



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

Audit Report

Performance Audit of the Department of Energy's Improper Payment Reporting in the Fiscal Year 2012 Agency Financial Report



Department of Energy
Washington, DC 20585

March 14, 2013

MEMORANDUM FOR THE SECRETARY

Greg Friedman

MEMORANDUM FOR THE SECRETARY

FROM: Gregory H. Friedman
Inspector General

SUBJECT: INFORMATION: Report on "Performance Audit of the Department of Energy's Improper Payment Reporting in the Fiscal Year 2012 Agency Financial Report"

The attached report presents the results of an evaluation of the Department of Energy's (Department) Improper Payment Reporting in the Fiscal Year 2012 Agency Financial Report (AFR). To fulfill the Office of Inspector General's audit responsibilities, we contracted with the independent public accounting firm of KPMG, LLP 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 Act (IPERA). The objective of this audit was to complete an evaluation of the accuracy and completeness of agency reporting, and evaluate agency performance in reducing and recapturing improper payments under IPERA.

KPMG expressed the opinion that the Department complied with all requirements of IPERA.

Furthermore, while these matters are not included in OMB's criteria for compliance with IPERA, KPMG noted the following two observations that could further improve the Department's assessment of improper payments:

- **Risk Assessments:** The Department relied on their OMB Circular A-123, Appendix A "Management's Responsibility for Internal Control" risk assessment to determine that the loans and grants payment programs were not susceptible to significant improper payments and documented their conclusion within an Agency-wide improper payments risk assessment. The documentation did not provide an explicit explanation of the linkage between the Department's A-123 analysis and the assessment of the eight improper payment risk factors for the grant and loan payment areas.
- **Recapture Reporting:** The Department provided the field sites with instructions and training for reporting payment recapture amounts to headquarters. However, the instructions did not clearly identify that underpayment and overpayment data should be separated for reporting purposes. As a result, 4 of 43 sites did not report underpayments separately from overpayments. Further, the sites did not always clearly identify the recapture payment types.

The Department's Office of the Chief Financial Officer concurred with the observations in the report and indicated it would consider the suggested improvements during the Department's FY 2013 assessment of improper payments.

KPMG is responsible for the attached report dated March 13, 2013, 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 OIG is responsible for technical and administrative oversight regarding KPMG's performance under the terms of the contract. Our monitoring review disclosed no instances where KPMG did not comply with applicable auditing standards.

Report No.: OAS-FS-13-12

Attachment

cc: Deputy Secretary
Deputy Chief Financial Officer
Director, Office of Finance and Accounting
Director, Energy Finance and Accounting Service Center
Director, Office of Financial Control and Reporting
Chief of Staff

Performance Audit of the
Department of Energy's
Improper Payment Reporting
in the
FY2012 Agency Financial Report

Prepared for:

U.S. Department of Energy
Office of Inspector General

As of Date:

March 13, 2013

KPMG LLP
1801 K Street, NW
Washington, DC 20006

Report

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KPMG LLP
Suite 12000
1801 K Street, NW
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Executive Summary

March 13, 2013

Mr. Gregory H. Friedman
Inspector General
IG-1/Forrestal Building
U.S. Department of Energy
1000 Independence Avenue, S.W.
Washington, DC 20585

Dear Mr. Friedman:

This report presents the results of our work conducted to address the performance audit objective relative to the Department of Energy's (DOE) Improper Payment Reporting in the Fiscal Year (FY) 2012 Agency Financial Report (AFR). Our work was performed during the period of January 23, 2013 through February 20, 2013 and our results are as of March 13, 2013.

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 DOE FY2012 AFR and related reporting processes to determine if the DOE met Office of Management and Budget (OMB)'s criteria for compliance with Improper Payments Elimination and Recovery Act (IPERA).

OMB memorandum M-11-16 defines the following as the criteria for compliance with IPERA:

- Published an AFR for the current 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 (if required);
- Published, and has met, annual reduction targets for each program assessed to be at risk and measured for improper payments;
- 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; and
- Reported information on its efforts to recapture improper payments.



As our report further describes, KPMG identified no compliance issues or findings. KPMG has noted certain observations for improvement regarding the improper payment and payment recapture program reporting process for consideration by the DOE.

* * * * *

This performance audit did not constitute an audit of any portion of DOE's FY2012 financial statements in accordance with *Government Auditing Standards*. Additionally, KPMG was not engaged to, and did not, audit or render an opinion on the DOE's internal controls over financial reporting or over financial management systems (for purposes of OMB's Circular No. A-127, *Financial Management Systems*, July 23, 1993, as revised). 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 |
| FY | Fiscal Year |
| IPERA | Improper Payments Elimination and Recovery Act |
| IPIA | Improper Payments Information Act |
| OFCR | Office of Financial Control and Reporting |
| OMB | Office of Management and Budget |
| PAR | Performance and Accountability Report |
| HQ | Headquarters |
| CY | Current Year |
| PY | Prior Year |
| U.S.C. | United States Code |

Background

The Improper Payment Elimination and Recovery Act (IPERA) was signed into law on July 22, 2010, amending the Improper Payments Information Act (IPIA) of 2002. IPERA directed the Office of Management and Budget (OMB) to issue implementation guidance to agencies. OMB issued Memorandum M-11-16, *Issuance of Revised Parts I and II to Appendix C of OMB Circular A-123* (M-11-16), as implementation guidance to Federal Agencies for IPERA on April 14, 2011.

