment categories at the Department's payment reporting sites for use in the FY 2018 improper payment process; and
- Conducting internal discussions related to establishing criteria defining a "significant increase" in outlays to be incorporated into the FY 2019 improper payment process.

SUGGESTED ACTION

Based on our review, we determined that the Department may benefit from a more rigorous review of the payment reporting site submittals for improper payments. Even though the Department was considered a low-risk entity according to OMB criteria and was only required to perform risk assessments every 3 years, information disclosed in risk assessments and related certifications should be thoroughly reviewed. We acknowledge that the OCFO has identified planned process improvements which OCFO personnel stated are currently being implemented. However, because those improvements are still in process, we suggest that the Chief Financial Officer:

1. Ensure that all planned process improvements are implemented in a timely manner.

Attachments

cc: Deputy Secretary
Chief of Staff
Chief Financial Officer

OBJECTIVE, SCOPE, AND METHODOLOGY

OBJECTIVE

The objective of the audit was to determine whether the Department of Energy met the Office of Management and Budget's criteria for compliance with the *Improper Payments Elimination and Recovery Act of 2010*.

SCOPE

The audit was conducted from January 2018 through May 2018 at Department Headquarters in Germantown, Maryland. This audit was conducted under the Office of Inspector General project number A18FN002. Consistent with guidance established in Office of Management and Budget Memorandum M-15-02, the scope of the audit was the "Payment Integrity Reporting" section of the Department's Fiscal Year 2017 Agency Financial Report.

Due to the decentralized reporting structure utilized by the Department to complete its *Improper Payments Elimination and Recovery Act of 2010* reporting, we obtained the improper payment submittals of the 48 payment reporting sites required by the Office of the Chief Financial Officer to report *Improper Payments Elimination and Recovery Act of 2010* results. The improper payment submittals included the Chief Financial Officer certifications, risk assessments, and payment results. To gain an understanding of the reporting methodologies, we selected three payment reporting sites for further review, including Chief Financial Officer Payment Services, Environmental Management Consolidated Business Center, and Savannah River Nuclear Solutions.

METHODOLOGY

To accomplish our audit objective, we analyzed the "Payment Integrity Reporting" section of the Other Information to the Fiscal Year 2017 Agency Financial Report. We completed the following procedures to assess compliance with Office of Management and Budget requirements:

- Gained an understanding of the Department's *Improper Payments Elimination and Recovery Act of 2010* reporting process and controls;

- Confirmed whether the Department's policies and procedures are in accordance with the *Improper Payments Elimination and Recovery Act of 2010*;

- Determined whether the Department published an Agency Financial Report for the most recent fiscal year and posted the report and accompanying materials on its website;

- Determined if the Department published improper payment estimates for all programs and activities identified as susceptible to significant improper payments;

- Determined if the Department reported a gross improper payment rate of less than 10 percent;
- Determined whether the Department published corrective action plans in the Agency Financial Report for those programs with significant improper payments;
- Evaluated whether the Department published and met annual reduction targets for each program assessed to be at risk for and identified to have significant improper payments;
- Confirmed if management considered all agency disbursements/programs in its agency-wide risk assessment;
- Determined if the Department verified that there were no significant changes in legislation, increases in its funding level, or changes to the sites payment process;
- Determined if the Department verified that the payment reporting sites conducted a risk assessment, as deemed necessary;
- Determined if the Department reported a statistically valid estimate of the improper payments for each program deemed susceptible to improper payments;
- Determined if management executed the assessment methodology as designed for each program deemed susceptible to improper payments;
- Assessed whether the Department met Office of Management and Budget monitoring/tracking requirements, if applicable; and
- Reviewed Office of Management and Budget waivers and exemptions for Improper Payments Reporting.

We conducted this performance audit in accordance with generally accepted Government auditing standards. Those standards required 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 objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusion based on our audit objective. Accordingly, we assessed internal controls and compliance with laws and regulations to the extent necessary to satisfy the audit objective. We assessed performance measures in accordance with the *GPRA Modernization Act of 2010* and determined that the Department is not required to establish performance measures specifically related to the audit area. Because our review was limited, it would not necessarily have disclosed all internal control deficiencies that may have existed at the time of our audit. Finally, we did not rely on computer-processed data to satisfy our audit objective.

Management waived an exit conference on May 18, 2018.

PRIOR REPORTS

- Audit Report on *The Department of Energy's Improper Payment Report in the Fiscal Year 2016 Agency Financial Report* (OAI-FS-17-09, April 2017). KPMG LLP expressed the opinion that the Department of Energy complied with all requirements of the *Improper Payments Elimination and Recovery Improvement Act*. Specifically, KPMG LLP found the Department published an Agency Financial Report for the most recent fiscal year and posted that report and any accompanying materials required by the Office of Management and Budget on the Department's website. The Department's Office of Finance and Accounting elected to implement a 3-year risk assessment review cycle, as allowed for by Office of Management and Budget Memorandum M-15-02, and, as such, did not perform risk assessments in fiscal year 2016.

- Audit Report on *The Department of Energy's Improper Payment Reporting in the Fiscal Year 2015 Agency Financial Report* (OAI-FS-16-08, April 2016). KPMG LLP expressed the opinion that the Department complied with all requirements of the *Improper Payments Elimination and Recovery Improvement Act*. Specifically, the Department met each of the two applicable Office of Management and Budget criteria for performance: (1) published an Annual Financial Report for the most recent fiscal year and posted that report and any accompanying materials required by the Office of Management and Budget on the Department's website; and (2) conducted a program-specific risk assessment for each program or activity.

FEEDBACK

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