



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

Audit Report

Performance Audit of the
Department of Energy's Improper
Payment Reporting in the Fiscal
Year 2011 Agency Financial Report

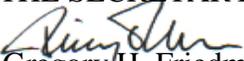


Department of Energy
Washington, DC 20585

March 15, 2012

MEMORANDUM FOR THE SECRETARY

FROM:

 for
Gregory H. Friedman
Inspector General

SUBJECT:

INFORMATION: Report on "Performance Audit of the Department of Energy's Improper Payment Reporting in the Fiscal Year 2011 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 2011 Agency Financial Report (AFR). To fulfill the Office of Inspector General's audit responsibilities, we contracted with the independent public accounting firm of KPMG, LLP 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 Act (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 did not comply with all requirements of IPERA. Specifically, the report identified the following noncompliance issues:

- Inconsistent Site Risk Assessments – The Department did not conduct and document a comprehensive agency-wide program-specific risk assessment to determine the program areas within the agency that are susceptible to significant improper payments;
- Sampling Methodology – The methodology used by the Department to arrive at the estimated improper payment rate published in the AFR was not based on a statistical method; and,
- Inconsistent Use of Improper Payment Definition – An inconsistent definition of improper payment or payment was used by sites in performing testing of payments to identify improper payments and reporting on them in accordance with IPERA.

Furthermore, KPMG noted other matters that relate to the Department's performance in reducing and recapturing improper payments. While these matters are not included in OMB's criteria for compliance with IPERA, the following opportunities for improvement were noted:

- Department Headquarters Guidance/Policy Clarification – The improper payment reporting guidance provided to the Department's sites did not include the definition of a Department program or clarification on the use of the individual site sampling results

by the agency, resulting in inconsistent and inaccurate data/information for risk assessments and statistical sampling.

The Department's Office of the Chief Financial Officer concurred with the findings and recommendations identified in the draft report, as well as the Management Responses that incorporated the specific corrective actions which will be taken during FY 2012 to implement improvements in the improper payment reporting process. The CFO noted that the Department reports improper payment information in its AFR even though such reporting is not required by OMB due to the Department's low risk of making significant improper payments. Further, the CFO stated that the Department has maintained significantly low improper payments, both past and current, and will continue to apply the appropriate level of attention and focus to ensure low levels in the future.

KPMG is responsible for the attached report dated March 12, 2012 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 OIG is responsible for technical and administrative oversight regarding KPMG's performance under the terms of the contract. Our monitoring review disclosed no instances where KPMG did not comply with applicable auditing standards.

Report No.: OAS-FS-12-07

Attachment

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

Performance Audit of the
Department of Energy's
Improper Payment Reporting
in the
FY2011 Agency Financial Report

Prepared for:

U.S. Department of Energy
Office of Inspector General

As of Date:

March 12, 2012

KPMG LLP
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Executive Summary

March 12, 2012

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) 2011 Agency Financial Report (AFR). Our work was performed during the period of October 21, 2011 through February 10, 2012 and our results are as of March 2, 2012.

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 findings based on the audit objectives.

The performance audit objective was to review the DOE FY2011 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 the following noncompliance issues and other areas for improvement:

Noncompliance Issues

- *Inconsistent Site Risk Assessments* – DOE did not conduct and document a comprehensive agency-wide program-specific risk assessment to determine the programs areas within the Agency that are susceptible to significant improper payments.
- *Sampling Methodology* – The methodology used by the DOE to arrive at the estimated improper payment rate published in the AFR was not based on a statistical method.
- *Inconsistent Use of Improper Payment Definition* – An inconsistent definition of improper payment or payment was used by sites in performing testing of payments to identify improper payments and reporting on them in accordance with IPERA.

