MANAGEMENT LETTER -
The Federal Energy Regulatory Commission’s Fiscal Year 2021 Financial Statement Audit

DOE-OIG-22-14
December 2021
MEMORANDUM FOR THE EXECUTIVE DIRECTOR, FEDERAL ENERGY REGULATORY COMMISSION

FROM: Todd Wisniewski
Deputy Assistant Inspector General
for Technology, Financial, and Analytics
Office of Inspector General


The attached letter presents the results of the independent certified public accountants’ consideration of the Federal Energy Regulatory Commission’s (FERC) internal control over financial reporting during the FERC Fiscal Year 2021 Financial Statement Audit. The letter contains two findings that were issued during the course of the audit. Management concurred with the findings and recommendations. Management’s comments are included with the findings.

To fulfill the Office of Inspector General’s audit responsibilities, we contracted with the independent public accounting firm of KPMG LLP to conduct the audit, subject to our review. KPMG LLP is responsible for expressing an opinion on FERC’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 LLP 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 FERC’s financial statements.

We appreciated the cooperation of your staff during the review.

Attachment

cc: Chief Financial Officer, Federal Energy Regulatory Commission, FERC
    Director, Financial Management Division, Federal Energy Regulatory Commission, FERC

Audit Report: DOE-OIG-22-14
INDEPENDENT AUDITORS’ LETTER

December 3, 2021

Federal Energy Regulatory Commission; and
Inspector General, United States Department of Energy

Ladies and Gentlemen:

In planning and performing our audit of the financial statements of the Federal Energy Regulatory Commission (FERC) as of and for the year ended September 30, 2021 and 2020, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, we considered FERC’s internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances 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 FERC’s internal control. Accordingly, we do not express an opinion on the effectiveness of the FERC’s internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses and/or significant deficiencies and therefore, material weaknesses and/or significant deficiencies may exist that were not identified. In accordance with Government Auditing Standards, we issued our report dated November 12, 2021 on our consideration of FERC’s 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. During our audit, we identified two control deficiencies (i.e., findings), one related to management’s monitoring of Non-GAAP policies and one related to management’s monitoring of contract status, as communicated in notices of findings and recommendations 21-FERC-01 and 21-FERC-02, included in Exhibit A.

FERC’s response to the findings identified in our audit is described in Exhibit A. FERC’s response was not subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we express no opinion on the response.

The purpose of this letter is solely to describe the deficiencies in internal control identified during our audit. Accordingly, this letter is not suitable for any other purpose.

Very truly yours,

KPMG LLP
Exhibit A

Current Year Findings and Recommendations

Finding 21-FERC-01 - Documentation of Non-Generally Accepted Accounting Principles Practices and the Impact on Recording Accounting Transactions

Background:

FERC management is responsible for the preparation and fair presentation of FERC financial statements in accordance with U.S. Generally Accepted Accounting Principles (GAAP). These responsibilities include the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error. Further, management is also responsible for assessing whether FERC’s non-GAAP policies materially impact the fair presentation of FERC’s financial statements. FERC records certain accounting transactions and balances outside of GAAP requirements due to a need for operational efficiency and because they are not deemed material to FERC’s financial statements individually or in the aggregate.

Criteria:

The Government Accountability Office’s Standards for Internal Control in the Federal Government (Green Book) Section 4, Documentation Requirements, paragraph OV4.06, states that “Documentation is a necessary part of an effective internal control system. The level and nature of documentation vary based on the size of the entity and the complexity of the operational processes the entity performs. Management uses judgment in determining the extent of documentation that is needed. Documentation is required for the effective design, implementation, and operating effectiveness of an entity’s internal control system. The Green Book includes minimum documentation requirements as follows:

- If management determines that a principle is not relevant, management supports that determination with documentation that includes the rationale of how, in the absence of that principle, the associated component could be designed, implemented, and operated effectively.
- Management develops and maintains documentation of its internal control system.
- Management documents in policies the internal control responsibilities of the organization.
- Management evaluates and documents the results of ongoing monitoring and separate evaluations to identify internal control issues.
- Management evaluates and documents internal control issues and determines appropriate corrective actions for internal control deficiencies on a timely basis.
- Management completes and documents corrective actions to remediate internal control deficiencies on a timely basis.”

Further, Principle 16, Perform Monitoring Activities, paragraph 16.01 states that “Management should establish and operate monitoring activities to monitor the internal control system and evaluate the results.” Additionally, paragraph 16.04 states that “Management monitors the internal control system through ongoing monitoring and separate evaluations. Ongoing monitoring is built into the entity’s operations, performed continually, and responsive to change. Separate evaluations are used periodically and may provide feedback on the effectiveness of ongoing monitoring.” Finally, paragraph 16.09 states that “Management evaluates and documents the results of ongoing monitoring and separate evaluations to identify internal control issues. Management uses this evaluation to determine the effectiveness of the internal control system. Differences between the results of monitoring activities and the previously established baseline data may indicate internal control issues, including undocumented changes in the internal control system or potential internal control deficiencies.”
Office of Management and Budget Circular No. A-123, Management's Responsibility for Enterprise Risk Management and Internal Control, Appendix A, Management of Reporting and Data Integrity Risk, states that "Management has responsibility for determining the materiality of internal control activities and whether these materiality thresholds align with the level of control activities needed to provide reasonable assurance."

