



U.S. Department of Energy  
Office of Inspector General  
Office of Audits and Inspections

# Audit Report

## Federal Energy Regulatory Commission's Fiscal Year 2011 Financial Statement Audit



## Department of Energy

Washington, DC 20585

November 15, 2011

### MEMORANDUM FOR THE CHAIRMAN, FEDERAL ENERGY REGULATORY COMMISSION

A handwritten signature in black ink, appearing to read "Rickey R. Hass".

FROM: Rickey R. Hass  
Deputy Inspector General  
for Audits and Inspections  
Office of Inspector General

SUBJECT: INFORMATION: Federal Energy Regulatory Commission's  
Fiscal Year 2011 Financial Statement Audit

The attached report presents the results of the independent certified public accountants' audit of the Federal Energy Regulatory Commission (Commission) Fiscal Year 2011 balance sheet and the related statements of net cost, changes in net position, budgetary resources, and custodial activity.

To fulfill the Office of Inspector General's 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 the Commission's financial statements and reporting on applicable internal controls and compliance with laws and regulations. The Office of Inspector General 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 Office of Inspector General did not express an independent opinion on the Commission's financial statements.

KPMG concluded that the financial statements present fairly, in all material respects, the financial position of the Federal Energy Regulatory Commission as of September 30, 2011, and its net costs, changes in net position, budgetary resources, and custodial activity for the years then ended, in conformity with United States generally accepted accounting principles.

The auditors' review of the Commission's internal control structure and compliance with certain laws and regulations disclosed no material weaknesses or instances of noncompliance required to be reported under generally accepted Government auditing standards or applicable Office of Management and Budget guidance.

#### Attachment

cc: Executive Director, Federal Energy Regulatory Commission  
Deputy Chief Financial Officer, Federal Energy Regulatory Commission  
Director, Internal Audits Division, Federal Energy Regulatory Commission

Acting Chief Financial Officer, CF-1

Director, Office of Finance and Accounting, CF-10

Director, Office of Risk Management and Financial Policy, CF-50

Assistant Director, Office of Risk Management and Financial Policy, CF-50

Team Leader, Office of Risk Management and Financial Policy, CF-50

Audit Resolution Specialist, Office of Risk Management and Financial Policy, CF-50

<http://www.ferc.gov/about/strat-docs/2011-audit.pdf>



KPMG LLP  
2001 M Street, NW  
Washington, DC 20036-3389

## Independent Auditors' Report

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

We have audited the accompanying balance sheets of the Federal Energy Regulatory Commission (the Commission) as of September 30, 2011 and 2010, and the related statements of net cost, changes in net position, budgetary resources, and custodial activity (hereinafter referred to as "financial statements") for the years then ended. The objective of our audits was to express an opinion on the fair presentation of these financial statements. In connection with our fiscal year 2011 audit, we also considered the Commission's internal control over financial reporting and tested the Commission's compliance with certain provisions of applicable laws, regulations, and contracts that could have a direct and material effect on these financial statements.

### Summary

As stated in our opinion on the financial statements, we concluded that the Commission's financial statements as of and for the years ended September 30, 2011 and 2010, are presented fairly, in all material respects, in conformity with United States (U.S.) generally accepted accounting principles.

Our consideration of internal control over financial reporting was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses as defined in the Internal Control Over Financial Reporting section of this report.

The results of our tests of compliance with certain provisions of laws, regulations, and contracts disclosed no instances of noncompliance or other matters that are required to be reported herein under *Government Auditing Standards*, issued by the Comptroller General of the United States, and Office of Management and Budget (OMB) Bulletin Number (No.) 07-04, *Audit Requirements for Federal Financial Statements*, as amended.

The following sections discuss our opinion on the Commission's financial statements; our consideration of the Commission's internal control over financial reporting; our tests of the Commission's compliance with certain provisions of applicable laws, regulations, and contracts; and management's and our responsibilities.

### Opinion on the Financial Statements

We have audited the accompanying balance sheets of the Federal Energy Regulatory Commission as of September 30, 2011 and 2010, and the related statements of net cost, changes in net position, budgetary resources, and custodial activity for the years then ended.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Federal Energy Regulatory Commission as of September 30, 2011 and 2010, and its net costs, changes in net position, budgetary resources, and custodial activity for the years then ended, in conformity with U.S. generally accepted accounting principles.



The information in the Management's Discussion and Analysis is not a required part of the financial statements, but is supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of this information. However, we did not audit this information and, accordingly, we express no opinion on it.

Our audits were conducted for the purpose of forming an opinion on the financial statements taken as a whole. The information in the Performance Report section and the Appendices of the Performance and Accountability Report are presented for purposes of additional analysis and are not required as part of the financial statements. This information has not been subjected to auditing procedures and, accordingly, we express no opinion on it.

### **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. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the Responsibilities section of this report and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. In our fiscal year 2011 audit, we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

We noted certain additional matters that we will report to management of the Commission in a separate letter.

### **Compliance and Other Matters**

The results of our tests of compliance as described in the Responsibilities section of this report, exclusive of those referred to in *Federal Financial Management Improvement Act* (FFMIA), disclosed no instances of noncompliance or other matters that are required to be reported herein under *Government Auditing Standards* or OMB Bulletin No. 07-04, as amended.

The results of our tests of FFMIA disclosed no instances in which the Commission's financial management systems did not substantially comply with the (1) Federal financial management systems requirements, (2) applicable Federal accounting standards, and (3) the United States Government Standard General Ledger at the transaction level.

\* \* \* \* \*

### **Responsibilities**

**Management's Responsibilities.** Management is responsible for the financial statements; establishing and maintaining effective internal control; and complying with laws, regulations, and contracts applicable to the Commission.

**Auditors' Responsibilities.** Our responsibility is to express an opinion on the fiscal year 2011 and 2010 financial statements of the Commission based on our audits. We conducted our audits in accordance with



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auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Bulletin No. 07-04, as amended. Those standards and OMB Bulletin No. 07-04, as amended, require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Commission's internal control over financial reporting. Accordingly, we express no such opinion.

An audit also includes:

- Examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements;
- Assessing the accounting principles used and significant estimates made by management; and
- Evaluating the overall financial statement presentation.

We believe that our audits provide a reasonable basis for our opinion.

In planning and performing our fiscal year 2011 audit, we considered the Commission's internal control over financial reporting by obtaining an understanding of the Commission's internal control, determining whether internal controls had been placed in operation, assessing control risk, and performing tests of controls 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Commission's internal control over financial reporting. Furthermore, we did not test all controls relevant to operating objectives as broadly defined by the *Federal Managers' Financial Integrity Act of 1982*.

As part of obtaining reasonable assurance about whether the Commission's fiscal year 2011 financial statements are free of material misstatement, we performed tests of the Commission's compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the determination of the financial statement amounts, and certain provisions of other laws and regulations specified in OMB Bulletin No. 07-04, as amended, including the provisions referred to in Section 803(a) of FFMIA. We limited our tests of compliance to the provisions described in the preceding sentence, and we did not test compliance with all laws, regulations, and contracts, applicable to the Commission. However, providing an opinion on compliance with laws, regulations, and contracts, was not an objective of our audit and, accordingly, we do not express such an opinion.

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This report is intended solely for the information and use of the Commission's management, the Department of Energy's Office of Inspector General, OMB, the U.S. Government Accountability Office, and the U.S. Congress and is not intended to be and should not be used by anyone other than these specified parties.

**KPMG LLP**

November 4, 2011

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