Other Opportunities for Improvement

Our report also includes other matters that relate to the agency's performance in reducing and recapturing improper payments. These matters are not included within OMB's criteria for compliance with IPERA. We noted the following as other matters:

- *DOE Headquarters (HQ) Guidance/Policy Clarification* – The improper payment reporting guidance provided to the DOE sites did not include the definition of a DOE program or clarification on the use of the individual site sampling results by the agency, resulting in inconsistent and inaccurate data/information for risk assessment and statistical sampling.

* * * * *

This performance audit did not constitute an audit of any portion of DOE's FY2011 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-127, *Financial Management Systems*, July 23, 1993, as revised). 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
IPIA	Improper Payments Information Act
OFCR	Office of Financial Control and Reporting
OMB	Office of Management and Budget
PAR	Performance and Accountability Report

Background

IPERA was signed into law on July 22, 2010, amending the Improper Payments Information Act (IPIA) of 2002. IPERA directed the 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), as implementation guidance to Federal Agencies for IPERA on April 14, 2011.

The Department of Energy Office of Financial Control and Reporting (DOE-OFCR) 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 testing results, and Recapture Payment Audit results. The DOE-OFCR reporting guidance included the OMB definitions for a payment, improper payment, direct loan improper payment, loan guarantee improper payment, and the threshold for determining significant improper payments. The DOE-OFCR reporting guidance sent to the sites required the completion of the following:

- A risk assessment to determine the programs susceptible to improper payments at each site. Each site was required to provide a copy of the risk assessment to Headquarters (HQ) to support the conclusions reached within;
- Statistically valid estimates of the improper payments made during the period of October 1, 2009, through September 30, 2010. The guidance further noted that the agency had received OMB approval to use FY 2010 payment data to report their improper payments/payment recapture data in the FY2011 Agency Financial Report (AFR); and
- Payment Recapture Audit results.

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

The DOE-OFCR was responsible for collecting the risk assessments, improper payment estimates, and payment recapture audit results from each site and reporting on improper payments for the DOE in the Other Accompanying Information section of the FY2011 AFR. The DOE-OFCR utilized the results received from the 43 sites to complete their IPERA reporting within the FY2011 AFR.

Included in M-11-16 are responsibilities of agency Inspectors General in regard to determining an agency’s compliance with IPIA. 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 IPERAs 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 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 APR (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 APR; 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 FY2011 AFR and the improper payment and reporting disclosure within the Improper Payments Information and Reporting section of the Other Accompanying Information to the AFR.

Due to the decentralized reporting structure utilized by the DOE to complete their IPERA reporting, we selected 11 of the 43 sites that were required by the DOE-OFRC to report IPERA results. For each of the 11 sites, we designed procedures to gain an understanding of the reporting methodologies used by the sites. In addition, we designed procedures to evaluate the reporting methods of DOE-OFRC in compiling the IPERA results of the various reporting sites.

The 11 sites were selected by stratifying the population of sites into three strata (i.e., high (>\$5 billion), medium (\$1–5 billion), low (<\$1 billion)) based on dollar amount of outlays reported by the sites in their IPERA submissions to the DOE-OFRC. Based on the stratification of the allottees and geographic location of the related contractors, we selected the following 11 sites for visits:

- 1) Babcock & Wilcox Y-12 – Oak Ridge, TN
- 2) Bechtel Jacobs Company LLC – Oak Ridge, TN
- 3) Bonneville Power Administration – Portland, OR
- 4) Ch2M Hill Remediation Co – Richland, WA
- 5) Federal Energy Regulatory Commission – Washington, DC
- 6) Los Álamos National Laboratory – Los Álamos, NM

- 7) National Renewable Energy Laboratory – Golden, CO
- 8) Oak Ridge National Laboratory – Oak Ridge, TN
- 9) Oak Ridge Office – Oak Ridge, TN
- 10) Sandia National Laboratory – Albuquerque, NM
- 11) Washington River Protection Solutions – Richland, WA

While our sample of sites does not need to be chosen with strict statistical rigor in order to meet our audit objectives, we nevertheless believe that the sample provides a sufficiently diverse and representative group of sites to allow for some generalization to be made about the utility of the reported results.

