



U.S. Department of Energy
Office of Inspector General
Office of Audit Services

Audit Report

Accounting and Reporting for the
American Recovery and
Reinvestment Act by the Department
of Energy's Funding Recipients



OAS-RA-10-06

April 2010



Department of Energy
Washington, DC 20585

April 1, 2010

MEMORANDUM FOR THE SECRETARY

FROM: 
Gregory H. Friedman
Inspector General

SUBJECT: INFORMATION: Audit Report on "Accounting and Reporting for the American Recovery and Reinvestment Act by the Department of Energy's Funding Recipients"

BACKGROUND

The American Recovery and Reinvestment Act of 2009 (Recovery Act) was established to jumpstart the U.S. economy, create or save millions of jobs, and invest in the Nation's energy future. The Department of Energy received approximately \$37 billion through the Recovery Act to support a variety of science, energy and environmental initiatives. The Office of Management and Budget (OMB) issued guidance for carrying out stimulus-related activities which requires, among other things, that recipients ensure funds provided by the Recovery Act are clearly distinguishable from non-Recovery Act funds in all reporting systems and that recipients' actions are transparent to the public. To meet these requirements, the Department's recipients (prime contractors, grantees and other financial assistance awardees) must clearly and accurately track and report on 18 separate data elements. In addition, the Department was to develop and implement a process to ensure that recipient information reported to the public was free from material omissions and significant reporting errors.

Our recent report on the *Department of Energy's Quality Assurance Process for Prime Recipients' Reporting for the American Recovery and Reinvestment Act of 2009* (OAS-RA-10-01, October 2009) noted that the Department had developed a quality assurance process to facilitate the quarterly reviews of recipient data and planned to test it during the first quarterly reporting cycle. To determine whether the Department's quality assurance process over data reported by all recipients was effective, we examined information reported by recipients of Departmental funding as of September 30, 2009. We also sought to determine whether the Department's prime contractors were prepared to track and report on Recovery Act activities.

RESULTS OF AUDIT

The Department had taken a number of actions designed to ensure the accuracy and transparency of reported Recovery Act results. For instance, the Department developed and implemented a data quality assurance process to examine select data elements (4 of 18) for all recipients of Recovery Act funds. This process identified potential anomalies with information reported by 1,113 of 2,038, or 55 percent of recipients. We view the Department's data quality assurance efforts as both timely and significant. As noted by our audit testing, however, opportunities exist to strengthen the process, thus reducing the risk of material errors and improving the transparency of publicly reported Recovery Act information. In particular:

- Site officials did not always ensure that anomalies, once identified during the quality assurance process, were actually resolved. For example, the Department's process

identified that about 740 of the approximately 10,000 jobs reported in the first quarter of Fiscal Year 2010 as created/retained were for projects reported as having no funds spent. Although these problems were referred to site officials for follow-up and/or correction, the information was never actually changed;

- The Department did not always utilize the correct basis when evaluating the accuracy of "funds provided" data submitted by grant recipients. For example, in its analysis process, the Department used data reflecting "funds obligated" rather than the correct amount of "total grant awards". This generated a number of potential false positives; and,
- Duplicate reports by certain recipients, resulting in overstatements of as much as \$137 million of the more than \$18 billion obligated, were not corrected.

We observed that the Department had taken prompt action to ensure that its prime facility management contractors could properly report Recovery Act information. Notably, the seven contractors in this category included in our review had modified their accounting systems, as necessary, to ensure that they could accurately track and report on Recovery Act activities. The systems at each of these entities had been restructured so that they: (i) could separate Recovery Act and non-Recovery Act funds; and, (ii) had adequate processing capacity to handle the projected increase in transactions.

We recognize the challenge of balancing the need to reduce the risk that material errors or misstatements exist in reported Recovery Act information and the cost of quickly reviewing large amounts of data and resolving resulting anomalies. As such, we found the Department's decision to limit its reviews to the four elements that it considered to be critical (award amount, invoiced amount, jobs created/retained, and project status) to be reasonable. We concluded, however, that as demonstrated by our test results, other elements or dependent relationships should not be completely excluded from review. Even in cases where the Department views data elements as "non-critical," introducing random comparisons on a rotating or cyclical basis could enhance review efforts and increase the likelihood that Recovery Act information is free of material errors.

