



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

# Audit Report

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Performance Audit of the  
Department of Energy's Improper  
Payment Reporting in the Fiscal  
Year 2013 Agency Financial Report



**Department of Energy**  
Washington, DC 20585

April 15, 2014

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 2013 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 2013 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 U.S. Office of Management and Budget's criteria for compliance with the *Improper Payments Elimination and Recovery Act of 2010* (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. KPMG also identified two opportunities for improvement that could further enhance the agency's assessment of improper payments.

KPMG is responsible for the attached report dated April 4, 2014, 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 KPMG did not comply with applicable auditing standards.

Report No.: OAS-FS-14-08

Attachment

cc: Deputy Secretary  
Deputy Chief Financial Officer  
Director, Office of Finance and Accounting  
Deputy Director, Office of Finance and Accounting

Performance Audit of the  
Department of Energy's  
Improper Payment Reporting  
in the  
FY 2013 Agency Financial Report

Prepared for:

U.S. Department of Energy  
Office of Inspector General

As of Date:

April 04, 2014

KPMG LLP  
1801 K Street, NW  
Washington, DC 20006

**Report**

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**KPMG LLP**  
Suite 12000  
1801 K Street, NW  
Washington, DC 20006

## Executive Summary

April 4, 2014

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 objectives relative to the Department of Energy's (DOE) Improper Payment Reporting in the Fiscal Year (FY) 2013 Agency Financial Report (AFR). Our work was performed during the period of January 22, 2014 through February 28, 2014 and our results are as of April 4, 2014.

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 FY 2013 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 opportunities 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 FY 2013 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-123, Appendix D, *Compliance 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
FY	Fiscal Year
IPERA	Improper Payments Elimination and Recovery Act of 2010
IPIA	Improper Payments Information Act of 2002
OFA	Office of Finance and Accounting
OMB	Office of Management and Budget
PAR	Performance and Accountability Report
HQ	Headquarters
U.S.C.	United States Code

## Background

The Improper Payment Elimination and Recovery Act of 2010 (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 or OMB memorandum), as implementation guidance to Federal Agencies for IPERA on April 14, 2011.

The Department of Energy Office of Finance and Accounting (DOE-OFA) 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, “Other”, and Grants. The DOE-OFA reporting guidance included the OMB definitions for a payment, improper payment, program, payment types/classifications, and requirements for the recapture audit program. The DOE-OFA reporting guidance sent to the sites required the completion of the following:

- A risk assessment to determine the programs susceptible to improper payments for the 43 sites that had disbursements to report. Each site with disbursements 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, “Other”, and Grants payment types/classifications; and
- Payment Recapture Audit results.

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

The DOE-OFA was responsible for collecting the risk assessment ratings, improper payment results, and payment recapture audit results from the sites included in the scope of FY 2013 IPERA assessment and reporting on improper payments for DOE in the Other Information section of the FY 2013 AFR. The DOE-OFA utilized the results received from the 43 sites to complete an agency-wide improper payment risk assessment. The DOE-OFA 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 IPERA. 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 FY2013 improper payment and reporting disclosure within the Improper Payments Information and Reporting section of the Other Information to the FY2013 AFR.

We designed procedures to evaluate the reporting methods of DOE-OFA in compiling the IPERA results of the various reporting sites and reviewing the Grant and Loan process risk assessment reports for the agency-wide risk assessment. Due to the decentralized reporting structure utilized by the DOE to complete its IPERA reporting, we obtained the improper payment data reports of the 43 sites required by the DOE-OFA to report IPERA results. The improper payment data reports included the risk assessment results, improper payment "actual" results, and payment recapture audit program results. To gain an understanding of the reporting methodologies used by the sites, we selected 3 sites based on dollar outlay and payment type. The sites selected either had the highest dollar outlay of disbursements, highest improper payment dollar amounts, and/or in aggregate covered all payment types. The three sites selected comprise 39% of the total dollar outlays for disbursements in FY13. The sites selected were DOE Chicago Operations– Chicago Branch, National Nuclear Security Administration – Sandia National Laboratories, DOE Oak Ridge – 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 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 conclusions related to our audit objectives.

## Results

Based on results of the audit performed, the DOE met three (3) of the three (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 <sup>1</sup>
4) Published programmatic corrective action plans in the PAR or APR (if required);	Not Applicable <sup>1</sup>
5) Published, and has met, annual reduction targets for each program assessed to be at risk and measured for improper payments;	Not Applicable <sup>1</sup>
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 <sup>1</sup>
7) Reported information on its efforts to recapture improper payments.	Yes

<sup>1</sup> The criteria is not applicable as the DOE risk assessment concluded their 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-11-16 Part I.A.7, Step 2 to 4*).