Methodology

To analyze the AFR and the Improper Payments Information and Reporting section of the Other Accompanying Information to the AFR, we completed the following procedures at the DOE HQ to confirm compliance:

- Confirmed whether DOE met the IPERA disclosure and transparency requirements;
- Analyzed whether DOE's Improper Payment guidance aligned with OMB guidance;
- Confirmed OMB waivers/exemptions for deviations from OMB guidance for improper payment reporting;
- Confirmed whether the DOE conducted a program-specific risk assessment for each program or activity;
- Confirmed that DOE obtained the appropriate OMB approvals or their improper payment sampling methodologies;
- Evaluated that DOE published improper payments estimates for all programs and activities identified as susceptible to significant improper payments;
- Evaluated that DOE met improper payment monitoring/tracking requirements, if applicable;
- Analyzed if the DOE reported a gross improper payment rate for each program or activity determined to be susceptible to improper payments;
- Confirmed that DOE published programmatic corrective action plans in the AFR, if applicable;
- 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 the DOE reported information on its efforts to recapture improper payments, if applicable; and
- Confirmed whether the DOE conducted a Recovery Audit for each program or activity identified with significant improper payments.

In addition, at each of the 11 sites visited, we completed the following procedures as input in determining the DOE's compliance with IPERA:

- Gained an understanding of the site IPERA reporting process;
- Confirmed that DOE-OCFR provided improper payment reporting guidance and templates to the contractors;
- Reviewed the DOE allottee and/or contractor improper payment definition used in the risk assessment;
- Evaluated whether each DOE contractor's improper payment reporting sampling methodology was performed in accordance with OMB Memorandum M-11-16, noting the sampling methodology used by each contractor; and
- Confirmed that each DOE contractor completed and submitted a Recapture Payment Data Submission to their authoritative DOE field site, if applicable.

In carrying out this methodology, we primarily applied audit techniques such as inquiry and observation to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings related to our audit objective. Sampling was used during planning, but not used during the conduct of the audit procedures at the site-level, as our objective did not include re-performance of the improper payment sampling as disclosed in the FY2011 AFR by DOE management.

Results

Based on the results of procedures performed at the 11 sites and DOE HQ, we noted 4 findings discussed below. As the responsibility for complying with IPERA and reporting the results of agency's IPERA assessment in the FY2011 AFR rests with DOE-OFRCR, the management responses to the findings were obtained from DOE-OFRCR, rather than the individual sites visited.

Based on results of the audit performed, the DOE met 3 of the 5 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);	No
3) Published improper payment estimates for all programs and activities identified as susceptible to significant improper payments under its risk assessment (if required);	No
4) Published programmatic corrective action plans in the PAR or APR (if required);	Not Applicable ¹
5) Published, and has met, annual reduction targets for each program assessed to be at risk and measured for improper payments;	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; and	Yes ²
7) Reported information on its efforts to recapture improper payments.	Yes

¹ The criteria is not applicable as the DOE did not report improper payments that exceeded 2.5 percent of program outlays and \$10 million or \$100 million, which require the reporting of corrective actions and reductive targets (*M-11-16 Part I.A.7, Step 3*).

² 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 PAR or AFR; however, as noted below, the improper payment rate estimate was not based on a statistical sampling approach approved by OMB.

Noncompliance

Our analysis identified three findings for which the DOE did not meet the compliance requirements as outlined in OMB memorandum M-11-16. The issues are noted as noncompliance above.

