



OFFICE OF INSPECTOR GENERAL

U.S. Department of Energy

AUDIT REPORT

OAI-FS-17-09

APRIL 2017

**THE DEPARTMENT OF ENERGY'S
IMPROPER PAYMENT REPORTING IN
THE FISCAL YEAR 2016 AGENCY
FINANCIAL REPORT**



Department of Energy
Washington, DC 20585

April 21, 2017

MEMORANDUM FOR THE SECRETARY

April Stephenson

FROM: April G. Stephenson
Acting Inspector General

SUBJECT: INFORMATION: Audit Report on “The Department of Energy’s Improper Payment Reporting in the Fiscal Year 2016 Agency Financial Report”

The attached report presents the results of an evaluation of the Department of Energy’s Improper Payment Reporting in the Fiscal Year 2016 Agency Financial Report. To fulfill the Office of Inspector General’s audit responsibilities, we contracted with the independent public accounting firm of KPMG LLP (KPMG) to express an opinion on whether the Department met the Office of Management and Budget’s criteria for compliance with the *Improper Payments Elimination and Recovery Improvement Act of 2012* (IPERIA). The objective of this audit was to complete an evaluation of the accuracy and completeness of agency reporting and evaluate agency performance in reducing improper payments under IPERIA.

KPMG expressed the opinion that the Department complied with all requirements of IPERIA. KPMG is responsible for the attached report dated April 11, 2017 and the opinions and conclusions expressed therein. KPMG conducted this performance audit in accordance with generally accepted Government auditing standards. Those standards required KPMG to plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for its findings based on the audit objectives. The Office of Inspector General is responsible for technical and administrative oversight regarding KPMG’s performance under the terms of the contract. Our monitoring review disclosed no instances in which did not comply with applicable auditing standards.

Report No.: OAI-FS-17-09

Attachment

cc: Deputy Secretary
Acting Chief Financial Officer
Chief of Staff

Performance Audit of the
Department of Energy's
Improper Payment
Reporting in the
FY 2016 Agency Financial Report

Prepared for:

U.S. Department of Energy
Office of Inspector General

As of Date:

April 11, 2017

KPMG LLP
1801 K Street, NW
Washington, DC 20006

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Executive Summary

April 11, 2017

Ms. April G. Stephenson
Acting Inspector General
IG-1/Forrestal Building
U.S. Department of Energy
1000 Independence Avenue, S.W.
Washington, DC 20585

Dear Ms. Stephenson:

This report presents the results of our work conducted to address the performance audit objectives relative to the Department of Energy's (Department or DOE) Improper Payment Reporting in the Fiscal Year (FY) 2016 Agency Financial Report (AFR). Our work was performed during the period of January 25, 2017 through February 28, 2017 and our results are as of February 28, 2017.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our results based on the audit objectives.

The performance audit objective was to review the Department's FY 2016 AFR and related reporting processes to determine if the Department met the Office of Management and Budget's (OMB) criteria for compliance with *Improper Payments Elimination and Recovery Improvement Act of 2012* (IPERIA).

OMB memorandum M-15-02 defines the following as the criteria for compliance with IPERIA:

- Published an AFR for the most recent fiscal year and posted that report and any accompanying materials required by OMB on the Department's website;
- Conducted a program-specific risk assessment for each program or activity that conforms with Section 3321 of Title 31 U.S.C. (if required);
- Published improper payment estimates for all programs and activities identified as susceptible to significant improper payments under its risk assessment (if required);
- Published programmatic corrective action plans in the AFR or PAR (if required);
- Published, and is meeting, annual reduction targets for each program assessed to be at risk and estimated for improper payments (if required and applicable); and
- 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.

As our report further describes, KPMG LLP (KPMG) identified no compliance issues or findings.

* * * * *

This performance audit did not constitute an audit of any portion of the Department's FY 2016 financial statements in accordance with *Government Auditing Standards*. Additionally, KPMG was not engaged to, and did not, audit or render an opinion on the Department's internal controls over financial reporting or over financial management systems (for purposes of OMB's Circular No. A-123, Appendix D, *Compliance*



ATTACHMENT

with the Federal Financial Management Improvement Act of 1996). KPMG cautions that the results of our evaluation cannot be projected to future periods.

