



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

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# AUDIT REPORT

Management Letter on the Federal Energy  
Regulatory Commission's Fiscal Year 2014  
Financial Statement Audit

OAS-FS-15-08

January 2015

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

December 17, 2014

Federal Energy Regulatory Commission, and  
The Department of Energy, Office of Inspector General  
Washington, DC

Ladies and Gentlemen:

In planning and performing our audit of the financial statements of the Federal Energy Regulatory Commission (the Commission), as of and for the year ended September 30, 2014, in accordance with auditing standards generally accepted in the United States of America, we considered the Commission's internal control over financial reporting (internal control) 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. Accordingly, we do not express an opinion on the effectiveness of the Commission's internal control.

During our audit we noted certain matters involving internal control and other operational matters that are presented for your consideration. These comments and recommendations, all of which have been discussed with the appropriate members of management, are intended to improve internal control or result in other operating efficiencies and are summarized in Exhibit A, along with management's response.

The Commission's response to the deficiencies identified in our audit is described in Exhibit A. The Commission's response to our comments and recommendations has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

In addition, we identified certain deficiencies in internal control that we consider to be a material weakness, and communicated this in writing to management and those charged with governance on November 24, 2014.

Our audit procedures are designed primarily to enable us to form an opinion on the financial statements, and therefore may not bring to light all weaknesses in policies or procedures that may exist. We aim, however, to use our knowledge of the Commission's organization gained during our work to make comments and suggestions that we hope will be useful to you.



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We would be pleased to discuss these comments and recommendations with you at any time.

The purpose of this letter is solely to describe the comments and recommendations intended to improve internal control or result in other operating efficiencies. Accordingly, this letter is not suitable for any other purpose.

Very truly yours,

**KPMG LLP**

Enclosure

INTERNAL CONTROL COMMENTS AND RECOMMENDATIONS  
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**Exhibit A – Current Year Comments and Recommendations**

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**Status of Prior Year Comments and Recommendations**

Ineffective Controls in Place over Management Review of Journal Entries  
Finding 13-FERC-JE-01  
Status as of September 30, 2014: **Closed**

Ineffective Controls in Place over SF 133 Reconciliation  
Finding 13-FERC-BUD-01  
Status as of September 30, 2014: **Closed**

Remediation of Network System Vulnerabilities  
Finding 11-FERC-HR-01  
Status as of September 30, 2014: **Closed**

## CURRENT YEAR COMMENTS AND RECOMMENDATIONS

**A.1 - Improper design of reconciliations**  
(Finding 14-FERC-01)**Criteria**

Office of Management and Budget (OMB) Circular A-123, *Management Accountability and Control*, Section II states, “The three objectives of internal control are: effectiveness and efficiency of operations, reliability of financial reporting, and compliance with applicable laws and regulations.” A-123 further states “Management is responsible for developing and maintaining internal control activities that comply with the following standards to meet the above objectives: control environment, risk assessment, control activities, information and communications, and monitoring.”

The Government Accountability Office’s (GAO) *Standards for Internal Control in the Federal Government*, Section OV3.05, explains that “A control cannot be effectively implemented if it was not effectively designed. A deficiency in design exists when (1) a control necessary to meet a control objective is missing or (2) an existing control is not properly designed so that even if the control operates as designed, the control objective would not be met.

**Condition**

During our test work over the design and implementation of internal controls, we noted the following control deficiencies:

- The June payroll reconciliation between the IPAC, Finance Register, and the general ledger agreed in total. However, reimbursable funds that had been reclassified from appropriation (X0212) to reimbursable fund (30212) in the supporting journal entry were not appropriately excluded in the reconciliation details for appropriation X0212. The individual amounts included in the reconciliation did not sum to the total in reconciliation.
- The Unobligated Balance total on the third quarter SF-133 Reconciliation (line 1050) for appropriation X0212 did not equal the sum of lines 1000 and 1021, nor did Line 1050 agree to the source tab (SBR) included in the reconciliation excel file.

**Cause**

Existing payroll and SF-133 reconciliations were not properly designed to reflect the supporting documentation.