Finding No. HQ-2011-1

Title:	Inconsistent Site Risk Assessments
Criteria:	<p>In order to comply with IPERA, OMB Memorandum M-11-16 Part II.A, Section 4, states an Agency shall "conduct a program specific risk assessment for each program or activity that conforms to Section 3321 of Title 31 U.S.C."</p> <p>Specifically, OMB Memorandum M-11-16, Part I.A, Section 7, Step 1.b, states "all agencies shall institute a systematic method of reviewing all programs and identify programs susceptible to significant improper payments. This systematic method could be a quantitative evaluation based on a statistical sample or it could take into account risk factors likely to contribute to significant improper payments."</p>

Condition:	DOE did not conduct and document a comprehensive Agency-wide program specific risk assessment to determine the program areas within the Agency that are susceptible to significant improper payments. The DOE-OFCR issued guidance to its sites to perform separate risk assessments. However, DOE-OFCR did not compile the results of the risk assessments performed by the site into an Agency-wide risk assessment to arrive at a determination of the susceptibility of improper payments for all program areas within the DOE. The sites inconsistently executed Risk Assessments across the sample of sites reviewed.
Cause:	DOE-OFCR utilized prior year's experience to determine which programs to consider in their FY2011 IPERA assessment. The Agency was not able to provide documentation to verify the results of prior years' risk assessments. Communication gaps between HQ and the underlying sites, and lack of clarity in the guidance provided to sites, resulted in the inconsistent completion of the site risk assessments.
Effect:	DOE does not have a program risk assessment that is compliant with OMB guidelines.
Recommendation:	We recommend DOE-OFCR perform a risk assessment at the department level that considers all program areas. Performing site-specific risk assessments at each payment site, while not required by OMB guidance, may provide the foundation for such a department-level assessment. The results, including an evaluation of OMB listed risk factors, however, should be summarized into a departmental-level assessment, as required by the OMB guidance.
Management Response:	Management concurs with the recommendation. The Department will prepare a department-level risk assessment in FY2012 summarizing available information with respect to the risk factors identified in OMB's guidance.

Finding No. HQ-2011-2

Title:	Inconsistent Sampling Methodologies
Criteria:	<p>In order to comply with IPERA, OMB Memorandum M-11-16 Part II.A, Section 4, states an Agency shall "conduct a program specific risk assessment for each program or activity that conforms to Section 3321 of Title 31 U.S.C." and "publish improper payment estimates for all programs and activities identified as susceptible to significant improper payments under its risk assessment."</p> <p>To identify programs susceptible to significant improper payments, OMB Memorandum M-11-16, Part I.A, Section 7, Step 1.b, states, "all agencies shall institute a systematic method of reviewing all programs and identify programs susceptible to significant improper payments. This systematic method could be a quantitative evaluation based on a statistical sample or it could take into account risk factors likely to contribute to significant improper payments."</p> <p>To publish estimated improper payments, OMB Memorandum M-11-16 Part 1.A, Section 7, Step 2, states "obtain a statistically valid estimate of the annual amount of improper payments in programs and activities...for those programs that are identified as susceptible to significant improper payments." Furthermore, "the estimates shall be based on the equivalent of a statistically random sample</p>

	<p>of sufficient size to yield an estimate with a 90 percent confidence interval of plus or minus 2.5 percentage points around the estimate of the percentage of improper payments.” (Part 1.A, Section 7, Step 2.c)</p> <p>The HQ guidance provided to the sites specified the formula to determine sample size, and emphasized the following:</p> <ul style="list-style-type: none"> ▪ Improper payment “actuals” should not be included in reporting improper payments; and ▪ A statistically valid estimate must be obtained and consultation with a statistician will ensure the validity of the sample design, sample size, and measurement methodology. <p>The guidance further noted that the sum of all actual improper payments should not be reported, as this sum would be included in the Payment Recapture Audit report.</p>
Condition:	<p>DOE used nonstatistical methods to arrive at the estimated improper payment rate published in the AFR. The Agency issued reporting guidance requiring statistical sampling; however, the sites did not adhere to the policy. At 10 of the 11 sites we reviewed, sampling methodologies did not follow the DOE requirement. The most common methodologies observed were:</p> <ol style="list-style-type: none"> A. Sites did not perform statistical sampling. B. In lieu of sampling the population, sites reported actual improper payments based on alternative methodologies for identifying improper payments. For example, the sites reported actual improper payments identified via analytics of 100 percent of the population of a payment area. C. Sites reported a combination of statistical sampling and actual improper payments identified via alternative testing methodologies. D. Sites performed statistical sampling, but not in accordance with the DOE issued guidance. For example, sites used data from years other than FY2010. <p>DOE reported in the AFR that the Department used statistical sampling to determine whether programs were susceptible to significant improper payments. However, the site data reported to DOE-OFCR was not based on the DOE required sampling methodology. Accordingly, DOE could not consolidate the improper payment data reported to provide a valid statistical improper payment estimate.</p>
Cause:	<p>Communication gaps between HQ and its underlying sites, and lack of oversight by DOE HQ personnel, resulted in the use of inconsistent sampling methodologies by the sites.</p>
Effect:	<p>DOE did not follow the OMB guidance to develop and report an estimate of improper payments. The inconsistent methodologies used by the various sites to report improper payment amounts to DOE-OFCR resulted in a nonstatistical estimate of improper payments in the Other Accompanying Information section of the AFR.</p>
Recommendation:	<p>We recommend DOE-OFCR develop a system of controls to help ensure the sampling methodologies used at the sites align with the methodology required in the Department IPERA reporting guidance.</p>

