



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

AUDIT REPORT

The Department of Energy's Improper
Payment Reporting in the Fiscal Year 2014
Agency Financial Report

OAS-FS-15-10

April 2015



Department of Energy
Washington, DC 20585

April 28, 2015

MEMORANDUM FOR THE SECRETARY

Gregory H. Friedman

FROM: Gregory H. Friedman
Inspector General

SUBJECT: INFORMATION: Audit Report on "The Department of Energy's Improper Payment Reporting in the Fiscal Year 2014 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 2014 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 Office of Management and Budget's criteria for compliance with the Improper Payments Elimination and Recovery Improvement Act (IPERIA). The objectives of this audit were to evaluate the agency's reporting accuracy and performance in reducing and recapturing improper payments under IPERIA.

KPMG expressed the opinion that the Department complied with all requirements of IPERIA. KPMG also identified one opportunity for improvement that could further enhance the agency's assessment of improper payments.

KPMG is responsible for the attached report dated April 3, 2015, 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-15-10

Attachment

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



Performance Audit of the
Department of Energy's
Improper Payment Reporting
in the
FY 2014 Agency Financial Report

Prepared for:

U.S. Department of Energy
Office of Inspector General

As of Date:

April 3, 2015

KPMG LLP
1801 K Street, NW
Washington, DC 20006

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Executive Summary

April 3, 2015

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 (Department or DOE) Improper Payment Reporting in the Fiscal Year (FY) 2014 Agency Financial Report (AFR). Our work was performed during the period of January 12, 2015 through February 24, 2015 and our results are as of February 27, 2015.

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 Department's FY 2014 AFR and related reporting processes to determine if the Department met the Office of Management and Budget's (OMB) criteria for compliance with Improper Payments Elimination and Recovery Improvement Act (IPERIA).

OMB memorandum M-15-02 defines the following as the criteria for compliance with IPERIA:

- Published an AFR for the most recent fiscal 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 is meeting, annual reduction targets for each program assessed to be at risk and estimated for improper payments (if required and applicable); and
- 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.



As our report further describes, KPMG identified no compliance issues or findings. KPMG has noted certain opportunities for improvement regarding the improper payment reporting process for consideration by the Department.

* * * * *

This performance audit did not constitute an audit of any portion of the Department's FY 2014 financial statements in accordance with *Government Auditing Standards*. Additionally, KPMG was not engaged to, and did not, audit or render an opinion on the Department'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
IPERIA	Improper Payments Elimination and Recovery Improvement Act of 2012
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
U.S.C.	United States Code

Background

The Improper Payment Elimination and Recovery Improvement Act of 2012 (IPERIA) was signed into law on January 10, 2013, amending the Improper Payment Elimination and Recovery Act of 2010 (IPERA) and the Improper Payments Information Act (IPIA) of 2002. IPERIA directed the Office of Management and Budget (OMB) to issue implementation guidance to agencies. OMB issued Memorandum M-15-02, Appendix C to Circular No. A-123, *Requirements for Effective Estimation and Remediation of Improper Payments*, as implementation guidance to Federal Agencies for IPERIA on October 20, 2014.

The Department of Energy (Department or DOE) Office of Finance and Accounting (DOE-OFA) communicated IPERIA 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 and improper payment actual results for the payment types/classifications of Vendor/Contracts, Payroll, Travel, Grants, and “Other”. The DOE-OFA reporting guidance included the OMB definitions for a payment, improper payment, program, and payment types/classifications. 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 nine risk factors outlined in M-15-02 and provide a risk “rating” from a scale of 1 (low risk) to 3 (high risk) to Headquarters to support the conclusions reached within; and
- Improper Payment “actual” results for Vendor/Contracts, Payroll, Travel, Grants, and “Other” payment types/classifications.

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

The DOE-OFA was responsible for collecting the risk assessment ratings and improper payment results from the sites included in the scope of the Fiscal Year (FY) 2014 IPERIA assessment and reporting on improper payments for the Department in the Other Information section of the FY 2014 Agency Financial Report (AFR). The DOE-OFA utilized the results received from the 43 sites to compile an agency-wide improper payment risk assessment. The DOE-OFA was also responsible for coordinating and reporting improper payment information related to loans, which was noted within the agency-wide risk assessment. Based on the result of the agency-wide risk assessment, the Department 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-15-02.

Included in M-15-02 are responsibilities of agency Inspectors General with regard to determining an agency’s compliance with IPERIA. Accordingly, the *Objectives*, *Scope* and *Methodology* of this report have been designed to address Part II, Section A(3) of M-15-02 (i.e., Responsibilities of Agency Inspectors General).

