



OFFICE OF INSPECTOR GENERAL
U.S. Department of Energy

AUDIT REPORT

DOE-OIG-19-33

May 2019

**THE DEPARTMENT OF ENERGY'S
IMPROPER PAYMENT REPORTING IN
THE FISCAL YEAR 2018 AGENCY
FINANCIAL REPORT**



Department of Energy
Washington, DC 20585

May 28, 2019

MEMORANDUM FOR THE SECRETARY

A handwritten signature in cursive script, appearing to read "Teri L. Donaldson".

FROM: Teri L. Donaldson
Inspector General

SUBJECT: INFORMATION: Audit Report on “The Department of Energy’s Improper Payment Reporting in the Fiscal Year 2018 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*. The Office of Management and Budget (OMB) issued Memorandum M-18-20, Appendix C to Circular A-123, *Requirements for Payment Integrity Improvement*, as implementation guidance to Federal agencies for IPERIA in June 2018. While all three laws are still in effect, the agency Inspector General guidance included in OMB Memorandum M-18-20 focuses on compliance with IPERA. 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 Circular A-123, to its 48 payment reporting sites. Consistent with this guidance, the Department’s reporting sites performed an improper payment risk assessment in fiscal year (FY) 2018 that was consolidated at the Department level for reporting.

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

The Department’s FY 2018 improper payment reporting was in accordance with OMB criteria. Specifically, the Department published an AFR for FY 2018 and posted that report, as well as accompanying materials, on its website. While we determined that the Department met the criteria for compliance with OMB, we found that one OCFO process improvement related to our

prior year's report was still ongoing. This year, the OCFO also agreed that an opportunity exists for the Department to enhance transparency relative to the payment reporting sites' financial outlays and indicated that discussions were in progress to improve the process.

Details of Testing

The Department's Office of Finance and Accounting issued guidance that required all reporting sites to complete a risk assessment, including consideration of the OMB-required risk factors as they relate to payment activities, during FY 2018 and to submit actual improper payment and payment recapture information. In addition, the Federal Field Chief Financial Officer or Contractor Chief Financial Officer at payment reporting sites was required to certify the accuracy of improper payments and risk ratings.

The certifications confirm that the site completed the required FY 2018 risk assessment; the risk assessment and rating accurately reflected self-assessment of susceptibility to significant improper payments; and the assessment was supported by the documentation used to make the determination. In addition, payment reporting sites were required to acknowledge:

- Responsibility for the identification of and compliance with all aspects of laws, regulations, contracts, or grant agreements that could have a significant effect on the achievement of the objectives of FY 2018 Payment Integrity Reporting;
- Compliance, in all material respects, with applicable laws, regulations, contracts, and grant agreements that could have a significant effect on the achievement of the objectives of FY 2018 Payment Integrity Reporting in the event of noncompliance;
- Responsibility for the design and implementation of programs and controls to prevent, deter, and detect fraud, and the understanding that misrepresentations arising from fraudulent improper payment reporting activity are intentional misstatements or omissions of information in order to obtain something of value;
- No knowledge of any fraud or suspected fraud affecting FY 2018 Payment Integrity Reporting;
- No knowledge of any allegations of fraud or suspected fraud affecting FY 2018 Payment Integrity Reporting received in communications from employees, former employees, regulators, or others; and
- There have been no deficiencies in internal control that could have a significant effect on FY 2018 Payment Integrity Reporting, or significant transactions or events that have not been properly recorded in records underlying the measurement of FY 2018 Payment Integrity Reporting.

The OCFO was responsible for collecting and reviewing risk assessments, improper payment results, and the reporting sites' certifications from the payment reporting sites. This information was summarized and reported by the Department in the "Other Information" section of its FY

2018 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 2018 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
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).	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 AFR (if required).	Not Applicable ¹
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 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 AFR.	Not Applicable ¹

During our review of the Department’s compliance with IPERA criteria, the OCFO agreed that an opportunity exists for the Department to enhance transparency relative to payment reporting sites’ financial outlays and indicated that discussions were in progress to improve the process. Specifically, during our review of the consolidated improper payment data, we identified four sites that had reported improper payments but did not report a coinciding outlay. In these instances, outlays related to vendor/contracts and travel for the four sites were captured and reported under a single payer, Chief Financial Officer Payment Services, but the improper payment information was captured and reported as site-specific data. For example, one site reported almost \$164,000 in improper payments. However, the payment outlays reported were only associated with grants and did not include vendor/contracts or travel. As a result, while the Department’s consolidated improper payment percentage appeared accurate, the improper payment percentage for Federal reporting sites may be distorted and lead to a misunderstanding of the reported percentages. Notably, an OCFO official acknowledged that allocating all types of

¹ 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 were not required.

outlays and improper payment data by site would provide a more accurate picture. While the OCFO indicated that it will evaluate ways to more accurately present outlays, any revisions would most likely be completed after FY 2019 reporting.