Management Response:	Management concurs with the recommendation. DOE-OFCR will implement appropriate internal controls and revise its IPERA implementation guidance to address the underlying root causes for sites not performing statistically valid sampling of improper payments and to ensure a consistent sampling approach at all sites.
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Finding No. HQ-2011-3

Title:	Inconsistent Use of Improper Payment Definition
Criteria:	<p>Per OMB Memorandum M-11-16, Part I.A, Section 7, Step 1.b, “all agencies shall institute a systematic method of reviewing all programs and identify programs susceptible to significant improper payments. This systematic method could be a quantitative evaluation based on a statistical sample or it could take into account risk factors likely to contribute to significant improper payments.”</p> <p>OMB Memorandum M-11-16 establishes the definition of “improper payment” and “payment” to be used in the aforementioned systematic method, which is reflected in the DOE-OFCR Improper Payments and Payment Recapture Audit Reporting guidance, as follows:</p> <ul style="list-style-type: none"> ▪ <i>Improper Payment (Part I.A, Section 2)</i> – “any payment that should not have been made or that was made in an incorrect amount under statutory, contractual, administrative, or other legally applicable requirements. Incorrect amounts are overpayments or underpayments that are made to eligible recipients (including inappropriate denials of payment or service, any payment that does not account for credit for applicable discounts, payments that are for the incorrect amount, and duplicate payments). An improper payment also includes any payment that was made to an ineligible recipient or for an ineligible good or service, or payments for goods or services not received (except for such payments authorized by law). In addition, when an agency’s review is unable to discern whether a payment was proper as a result of insufficient or lack of documentation, this payment must also be considered an improper payment.” ▪ <i>Payment (Part I.A, Section 2)</i> – “any payment or transfer of Federal funds (including a commitment for future payment, such as cash, securities, loans, loan guarantees, and insurance subsidies) to any non-Federal person or entity that is made by a Federal agency, a Federal contractor, a Federal grantee, or a governmental or other organization administering a Federal program or activity.”
Condition:	<p>Seven of 11 sites tested did not adhere to the DOE-OFCR guidance and applied an inconsistent definition of improper payment (or payments) when reporting their improper payments to DOE-OFCR. KPMG noted that the sites used the following variations in the definition of improper payment:</p> <ul style="list-style-type: none"> ▪ Exclusion of high-volume, low-dollar payments from consideration of potential improper payments without disclosing to DOE-OFCR by one site. ▪ Exclusion of various payment types, such as payroll and purchase cards,