Beyond its initial development and implementation of its quality assurance process, the Department had taken steps to improve its ability to ensure that Recovery Act information was both accurate and transparent to the public. Specifically, officials changed the quality assurance plan based on initial data reviews. Department officials also informed us that they are in the process of updating their quality assurance process to meet new OMB requirements. For example, recent guidance directed agencies to focus on certain data elements, such as award number and recipient name, during their quality assurance reviews. In addition, subsequent to our review, the Department added two more data elements and comparisons to its quarterly assurance process, including an analysis of costs/expenditures and a comparison of the recipient reported project status to the Department's data contained in its financial system.

OTHER MATTERS

While not directly related to data quality, during the course of our audit work we observed that none of the seven prime contractors reported the number of subcontractor jobs created or

retained in conjunction with funds provided under the Recovery Act. To be clear, OMB did not require such data to be reported. Interestingly, as reported externally, we found that the number of jobs created by subcontractors was almost double that of jobs created by prime contractors. At the seven prime contractors reviewed, over 1,100 prime contractor jobs were reported as being created or retained. However, data gathered by prime contractors indicated that more than 2,000 subcontractor jobs were also created or retained over the same period. The following chart represents the variance between prime contractor and subcontractor jobs as of September 30, 2009.

Contractor	Location *	Prime Contractor Jobs Created or Retained	Subcontractor Jobs Created or Retained	Total
CH2M Hill Plateau Remediation Company	Hanford	621	1,404	2,025
Washington Closure Hanford Company	Hanford	36	39	75
Washington River Protection Solutions	Hanford	200	87	287
Battelle Memorial Institute	PNNL	27	114	141
UT-Battelle	ORNL	41	161	202
Bechtel Jacobs Company	ETTP	93	7	100
B&W Y-12	Y-12	129	202	331
		1,147	2,014	3,161

* Locations more fully described in Appendix 1.

We do not question the basis or rationale leading to the decision to exclude subcontractor job creation or retention from reporting. However, as a practical matter, it tends to alter the visibility of jobs creation related to execution of the Recovery Act in the Department of Energy. The Department's core structure for many of its activities relies heavily on prime and subcontractor relationships.

MANAGEMENT REACTION

Management concurred with each of the report's recommendations and indicated that it had taken action to address the recommendations. Management's comments are included in their entirety in Appendix 3.

Attachment

cc: Deputy Secretary
 Under Secretary of Energy
 Under Secretary for Science
 Administrator, National Nuclear Security Administration
 Chief Financial Officer
 Chief of Staff

ACCOUNTING AND REPORTING FOR THE AMERICAN RECOVERY AND REINVESTMENT ACT BY THE DEPARTMENT OF ENERGY'S FUNDING RECIPIENTS

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ACCOUNTING AND REPORTING FOR THE AMERICAN RECOVERY AND REINVESTMENT ACT

The Department's Quality Assurance Process and Prime Contractor Accounting Systems

As previously noted in our report on the *Department of Energy's Quality Assurance Process for Prime Recipients' Reporting for the American Recovery and Reinvestment Act of 2009* (OAS-RA-10-01, October 2009), the Department of Energy (Department) had developed a quality assurance process to identify material omissions and significant reporting errors. The Department applied its quality assurance process to the first round of American Recovery and Reinvestment Act of 2009 (Recovery Act) reporting and identified a significant number of anomalies. However, our analysis of the same September 30, 2009, data reported by all recipients, including certain prime contractors, identified anomalies where recipients may have reported erroneous information that resulted in potentially inaccurate reporting to FederalReporting.gov and the ultimate publication of such information on Recovery.gov. Based on our testing, we concluded that the Department's quality assurance process could be further strengthened to help ensure that information reported by recipients was not materially inaccurate. Our review also disclosed that seven of the Department's prime contractors that received Recovery Act funding for various projects and initiatives appeared to have adequate information systems and processes in place for tracking and reporting on Recovery Act activities.