Further, during our prior audit on *The Department of Energy's Improper Payment Reporting in the Fiscal Year 2017 Agency Financial Report* (DOE-OIG-18-32, May 2018), OCFO personnel stated that they were planning to implement process improvements over improper payments. These improvements included 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 – AMERICA (A-123 Management of Entity Risk and Internal Controls Application) – to enhance the Department's OMB Circular A-123 process; 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. During our review, we noted that all of the planned process improvements had been completed except for defining a "significant increase." According to OCFO officials, the revised definition was still in process and is planned to be included in the OCFO's FY 2019 guidance issued to sites.

SUGGESTED ACTION

Based on our review, we determined that one of the planned prior year process improvements was still in progress. Our current review found that the Department may benefit from more transparency with reporting site improper payment percentage data. Even though the Department's reported improper payment percentage was accurate, the improper payment percentages for Federal reporting sites may be distorted and lead to misunderstandings. We acknowledge that the OCFO is aware of this issue and looking to implement a solution in the near future. However, because improvements are still in process, we suggest that the Acting Chief Financial Officer:

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

Attachments

cc: Deputy Secretary
Chief of Staff
Acting Chief Financial Officer

OBJECTIVE, SCOPE, AND METHODOLOGY

OBJECTIVE

We conducted this audit 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 2019 through May 2019 at Department Headquarters in Germantown, Maryland. This audit was conducted under the Office of Inspector General project number A19FN002. Consistent with guidance established in Office of Management and Budget Memorandum M-18-20, the scope of the audit was the "Payment Integrity Reporting" section of the Department's Fiscal Year 2018 Agency Financial Report.

We obtained the risk assessments and/or improper payment submittals of the 48 payment reporting sites that were consolidated 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 site-level Chief Financial Officer certifications, risk assessments, and payment results. To gain an understanding of the reporting methodologies, we judgmentally selected three payment reporting sites for further review, including the Golden Field Office, Richland Operations Office/Office of River Protection, and Bonneville Power Administration.

METHODOLOGY

To accomplish our audit objective, we analyzed the "Payment Integrity Reporting" section of the "Other Information" in the Department's Fiscal Year 2018 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 were 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 outlays/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 its sites' payment processes;
- Determined if the Department verified that the payment reporting sites conducted a risk assessment;
- 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 9, 2019.

PRIOR REPORTS

- Audit report on [*The Department of Energy's Improper Payment Reporting in the Fiscal Year 2017 Agency Financial Report*](#) (DOE-OIG-18-32, May 2018). The Office of Inspector General found that the Department of Energy's fiscal year 2017 improper payment reporting was in accordance with Office of Management and Budget criteria. Specifically, the Department published an Agency Financial Report for fiscal year 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 the Office of Management and Budget, we also noted opportunities for the Department to enhance internal controls relative to the payment sites' improper payment reporting certifications. Specifically, we determined that the Department may benefit from a more rigorous review of the payment reporting sites' submittals for improper payments.
- Special Report on [*Inquiry Into an Alleged Anti-Deficiency Act Violation at the Department of Energy*](#) (DOE-OIG-18-29, April 2018). The Office of Inspector General substantiated the allegation that the Department obligated more funds than were apportioned for the specific account reviewed. Specifically, our test work confirmed that the Department obligated approximately \$16 million more than was apportioned in fiscal year 2017 for direct funding in the Electricity Delivery and Energy Reliability activities accounts reviewed. Further, we were unable to substantiate the allegation that management attempted to hide the potential *Anti-Deficiency Act* violation from external auditors and oversight organizations.
- 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 complied with all requirements of the *Improper Payments Elimination and Recovery Improvement Act of 2012*. Specifically, KPMG LLP found that 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.

FEEDBACK

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