Sincerely,

KPMG LLP

List of Acronyms

Term	Definition
AFR	Agency Financial Report
DOE	Department of Energy
CFO	Chief Financial Officer
FY	Fiscal Year
GAO	United States Government Accountability Office
IPERIA	Improper Payments Elimination and Recovery Improvement Act of 2012
IPERA	Improper Payments Elimination and Recovery Act of 2010
OFA	Office of Finance and Accounting
OMB	Office of Management and Budget
PAR	Performance and Accountability Report
U.S.C.	United States Code

Background

IPERIA was signed into law on January 10, 2013, amending the *Improper Payment Elimination and Recovery Act of 2010* (IPERA) and the *Improper Payments Information Act of 2002*. IPERIA directed the Office of Management and Budget (OMB) to issue implementation guidance to agencies. OMB issued Memorandum M-15-02, Appendix C to Circular No. A-123, *Requirements for Effective Estimation and Remediation of Improper Payments*, as implementation guidance to Federal agencies for IPERIA on October 20, 2014.

DOE-OFA, a component office within CFO, has elected to implement a three year risk assessment review cycle, as allowed for by OMB M-15-02, and as such did not perform risk assessments in FY 2016. DOE-OFA communicated IPERIA reporting guidance, based on the OMB memorandum, to its 43 payment reporting sites (referred to as "sites" in this report) and requested that the sites confirm that there were no 1) changes in legislation, 2) increase in funding level, or 3) changes to the site's payment processes that would make the site susceptible to significant improper payments. In addition, the sites were required to submit improper payment actual results for the payment types/classifications of Vendor/Contracts, Payroll, Travel, Grants, Loans and "Other". DOE-OFA reporting guidance included the OMB definitions for a payment, improper payment, program, and payment types/classifications. DOE-OFA reporting guidance sent to the sites required the completion of the following:

- A Chief Financial Officer (CFO) certification memo from each of the 43 sites confirming that there were no significant changes to the three items listed above; and
- Improper Payment "actual" results for Vendor/Contracts, Payroll, Travel, Grants, Loans and "Other" payment types/classifications.

To facilitate the reporting process, DOE-OFA provided reporting templates with the guidance that listed the payment categories of Vendor/Contracts, Payroll, Travel, Grants, Loans and "Other."

DOE-OFA was responsible for collecting the CFO certifications and improper payment results from the sites included in the scope of the FY 2016 IPERIA assessment and reporting on improper payments for the Department in the Other Information section of the FY 2016 Agency Financial Report (AFR). Based on the result of the CFO certifications received from the 43 sites as well as the Department's historically low improper payment totals, the Department concluded its programs were not susceptible to significant improper payment risk and, as a result, not subject to additional reporting requirements or statistical sampling as outlined in OMB M-15-02.

Included in OMB M-15-02 are responsibilities of agency Inspectors General with regard to determining an agency's compliance with IPERIA. Accordingly, the *Objective, Scope, and Methodology* section of this report has been designed to address Part II, Sections A(3) and A(4) of OMB M-15-02 (i.e., Responsibilities of Agency Inspectors General).

Objective, Scope, and Methodology

Objective

The performance audit objective was to determine if the Department met OMB's criteria for compliance with IPERIA as described in OMB M-15-02, which specifically establishes compliance with IPERIA as the following:

- 1) Published an AFR or Performance and Accountability Report (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 of Title 31 United States Code (U.S.C.) (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 is meeting, annual reduction targets for each program assessed to be at risk and measured for improper payments; and
- 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.

Scope

As established in OMB M-15-02, the scope of the audit was the Department's FY 2016 improper payment and reporting disclosure within the Improper Payments Information and Reporting section of the Other Information to the FY 2016 AFR.

Due to the decentralized reporting structure utilized by the Department to complete its IPERIA reporting, we obtained the improper payment data reports of the 43 sites required by DOE-OFA to report IPERIA results. The improper payment data reports included the CFO certification or risk assessment results and improper payment "actual" results. To gain an understanding of the reporting methodologies used by the sites, we selected three sites, considering dollar outlay, payment type and error rate. The three sites selected comprise 30 percent of the total dollar outlays for disbursements in FY 2016. The sites selected were the Sandia National Laboratories, Chicago Office, and Oak Ridge Office.