The Department of Energy Office of Financial Control and Reporting (DOE-OFCR) communicated IPERA reporting guidance, based on the OMB memorandum, to its 43 allottees and major contractors (referred to as “sites” in this report), requiring the compilation and reporting of a risk assessment, improper payment actual results, and recapture payment audit results for the payment types/classifications of Vendor/Contracts, Contractor Payroll, Contractor Travel, and “Other”. The DOE-OFCR reporting guidance included the OMB definitions for a payment, improper payment, program, payment types/classifications and the threshold for determining significant improper payments. The DOE-OFCR reporting guidance sent to the sites required the completion of the following:

- A risk assessment to determine the programs susceptible to improper payments at each site. Each site was required to perform a risk assessment using the eight risk factors outlined in M-11-16 and provide a risk “rating” from a scale of 1=low risk to 3=high risk to Headquarters (HQ) to support the conclusions reached within;
- Improper Payment “actual” results for Vendor/Contracts, Contractor Payroll, Contractor Travel, and “Other” payment types/classifications; and
- Payment Recapture Audit results.

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

The DOE-OFCR was responsible for collecting the risk assessment ratings, improper payment results, and payment recapture audit results from each site and reporting on improper payments for DOE in the Other Accompanying Information section of the FY2012 AFR. The DOE-OFCR utilized the results received from the 43 sites to complete an agency-wide improper payment risk assessment. The DOE-OFCR was also responsible for coordinating and reporting improper payment and payment recapture information related to loans and grants, which was also noted within the agency-wide risk assessment. Based on the result of the agency-wide risk assessment, the DOE 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 M-11-16.

Included in M-11-16 are responsibilities of agency Inspectors General with regard to determining an agency’s compliance with IPIA. Accordingly, the *Objectives*, *Scope*, and *Methodology* of this report have been designed to address Part II, Section A(4) of M-11-16 (i.e., Responsibilities of Agency Inspectors General).

Objective, Scope, and Methodology

Objective

The performance audit objective was to determine if the DOE met OMB's criteria for compliance with IPERA as described in memorandum M-11-16, which specifically establishes compliance with IPERA as the following:

- 1) Published a Performance and Accountability Report (PAR) or AFR 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 PAR or AFR (if required);
- 5) Published, and has met, annual reduction targets for each program assessed to be at risk and measured for improper payments;
- 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 PAR or AFR, and
- 7) Reported information on its efforts to recapture improper payments.

Scope

As established in OMB memorandum M-11-16, the scope of the audit was the DOE's FY2012 AFR and the improper payment and reporting disclosure within the Improper Payments Information and Reporting section of the Other Accompanying Information to the AFR.

We designed procedures to evaluate the reporting methods of DOE-OFRCR in compiling the IPERA results of the various reporting sites to the agency-wide risk assessment. Due to the decentralized reporting structure utilized by the DOE to complete its IPERA reporting, we reviewed the improper payment data reports of the 43 sites that were required by the DOE-OFRCR to report IPERA results. The improper payment data reports included the risk assessment results, improper payment "actual" results, and payment recapture audit program results. In addition, we selected 1 of the 43 sites to gain an understanding of the how the field sites enacted the DOE improper payment reporting guidance. The site selected was the DOE Oak Ridge Operations Office – Oak Ridge, TN.

Methodology

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

- Gained an understanding of the DOE's IPERA reporting process and controls;
- Confirmed whether DOE's policies and procedures were in accordance with IPERA;

- Confirmed whether the DOE 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 DOE published improper payment estimates for all programs and activities identified as susceptible to significant improper payments;
- Analyzed if the DOE 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 DOE published programmatic corrective action plans in the AFR for those programs with significant improper payments;
- Evaluated if DOE 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 DOE conducted a program-specific risk assessment for each program or activity;
- Confirmed if DOE 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 DOE HQ Personnel met OMB M-10-13 monitoring/tracking requirements, if applicable; and
- Confirmed if the DOE reported information on its efforts to recapture improper payments, if applicable.

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 findings related to our audit objectives.