Objective, Scope, and Methodology

Objective

The performance audit objective was to determine if the Department met OMB's criteria for compliance with IPERIA as described in memorandum M-15-02, which specifically establishes compliance with IPERIA as the following:

- 1) Published an AFR or Performance and Accountability Report (PAR) 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 is meeting, annual reduction targets for each program assessed to be at risk and measured for improper payments; and
- 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.

Scope

As established in OMB memorandum M-15-02, the scope of the audit was the Department's FY 2014 improper payment and reporting disclosure within the Improper Payments Information and Reporting section of the Other Information to the FY 2014 AFR.

We designed procedures to evaluate the reporting methods of DOE-OFA in compiling the IPERIA results of the various reporting sites and reviewing the Loan process risk assessment reports for the agency-wide risk assessment. Additionally, we reviewed the Government Accountability Office's (GAO) report on *DOE's Risk Assessments Should be Strengthened* (GAO-15-36, December 2014) and considered GAO's five recommendations while designing our procedures.

Due to the decentralized reporting structure utilized by the Department to complete its IPERIA reporting, we obtained the improper payment data reports of the 43 sites required by the DOE-OFA to report IPERIA results. The improper payment data reports included the risk assessment results and improper payment "actual" results. To gain an understanding of the reporting methodologies used by the sites, we selected three 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 programs. The three sites selected comprise 26% of the total dollar outlays for disbursements in FY 2014. The sites selected were Brookhaven National Laboratory, National Energy Technology Laboratory, and 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 Department Headquarters to confirm compliance:

- Gained an understanding of the Department's IPERIA reporting process and controls;

- Confirmed whether the Department's policies and procedures were in accordance with IPERIA;
- Confirmed whether the Department's 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 the Department published improper payment estimates for all programs and activities identified as susceptible to significant improper payments;
- Analyzed if the Department 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 the Department published programmatic corrective action plans in the AFR for those programs with significant improper payments, if applicable;
- Evaluated if the Department 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 Department conducted a program-specific risk assessment for each program or activity;
- Confirmed if the Department 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 Department Headquarters personnel met OMB M-15-02 monitoring/tracking requirements, if applicable;
- Inquired about management's progress addressing the recommendations provided in GAO-15-36; and
- Confirmed OMB Waivers/Exemptions for Improper Payments Reporting.

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 Department met each of the two (2) 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 Department:

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 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 PAR or APR.	Not Applicable ¹

¹ The criteria is not applicable as the Department risk assessment concluded 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 (*M-15-02 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. We noted through discussions with agency management that the GAO recommendations provided in GAO-15-36 will be addressed in FY 2015, which is consistent with management's response in GAO's report. As such, we did not perform additional procedures related to management's response in the GAO report. The opportunities for improvement below are actions that could further improve the agency's assessment of improper payments.

Risk Assessment

In FY 2014, DOE-OFA requested the Department field sites provide justification for each of the nine OMB risk factors to support the site's overall risk assessment; however, the responses received did not always capture a thorough analysis of risk by the field sites. For example, the level of detail and analysis for the justifications provided by field sites varied, and the responses from several sites did not thoroughly consider the nature of the inherent risk factor as required by M-15-02, Part I.A.9.Step 1.b.vii. We suggest that the Department:

- 1) provide clear and consistent guidance on how to address OMB's risk factors for the systematic risk assessment, including examples of inherent risk for each assessed program; and
- 2) perform a management level review of information provided by the field sites to determine if the responses allow for sufficient detail.

Management Response to Report



Department of Energy

Washington, DC 20585

APR 01 2015

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

FROM: JOSEPH S. HEZIR
CHIEF FINANCIAL OFFICER

SUBJECT: Comments on the Draft Audit Report titled "The Department of
Energy's Improper Payment Reporting in the Fiscal Year 2014
Agency Financial Report"

Thank you for the opportunity to review the draft audit report, *The Department of Energy's Improper Payment Reporting in the Fiscal Year 2014 Agency Financial Report*. The objective of the audit was to complete an evaluation of the accuracy and completeness of agency reporting and to evaluate agency performance in reducing improper payments, under the *Improper Payments Elimination and Recovery Improvement Act* (IPERIA).

I am pleased that the report found that the Department complied with all requirements of IPERIA. Although not included in the OMB criteria for compliance with IPERIA, I appreciate the observation noted for further improving the Department's assessment of improper payments. To address the observation, we expanded the risk assessment language in our Fiscal Year 2015 improper payment guidance that will be issued in May 2015.

If you have any questions concerning this response, please contact Mindy Bledsoe in the Office of Finance and Accounting on (301) 903-2553.

FEEDBACK

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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.