Methodology

To analyze the AFR and the Improper Payments Information and Reporting section of the Other Information to the AFR, we completed the following procedures at Department Headquarters to confirm compliance:

- Gained an understanding of the Department's IPERIA reporting process and controls;
- Confirmed whether the Department's policies and procedures were in accordance with IPERIA;
- Confirmed whether the Department published an AFR for the most recent fiscal year and posted the report and accompanying materials required by OMB on the agency's website;
- Evaluated whether the Department published improper payment estimates for all programs and activities identified as susceptible to significant improper payments, if applicable;

- Analyzed if the Department 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;
- Confirmed if the Department published programmatic corrective action plans in the AFR for those programs with significant improper payments, if applicable;
- Evaluated if the Department published and met annual reduction targets for each program assessed to be at risk for and identified to have significant improper payments, if applicable;
- Confirmed if management considered all agency disbursements/programs in its agency-wide risk assessment;
- Confirmed whether the Department verified that there were no significant changes in legislation, increases in its funding level, or changes to the sites payment process or conducted a program-specific risk assessment for each program or activity if the site deemed it necessary to conduct a risk assessment;
- Confirmed if the Department obtained a statistically valid estimate of the improper payments for each program deemed susceptible to improper payments;
- Confirmed if management executed the assessment methodology as designed for each program deemed susceptible to improper payments;
- Verified if Department Headquarters personnel met OMB M-15-02 monitoring/tracking requirements, if applicable; and
- Confirmed OMB Waivers/Exemptions for Improper Payments Reporting.

In carrying out this methodology, we primarily applied audit techniques, such as inquiry, observation, and inspection, to obtain sufficient, appropriate evidence to provide a reasonable basis for our conclusions related to the audit objectives.

Results

Based on results of the audit performed, the Department met the applicable OMB criteria for compliance noted as objectives of the audit. The table below identifies the criteria, if it was met, or if it was not applicable to the Department:

OMB Criteria for Compliance	Was criteria met?
1) Published a PAR or AFR for the most recent fiscal year and posted that report and any accompanying materials required by OMB on the agency website.	Yes
2) Conducted a program-specific risk assessment for each program or activity that conforms with Section 3321 of Title 31 U.S.C. (if required).	Not Applicable ¹
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 ²
4) Published programmatic corrective action plans in the AFR or PAR (if required).	Not Applicable ²
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 ²
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.	Not Applicable ¹

¹ Per OMB M-15-02, for programs that are deemed to be low risk of significant improper payments, agencies must perform risk assessments at least once every three years. Accordingly, DOE-OFA has elected to implement a three year risk assessment review cycle, as allowed for by OMB M-15-02, and as such did not perform risk assessments in FY 2016.

² The criteria is not applicable. The Department's risk assessment concluded 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 were not required (*M-15-02 Part I.A.7, Step 2 to 4*).

Other Matters

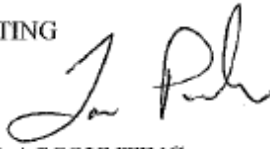
As part of the review of improper payments, we followed up on whether DOE-OFA addressed the fifth recommendation included in the Government Accountability Office's (GAO) report *DOE's Risk Assessments Should be Strengthened* (GAO-15-36). GAO's fifth recommendation requested that the Department improve public reporting on the amount of known improper payments by disclosing additional information regarding the amount and the extent to which improper payments could be occurring. In FY 2015, DOE stated that they would include the following language in the FY 2016 AFR to address the recommendation: "Recaptured funds include amounts associated with FY 2015 payments and recapture that occurred in FY 2015 for payments made in previous years due to Statement of Cost Incurred and Claimed, Single Audits, contract closeouts, etc." We obtained and reviewed the FY 2016 AFR and noted that the additional language was included.

Management Response to Report



Department of Energy
Washington, DC 20585

March 17, 2017

MEMORANDUM FOR: APRIL STEPHENSON, ACTING
INSPECTOR GENERAL 

FROM: TOM PARK, DIRECTOR
OFFICE OF FINANCE AND ACCOUNTING

SUBJECT: Comments to the Draft Audit Report on "The Department of Energy's
Improper Payment Reporting in the Fiscal Year 2016 Agency
Financial Report"

Thank you for the opportunity to review the draft audit report, *The Department of Energy's Improper Payment Reporting in the Fiscal Year 2016 Agency Financial Report*. The objective of the audit was to complete an evaluation of the accuracy and completeness of the Department's reporting and to evaluate its performance in reducing improper payments under the *Improper Payments Elimination and Recovery Improvement Act of 2012*.

We are pleased that it has been noted we addressed the "Other Matters" raised during your FY 2015 audit concerning the fifth recommendation of GAO's report *DOE's Risk Assessments Should be Strengthened in FY 2015*. Specifically, the Department included narrative in the Improper Payments Information and Reporting section of the FY 2016 Agency Financial Report to fully disclose improper payments as a result of settled costs, as acknowledged in the subject draft audit report.

We will continue to apply the required level of focus and analysis to make certain the Department continues to have significantly low improper payment levels. If you have any questions concerning this response, please contact Mindy Bledsoe of my staff on 301-903-2553.

FEEDBACK

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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) 253-2162.