Results

Based on results of the audit performed, the DOE met 3 of the 3 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 DOE:

| 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); | Yes |
| 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 ¹ |
| 4) Published programmatic corrective action plans in the PAR or APR (if required); | Not Applicable ¹ |
| 5) Published, and has met, annual reduction targets for each program assessed to be at risk and measured for improper payments; | Not Applicable ¹ |
| 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 PAR or APR | Not Applicable ¹ |
| 7) Reported information on its efforts to recapture improper payments. | Yes |

¹ The criteria is not applicable as the DOE risk assessment concluded their programs were not susceptible to improper payments. Therefore, reporting of statistical estimates of improper payments, corrective actions and reduction targets in the AFR were not required (*M-11-16 Part I.A.7, Step 2 to 4*).

Observations for Improvement

As part of the review of improper payments, we were also tasked to evaluate the agency's efforts to prevent and reduce improper payments. The observations noted below are actions that could further improve the agency's assessment of improper payments.

Risk Assessments

The DOE relied on their OMB Circular A-123, Appendix A "Management's Responsibility for Internal Control" risk assessment to determine that the loans and grants payment programs were not susceptible to significant improper payments and documented their conclusion within an Agency-wide improper payments risk assessment. The DOE's A-123, Appendix A risk assessment, which did not identify any material weaknesses, significant deficiencies, or significant risk associated with grant and loan improper payments, provided the basis for the Department's consideration of the risk factors required by OMB. OMB Memorandum M-11-16, Part I.A, Section 7, Step 1.b, provides that the risk assessment method could be a quantitative evaluation based on a statistical sample or it could take into account risk factors likely to contribute to significant improper payments. We were able to crosswalk the DOE's A-123 analysis to the following eight minimum required risk factors identified by OMB Memorandum M-11-16:

- Whether the program or activity reviewed is new to the agency;
- The complexity of the program or activity reviewed, particularly with respect to determining correct payment amounts;
- The volume of payments made annually;

- Whether payments or payment eligibility decisions are made outside of the agency, for example, by a State or local government, or a regional Federal office;
- Recent major changes in program funding, authorities, practices, or procedures;
- The level, experience, and quality of training for personnel responsible for making program eligibility determinations or certifying that payments are accurate;
- Significant deficiencies in the audit reports of the agency including, but not limited to the agency Inspector General or the Government Accountability Office report audit findings, or other relevant management findings that might hinder accurate payment certification; and
- Results from prior improper payment work.

We suggest the Department update their documentation to provide an explicit explanation of the linkage between their A-123 analysis and their assessment of the eight improper payment risk factors for the grant and loan payment areas.

Recapture Reporting

In order to report amounts recaptured, the DOE provided their field sites with instructions and training for reporting to the headquarters office. The instructions, however, did not clearly identify that underpayments should be reported separately from overpayment data for payment recapture reporting purposes. We noted that 4 of 43 sites did not report recapture payment audit program underpayments separately from overpayments. Instead, the identified underpayments were either netted with overpayments, or the absolute value of the underpayment was added to the overpayments amount, to arrive at the total recapture amount. The total reported by these 4 sites combined was \$26,927. The DOE summarized the information provided by the sites, including the netted underpayments, for presentation in the AFR of the disclosures required by OMB Memorandum M-11-16, Part I.B.18.d and I.B.18.e, which requires that total overpayments be reported by the DOE along with the amounts recaptured, outstanding, and determined not to be collectible.

We also noted that the sites did not always clearly identify the recapture payment types. The DOE determined that the overall recapture payment amounts were not significant by program type. As a result, the DOE presented the recapture payment results without separately identifying the information by "Program or Activity" and "Type of Payment," but listed "All" in these columns required by OMB Circular A-136, Section II.5.

We suggest that the DOE update the improper payment training and field site instructions to emphasize the payment recapture results report "overpayment" results identified separately from "underpayment" results and that recapture payment types be clearly identified.

Management Response to Report



Department of Energy

Washington, DC 20585

March 13, 2013

MEMORANDUM FOR RICKEY R. HASS

DEPUTY INSPECTOR GENERAL
FOR AUDITS AND INSPECTIONS
OFFICE OF INSPECTOR GENERAL

FROM:


ALISON L. DOONE
DEPUTY CHIEF FINANCIAL OFFICER
OFFICE OF THE CHIEF FINANCIAL OFFICER

SUBJECT:

Comments to the Draft Audit Report on "Performance Audit of the
Department of Energy's Improper Payment Reporting in the Fiscal
Year 2012 Agency Financial Report"

Thank you for the opportunity to review the draft audit report, *Performance Audit of the Department of Energy's Improper Payment Reporting in the Fiscal Year 2012 Agency Financial Report*. The objective of the audit was to complete an evaluation of the accuracy and completeness of agency reporting and evaluate agency performance in reducing and recapturing improper payments, under the *Improper Payments Elimination and Recovery Act* (IPERA). We are pleased that there were no compliance issues or findings.

We will consider the observations for further improvement in our FY 2013 assessment of improper payments.

If you have any questions concerning this response, please contact Joanne Choi of my staff on 301-903-9839.



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2. What additional information related to findings and recommendations could have been included in the report to assist management in implementing corrective actions?
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Washington, DC 20585

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