### Other Matters

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 opportunities for improvement below are actions that could further improve the agency's assessment of improper payments.

### Risk Assessment

In Fiscal 2013, DOE-OFA relied on their A-123, Appendix A 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. We were able to crosswalk the DOE-OFA's A-123 analysis to the eight risk factors identified by OMB Memorandum M-11-16. In FY 2013, the DOE-OFA also implemented a pilot program to assess improper payment risk over grant payments. Management explained this pilot was, in part, to assist in determining if improper payment reporting for grant payments should follow the established DOE-OFA improper payment measurement methodology to monitor and report improper payment payments and, potentially, recapture payments, as followed for the other program types, e.g., Vendor/Contracts, Payroll, Travel, and Other.

The pilot consisted of a hybrid approach to assessing risk where management relied substantially on the results of their A-123, Appendix A testing of key internal controls at each of the ten grant payment reporting sites to assess whether the grants payment program was susceptible to significant improper payments. In addition, management requested grants payment data from three of ten payment reporting sites/allotees as part of this pilot, receiving grant payment data reports like those provided by the other program types, e.g., Vendor/Contracts, Payroll, Travel, and Other. Based on DOE-OFA's two methods of assessing the risk for grant disbursements, DOE quantitatively assessed three sites through their

payment data with outlays of \$1.4 billion, and DOE-OFA qualitatively assessed the seven remaining sites through risk mitigating controls with outlays of \$6.7 billion.

We noted that based on the results of their pilot program, DOE-OFA plans in FY 2014 to request payment data for all ten grant disbursement sites using the process in place for the other program types, e.g., Vendor/Contracts, etc. We suggest that the Department perform qualitative risk assessments that summarize the risk factors explicitly for the loans and grants payment programs. The rationale for how the eight risk factors are addressed at the site-level should include, in part, management's consideration of the results of testing internal controls designed to mitigate the eight risk factors. If no relevant controls are tested in FY 2014, management's assessment of risk should be determined, in part, through consideration of the results of substantive testing methods. If the sites/allotees have adequate justification not to monitor and report improper payments in accordance with DOE-OFA guidance, they should document the rationale and submit to DOE-OFA to gain consensus and for their records.

### **Recapture Reporting**

The Amount Subject to Review and Actual Amount Reviewed and Reported were understated for the "Other" category in the Payment Recapture Audit Reporting for FY 2012 Payments Table (Table) by \$134 million in DOE's FY 2013 AFR. While the \$134 million was not included in the "Other" category of program payments in the Table, it was included in the Table's Total amounts of \$46.5 billion and \$39.8 billion.

The error occurred because one site modified (i.e., added more detail) to the payment data template they submitted. The consolidation process did not capture the additional detail. Effective consolidation of the data template submissions was dependent upon use of the standardized template.

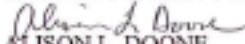
We suggest DOE-OFA implement policies and procedures to effectively capture accurate data from the sites and to review the consolidation process to identify and correct any mathematical errors and omissions.

Management Response to Report



**Department of Energy**  
Washington, DC 20585

MEMORANDUM FOR: RICKEY R. HASS  
DEPUTY INSPECTOR GENERAL FOR AUDITS AND  
INSPECTIONS  
OFFICE OF INSPECTOR GENERAL

FROM:   
ALISON L. DOONE  
DEPUTY 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 2013 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 2013 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)*.

I appreciate the observations noted for further improving the Department's assessment of improper payments and we will be implementing the enhancements into our fiscal year 2014 improper payment assessment process. We will continue to apply the appropriate level of attention and focus to make certain the Department maintains the significantly low improper payment levels in the future.

If you have any questions concerning this response, please contact Mindy Bledsoe of my staff on 301-903-2553.

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1. What additional background information about the selection, scheduling, scope, or procedures of the inspection would have been helpful to the reader in understanding this report?
2. What additional information related to findings and recommendations could have been included in the report to assist management in implementing corrective actions?
3. What format, stylistic, or organizational changes might have made this report's overall message more clear to the reader?
4. What additional actions could the Office of Inspector General have taken on the issues discussed in this report that would have been helpful?
5. Please include your name and telephone number so that we may contact you should we have any questions about your comments.

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Telephone \_\_\_\_\_ Organization \_\_\_\_\_

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Washington, DC 20585

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