Statement of Federal Financial Accounting Standards Chapter 1, Accounting for Selected Assets and Liabilities, paragraph 58 states that "Prepayments are payments made by a federal entity to cover certain periodic expenses before those expenses are incurred." Further, paragraph 59 states that "Advances and prepayments should be recorded as assets. Advances and prepayments are reduced when goods or services are received, contract terms are met, progress is made under a contract, or prepaid expenses expire."

**Condition:**

During our test work, we noted that FERC follows a non-GAAP policy in which prepayments are only recorded when the duration exceeds 12 months, and the annual amortization exceeds $25,000. We also noted that FERC did not document their analysis of the materiality or immateriality of the prepayment non-GAAP accounting policy on the recording of FERC's accounting transactions or balances.

**Cause:**

FERC has certain policies and practices that are not in accordance with GAAP due to the application of the Statement of Federal Financial Accounting Standards being limited to items that are material and because FERC strives for operational efficiency. Officials at FERC indicated that there is a low risk that these accounting transactions and account balances are material to FERC.

**Effect:**

Without adequate documentation of FERC's analysis of non-GAAP matters, FERC is unable to substantiate the immateriality/irrelevant nature of their non-GAAP policies and practices, nor can they substantiate the aggregation risk of the non-GAAP policies and practices in place. After we brought this to FERC's attention, officials subsequently performed an analysis of prepayments which determined that FERC expensed $5.1 million of prepayments during fiscal year 2021. This subsequent analysis supports FERC's assertion that the non-GAAP prepayment policy is not material in the current fiscal year. Additional, FERC believes this amount is overstated due to recurring annual prepayments that offset year-to-year.

**Recommendation:**

1. We recommend that the Director, Financial Management Division, FERC document, as a part of the evaluation and assessment of internal controls over financial reporting, the ongoing monitoring controls over FERC's non-GAAP policies and practices that assess the impact of non-GAAP policies and practices on the financial statements in the current and future expected periods, in accordance with Office of Management and Budget Circular A-123 and the Green Book.

**Management's Response:**

Concur. The FERC Accounting Officer will establish the appropriate policy related to the accounting treatment and immateriality/irrelevant evaluation for prepayments. Additionally, the Accounting Officer will work with the appropriate personnel to ensure the prepayment evaluations are conducted in accordance with our policy.
Finding 21-FERC-02 - Stale Undelivered Orders, Unpaid Obligations

Background:
FERC is an independent agency that regulates interstate transmission of natural gas, oil, and electricity, as well as natural gas and hydropower projects. FERC’s Chief Financial Officer is responsible for the agency’s financial statements.

Criteria:
Green Book Principle 10, Design Control Activities, paragraph 10.02, states that “Management designs control activities in response to the entity’s objectives and risks to achieve an effective internal control system.” Further, Principle 12, Implement Control Activities, paragraph 12.03 states that “Management documents in policies for each unit its responsibility for an operational process’s objectives and related risks, and control activity design, implementation, and operating effectiveness.”

U.S. Code Title 31, Money and Finance, Section 1554, Audit, Control, and Reporting, paragraph (3)(c) states that “The head of each agency shall establish internal controls to assure that an adequate review of obligated balances is performed to support the certification required by section 1109(c) of this title.”

Condition:
During our test work, we noted that FERC’s control to monitor the status of undelivered orders was not operating effectively as of September 30, 2021. Specifically, FERC’s fiscal year-end accrual assessment determined that $1.5 million in obligations were not valid obligations as of September 30, 2021, and as the result were recommended for de-obligation. However, these obligations were not adjusted in the general ledger and/or the financial statements. Upon further review, an additional $1.1 million of additional obligations were identified as not valid as of September 30, 2021.

Cause:
These issues occurred because FERC processes a de-obligation once the assigned contracting officer has submitted the de-obligation request. However, those de-obligation requests had not occurred for these instances as of September 30, 2021. Further, FERC did not utilize the information available in the fiscal year-end accrual assessment report to record an adjustment.

Effect:
Aproportioned, unexpired accounts were overstated, and Unapportioned, unexpired accounts were understated by $2.6 million on the Statement of Budgetary Resources as of the period ended September 30, 2021.

Recommendation:
1. We recommend that the Director, Financial Management Division, FERC enhance its existing internal control policies and procedures to accurately report invalid obligations as of fiscal year-end.

Management’s Response:
Partially Concur. In accordance with FERC’s policy, we are not authorized to process the de-obligation of funds until an official release of claims is received from the contractor. Absence of this authorization could potentially result in anti-deficiency matters. Pursuant to our policy, we will ensure moving forward that we gather the release of claims documentation in a more timely fashion to appropriately remove stale obligations from our undelivered orders balances.
FEEDBACK

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Office of Inspector General (IG-12)
Department of Energy
Washington, DC 20585

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