**Effect**

- Amounts recorded in the payroll reconciliation did not accurately represent the supporting documentation.
- Amounts recorded in the SF-133 reconciliation did not accurately represent the supporting documentation.

**Recommendation**

We recommend that FERC's Chief Financial Officer instruct appropriate personnel to develop and implement reconciliation procedures sufficient to properly reflect supporting documentation.

**Management Response**

The Chief Financial Officer in coordination with the Financial Management Division management will ensure the policies and procedures are reviewed, and are updated accordingly to ensure that the design of the payroll and SF-133 reconciliations are appropriate to detect and correct differences. Additionally, we will implement procedures to ensure the reconciliations are reviewed at a sufficient level to ensure the supporting documentation is accurate and is appropriately reflected in the reconciliations.

**A.2 - Ineffective Controls in Place Over the Procurement and Disbursement Processes  
Related to Obligations  
(Finding 14-FERC-02)**

**Criteria**

Office of Management and Budget (OMB) Circular A-123, *Management Accountability and Control*, Section II states, "The three objectives of internal control are: effectiveness and efficiency of operations, reliability of financial reporting, and compliance with applicable laws and regulations." A-123 further states "Management is responsible for developing and maintaining internal control activities that comply with the following standards to meet the above objectives: control environment, risk assessment, control activities, information and communications, and monitoring."

The Government Accountability Office's (GAO) *Standards for Internal Control in the Federal Government* (Green Book), states that "control activities occur at all levels and functions of the entity" and include "a wide range of diverse activities such as approvals, authorizations, verifications, reconciliations, performance reviews, maintenance of security and the creation and maintenance of relation records which provide evidence of these activities as well as the appropriate documentation.."

Further, the Green Book states that "internal controls and all transactions and other significant events need to be clearly documented, and the documentation should be readily available for examination. The documentation should appear in management directives, administrative policies, or operating manuals and may be in paper or electronic form. All documentation and records should be properly managed and maintained." Additionally, with regard to accountability for records and resources, the Green Book states "Periodic comparison of resources with the recorded accountability should be made to help reduce the risk of errors, fraud, misuse, or unauthorized alteration."

**Condition**

During our test work over a sample of 30 undelivered orders in Fiscal Year (FY) 2014, we identified the following two errors:

- One sample related to a contract with option years in which one invoice was inappropriately applied to the purchase order (PO) we selected, instead of the appropriate option year under a separate PO.

- The obligating document for one sample indicated a period of performance from January 2, 2013 through July 1, 2013; however, all related invoices indicated the services were performed and covered a period of performance that went into 2014.

### **Cause**

The documentation and review procedures in place to ensure that all obligations and disbursement transactions are recorded properly to the correct obligations were not adhered to by Federal Energy Regulatory Commission staff.

### **Effect**

Obligations and disbursement transactions that are not recorded accurately increase the risk that the balance of UDOs is misstated. Furthermore, sufficient documentation was not maintained to validate the period of performance on a fixed-price contract in which the agreed-upon services were performed and invoiced outside the original period of performance.

### **Recommendation**

We recommend that the Federal Energy Regulatory Commission's Chief Financial Officer work with appropriate personnel to enforce the policies and procedures that are in place through trainings and other communications to ensure that obligations are recorded timely, invoices are applied against the appropriate obligating documents and invoices are recorded for the Contracting Officer's Representative approved amounts.

### **Management Response**

The Chief Financial Officer in coordination with the Financial Management Division management will ensure that the policies and procedures related to the processing of Commission invoices are reinforced through trainings with Commission staff. The trainings will ensure that obligations are recorded timely, invoices are applied against appropriate obligating documents based on authorizing official approval. Additionally, we will implement procedures to ensure that obligations and disbursements are reviewed periodically at a sufficient level to mitigate the risk of the misstatement with UDOs.

## **FEEDBACK**

The Office of Inspector General has a continuing interest in improving the usefulness of its products. We aim to make our reports as responsive as possible and ask you to consider sharing your thoughts with us.

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

If you want to discuss this report or your comments with a member of the Office of Inspector General staff, please contact our office at (202) 253-2162.