	<p>from Improper Payment reporting consideration by two sites.</p> <ul style="list-style-type: none"> ▪ Inclusion of payment types, such as payments to Federal government employees, for consideration in Improper Payment reporting that should not have been reported by one site. ▪ Exclusion of reporting improper payments if the payment was corrected or recovered within a certain time period by 3 sites. For example, if the payroll department corrected an error within a subsequent pay cycle, they did not report the amount as improper. ▪ Exclusion of “underpayments” from definition of potential improper payment by one site. ▪ Exclusion of “lost discounts” from the definition of potential improper payment by 3 sites.
Cause:	<p>The sites did not apply the improper payment definition provided in the DOE-OFRCR reporting guidance when completing the risk assessment process and the subsequent testing of sample items. DOE-OFRCR provided reporting guidance that restated the OMB guidance, but did not provide DOE related examples of considerations for improper payments. For example, DOE did not provide identification of payment scenarios to consider for the purposes of Improper Payment reporting specific to DOE sites, such as the inclusion of purchase cards.</p>
Effect:	<p>Because of various inconsistent applications of what is considered an improper payment or payments by the sites, DOE-OFRCR could not consolidate the reported results into an improper payment estimate for the Department. As a result of the Department doing so, the amount of the improper payments in the identified payment streams reported in the Other Accompanying Information Section of the AFR does not comply with the OMB guidance.</p>
Recommendation:	<p>We recommend that DOE-OFRCR implement policies and procedures to ensure oversight and communication of the application of the Improper Payment definition by its sites and adherence to the prescribed guidance.</p>
Management Response:	<p>Management concurs with the recommendation and will implement corrective actions during the FY2012 improper payment reporting process. DOE-OCFR will revise its IPERA policies and procedures after consulting with OMB and field reporting sites. Revisions will incorporate oversight and communication activities, such as training sessions, earlier third quarter data collection, and analysis to ensure the consistent application of the improper payment definition and guidance.</p>

Other Matters

In addition, as part of the review of improper payments, we were also to evaluate the agency’s efforts to prevent and reduce improper payments. The findings noted below, if addressed, are actions that could further improve the agency’s assessment of improper payments.

Finding No. HQ-2011-4

Title:	DOE HQ Guidance/Policy Clarification
Criteria:	<p><i>Improper Payment Reporting</i> – OMB Memorandum M-11-16, Part I.A. Section 1 states, “Agencies required to comply with IPIA, as amended by IPERA, are defined broadly as ‘a[ny] department, agency, or instrumentally in the executive branch of the United States as defined in Title 31, Section 102 of the United States Code.”</p> <p>Furthermore, OMB Memorandum M-11-16, Part I.A. Section 7 states, “Unless an agency has specific written approval from OMB to deviate from [the IPERA implementation guidance], agencies are required to determine whether the risk of improper payments is significant and to provide valid annual estimates of improper payments.”</p> <p><i>Recovery Payment Reporting</i> – According to OMB Memorandum M-11-16, Part I.B, IPERA “requires agencies to conduct payment recapture audits (also known as recovery audits) for each program and activity that expends \$1 million or more annually if conducting such audits would be cost-effective. Previously, payment recapture audits were only required for agencies that entered into contracts with a total value in excess of \$500 million in a fiscal year, and for certain other programs.”</p> <p>In addition, OMB Memorandum M-11-16, Part I.B, Section 2, states, “Agencies shall have a cost-effective program of internal control to prevent, detect, and recover overpayments. A program of internal control may include policies and activities such as prepayment reviews, a requirement that all relevant documents be made available before making payment, and performance of post-award audit. For agencies that have programs and activities that expend more than \$1 million in a fiscal year, a payment recapture audit program is a required element of their internal controls over payments if conducting such audits is cost-effective. These payment recapture audits should be implemented in a manner designed to ensure the greatest financial benefit to the Federal government.”</p>

