U.S. Department of Energy

Office of Inspector General

Office of Audits and Inspections

AUDIT REPORT

Management Letter on the Federal Energy Regulatory Commission's Fiscal Year 2015 Financial Statement Audit

OAI-FS-16-04

January 2016

KPMG LLP
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1801 K Street, NW
Washington, DC 20006

Attachment

December 11, 2015

Federal Energy Regulatory Commission, and
The Department of Energy, Office of Inspector General

Ladies and Gentlemen:

In planning and performing our audit of the financial statements of the Federal Energy Regulatory Commission (the Commission or FERC), as of and for the years ended September 30, 2015 and 2014, in accordance with auditing standards generally accepted in the United States of America, we considered the Commission's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements but not for the purpose of expressing an opinion on the effectiveness of the Commission's internal control. Accordingly, we do not express an opinion on the effectiveness of the Commission's internal control.

During our audit we noted certain matters involving internal control and other operational matters that are presented for your consideration. These comments and recommendations, all of which have been discussed with the appropriate members of management, are intended to improve internal control or result in other operating efficiencies and are summarized in Exhibit A.

The Commission's response to the deficiencies identified in our audit is described in Exhibit A. The Commission's response to our findings and recommendations has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Our audit procedures are designed primarily to enable us to form an opinion on the financial statements, and therefore may not bring to light all weaknesses in policies or procedures that may exist. We aim, however, to use our knowledge of the Commission's organization gained during our work to make comments and suggestions that we hope will be useful to you.

We would be pleased to discuss these comments and recommendations with you at any time.

Attachment

This communication is intended solely to describe the comments and recommendations intended to improve internal control or result in other operating efficiencies. Accordingly, this letter is not suitable for any other purpose.

Very truly yours,

KPMG LLP

Enclosure

INTERNAL CONTROL FINDINGS AND RECOMMENDATIONS
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CURRENT YEAR FINDINGS AND RECOMMENDATIONS

Subsequent Events Impacting the Allowance for Doubtful Accounts
(Finding 15-FERC-01)

Criteria:

Office of Management and Budget (OMB) Circular A-123, *Management Accountability and Control*, Section II states that "Management is responsible for developing and maintaining internal control activities that comply with the following standards to meet the above objectives: control environment, risk assessment, control activities, information and communications, and monitoring." Additionally, OMB A-123 states that "The documentation for transactions, management controls, and other significant events must be clear and readily available for examination."

The Government Accountability Office's (GAO) *Standards for Internal Control in the Federal Government* (Green Book), states that "control activities occur at all levels and functions of the entity" and include "a wide range of diverse activities such as approvals, authorizations, verifications, reconciliations, performance reviews, maintenance of security and the creation and maintenance of relation records which provide evidence of these activities as well as the appropriate documentation."

Further, the Green Book states that "internal controls and all transactions and other significant events need to be clearly documented, and the documentation should be readily available for examination. The documentation should appear in management directives, administrative policies, or operating manuals and may be in paper or electronic form. All documentation and records should be properly managed and maintained."

Condition:

During our Accounts Receivable and Allowance for Doubtful Accounts test work over a sample of 16 civil penalty cases that had outstanding Account Receivable balances as of September 30, 2015, we identified one case for $2.5 million that was improperly included in the Allowance for Doubtful Accounts as of September 30, 2015, as the likelihood of collecting it changed after the end of the fiscal year.

Cause:

Management's policies for performing subsequent events procedures related to estimates are not formally documented, or performed prior to the preparation of the draft financial statements.

Effect:

Net Accounts Receivable was understated by $2.5 million in the draft financial statements provided to the external auditors.

Recommendations:

We recommend that the Commission's Chief Financial Officer work with appropriate personnel to:

1. Properly document the procedures related to subsequent events for civil penalty cases;

2. Clearly document and maintain support from Office of Enforcement and management related to the determination of estimates and status of civil penalty cases; and

3. Perform an inquiry prior to the draft financial statements prepared for the external auditors, as well as another inquiry prior to the audit report date, to ensure any changes to the collectability of cases are properly reflected in the financial statements and/or disclosures.

Management Response:

Concur. The Chief Financial Officer will work with the Accounting Officer to ensure appropriate procedures for the determination of uncollectible receivables related to civil penalty cases are documented. The documentation needed to support the uncollectible receivables will be included in the procedures. Management will also perform an inquiry prior to the submission of the draft financial statements to ensure there haven't been any changes to the receivables that are listed as uncollectible on the financial statements.

Ineffective Controls in Place over the Procurement and Disbursement Processes Related to Obligations
(Finding 15-FERC-02)

Criteria:

OMB Circular A-123, *Management Accountability and Control*, Section II states that, "The three objectives of internal control are: effectiveness and efficiency of operations, reliability of financial reporting, and compliance with applicable laws and regulations." Additionally, OMB A-123 states that "Management is responsible for developing and maintaining internal control activities that comply with the following standards to meet the above objectives: control environment, risk assessment, control activities, information and communications, and monitoring."

GAO *Standards for Internal Control in the Federal Government* (Green Book), states that "control activities occur at all levels and functions of the entity" and include "a wide range of diverse activities such as approvals, authorizations, verifications, reconciliations, performance reviews, maintenance of security and the creation and maintenance of relation records which provide evidence of these activities as well as the appropriate documentation."

Further, the Green Book states that "internal controls and all transactions and other significant events need to be clearly documented, and the documentation should be readily available for examination. The documentation should appear in management directives, administrative policies, or operating manuals and may be in paper or electronic form. All documentation and records should be properly managed and maintained." Additionally, with regard to accountability for records and resources, the Green Book states "Periodic comparison of resources with the recorded accountability should be made to help reduce the risk of errors, fraud, misuse, or unauthorized alteration."

Condition:

During our test work over a sample of 34 undelivered orders and 10 accrued expense items in fiscal year 2015, we identified the following errors:

1. Two samples related to a vendor with multiple large contracts in which one purchase order had accrual amounts applied to the incorrect line item (department and class) per the agreement.

2. One sample related to an accrued expense for $3,406 recorded as of September 30, 2015, related to a contract with a period of performance of October 1, 2010 - September 30, 2011.

We noted that management had properly identified this undelivered order (UDO) for de-obligation; however, it was not timely de-obligated.

Cause:

The Commission's documentation and review procedures were not operating effectively to ensure an accrual amount is allocated and recorded to the appropriate line item (department and class) within the contract.

The Commission's documentation and review procedures were not operating effectively to ensure an accrual amount is allocated and recorded to the appropriate line item (department and class) within the contract. Additionally, the Commission's procedures over the monitoring of stale UDOs were not effectively implemented to timely detect and correct stale UDO balances.

Effect:

Obligations and disbursement transactions that are not recorded to the correct line items (department and class) per the contract increase the risk that the balance of UDOs is misstated. Furthermore, the accrued expenses balance was overstated by a known amount of $3,406 and a projected amount of $1.5 million as of September 30, 2015.

Recommendation:

We recommend that the Commission's Chief Financial Officer work with appropriate personnel to strengthen and enforce the policies and procedures that are in place to ensure that obligations are recorded timely, invoices are applied against the appropriate obligating documents and stale UDOs are monitored and appropriately de-obligated in a timely manner.

Management Response:

Concur. Management believes the policies and procedures currently in place are sufficient to ensure obligations are recorded timely, invoices are applied against the appropriate obligating documents and stale UDOs are de-obligated in a timely manner. The Commission's Chief Financial Officer and Accounting Officer will work closely with appropriate personnel to ensure they are adequately trained on the current policies and procedures to greatly minimize the risk of erroneous and/or untimely transactions.