Condition:	<p>The HQ guidance provided to the sites by the DOE-OFCR did not include the following:</p> <ul style="list-style-type: none"> ▪ The HQ guidance did not include the definition of program area for which the sites were to report improper payment and recapture audit information. Without the definition of program area or a DOE defined program area to test provided in the guidance, the DOE sites' interpretation of "program" varied from payment types, such as Vendor/Contracts, Payroll, and Travel being considered one program area to the Office of Nuclear Energy and Office of Fossil Energy being considered a program. As such, the payment populations were not consistent from site to site. ▪ The DOE-OFCR guidance required the completion of statistical sampling and testing for all programs, regardless of the results of the risk assessment performed by the sites. The guidance did not communicate the fact that the DOE-OFCR would utilize the various results of the sites' sampling to compile an aggregate estimate of improper payments for the Department as a whole. In certain instances, the sites read the OMB guidance, which requires performance of statistical sampling for those program areas identified as susceptible to significant improper payments as a result of the risk assessment. Therefore, the sites noted the discrepancy between the DOE-OFCR guidance and OMB guidance and did not complete a risk assessment prior to testing for improper payments since the DOE-OFCR guidance required sampling.
Cause:	<p>DOE-OFCR personnel extracted portions of the IPERA guidance issued by OMB and communicated it to the sites as HQ guidance. As such, the guidance provided to the sites was broad and not specific to the Department. As a result, when implementing the DOE-OFCR guidance, the sites made judgments or interpretations of the guidance in order to provide DOE-OFCR with the requested data.</p>
Effect:	<p>The sites provided inconsistent and inaccurate data/information for risk assessment and statistical sampling resulting from the lack of clarity in the HQ guidance. HQ then consolidated this data/information and used it to report on improper payments for the Department as a whole in the Other Accompanying Information section of the AFR.</p>
Recommendation:	<p>We recommend DOE-OFCR revise the HQ guidance provided to the sites to incorporate the specific Department implementation guidance as it relates to IPERA to provide clarity to the DOE users. Prior to the issuance of the updated guidance, DOE should determine the program areas to be tested and information needed from the sites in order to complete their annual reporting in the AFR. The updated guidance provided to the sites should clarify items such as what is considered a program by DOE, identify the purpose for initiatives such as mandatory statistical sampling, and provide specific examples that will aid the sites in their efforts to comply with the guidance.</p>
Management Response:	<p>Management concurs with the recommendation and will revise guidance to provide clearer definitions for what is considered a program area, explain how this information will be aggregated at the Departmental level, and include detailed examples of improper payments to improve understanding of improper payment reporting requirements.</p>

Management Response to Report

We concur with the findings and recommendations identified in the draft report as well as the Management Responses that incorporated the specific corrective actions which will be taken during FY 2012 to implement improvements in the improper payment reporting process. However, the report should note that the Department reports improper payment information in its Agency Financial Reports even though such reporting is not required by the Office of Management and Budget due to DOE's low risk of making significant improper payments. The Department has maintained significantly low improper payments, both past and current, and will continue to apply the appropriate level of attention and focus to ensure low levels in the future.

Management's response to the report is included in its entirety in Appendix 1.

Appendix 1



Department of Energy
Washington, DC 20585

March 8, 2012

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

FROM OWEN F. BARWELL 
DEPUTY CHIEF FINANCIAL OFFICER

SUBJECT Comments on the Draft Audit Report, "Performance Audit of the
Department of Energy's Improper Payment Reporting in the Fiscal
Year 2011 Agency Financial Report"

The Office of the Chief Financial Officer (CFO) appreciates the opportunity to review the draft audit report, *Performance Audit of the Department of Energy's Improper Payment Reporting in the Fiscal Year 2011 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).

We concur with the findings and recommendations identified in the draft report as well as the Management Responses that incorporated the specific corrective actions which will be taken during FY 2012 to implement improvements in the improper payment reporting process. However, the report should note that the Department reports improper payment information in its Agency Financial Reports even though such reporting is not required by the Office of Management and Budget due to DOE's low risk of making significant improper payments. The Department has maintained significantly low improper payments, both past and current, and will continue to apply the appropriate level of attention and focus to ensure low levels in the future.

If you have any questions concerning this response, please contact Lynn Harshman of my staff on 301-903-2556.



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