Recipient Reporting and Quality Assurance

The Department's quality assurance process was designed to analyze information provided by all of the Department's Recovery Act recipients and focused on 4 of 18 reporting elements required by the Office of Management and Budget (OMB): award amount, invoiced amount, jobs created/retained, and project status. These recipient-reported data elements were compared to information maintained in the Department's financial systems, such as the Standard Accounting and Reporting System. Department officials noted that they focused their attention on these four elements because they believed that they were the highest risk areas and testing the data would detect material omissions and significant reporting errors. In fact, the Department's quality assurance process identified potential anomalies with 1,113 of 2,038 (55 percent) recipients reviewed. The potential errors included 308 recipients that did not report approximately \$323 million of Recovery Act funding to FederalReporting.gov as of September 30, 2009. While the Department's quality assurance process identified numerous anomalies, we noted that some

were never corrected and additional potential reporting errors existed. Specifically, during our review of recipient reported data, we found:

- Site officials did not always ensure that needed changes identified during the quality assurance process were made. OMB guidance requires the Department to evaluate recipients' data submissions and direct changes as necessary. In addition, a Department official stated that the site officials were responsible for a follow-through review. Although discrepancies were identified during the quality assurance process, we found recipients for 102 projects reported to FederalReporting.gov that 744 jobs had been created or retained even though no funds had been spent on these projects;
- The Department did not always utilize the correct amount when evaluating the accuracy of data reported by grant recipients to FederalReporting.gov. Specifically, at the time of our review, the Department utilized the amount of funding provided to the recipients to date rather than the total amount of the award reported by the recipients. For example, an Office of Fossil Energy grantee reported that it was awarded approximately \$308 million for a project. However, in its quality assurance analysis, the Department incorrectly compared the award amount on FederalReporting.gov to the amount of funding provided to date, as indicated in the Department's financial system, and flagged that as a potential error of approximately \$258 million. Errors such as this resulted in site officials identifying and addressing more discrepancies than necessary, reducing the efficiency of the quality assurance process;
- 13 recipients reported in duplicate to FederalReporting.gov, potentially overstating the amount of Recovery Act awards by \$137 million. For instance, we noted that one State Energy Program grantee reported duplicate information, resulting in an overstatement of Recovery Act spending of more than \$25 million. Although inaccuracies such as these were detected during the quality assurance process, the duplicate awards were not removed by the recipients from FederalReporting.gov; and,

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- The quality assurance process also did not detect anomalies when the recipients reported no award amount. Specifically, we found several instances where the recipients were awarded Recovery Act funding, but noted in their data submission that there was no award amount. After we brought this matter to its attention, the Department told us that it had evaluated the issue and determined that a programming error caused the problem we discovered. Responsible officials indicated that they would take action to address the issue.

Prime Contractor Accounting and Reporting Systems

To support agency efforts, OMB issued guidance for carrying out activities enacted in the Recovery Act which required, among other things, that agencies ensure all funds provided in the Recovery Act were distinguishable from non-Recovery Act funds in their financial and business reporting systems. To meet these requirements, the Department's prime contractors were required to clearly and accurately report Recovery Act data in a timely manner. During our review, we conducted test work at seven of the Department's prime contractors that received Recovery Act funding for various projects and initiatives to determine whether contractor systems were capable of meeting these new reporting challenges.

Based on our evaluations, we concluded that the contractors' information systems we examined appeared to be adequate for tracking and reporting Recovery Act activities. Specifically, all seven of the prime contractors reviewed had existing information systems and processes in place that had been modified to handle and process the additional Recovery Act transactions. For example, officials at one national laboratory noted that their financial system was easily modified and allowed for projects to be allocated funding from multiple sources, including Recovery Act and non-Recovery Act funding. Similar changes were made to systems at the other sites reviewed. We also found that systems at each of the sites reviewed contained adequate processing capacity to handle the additional transactions resulting from Recovery Act activities.

Quality Assurance Process and Training

The Department had taken a risk-based approach when implementing its quality assurance process. This approach was designed to analyze data reported by all recipients in an expedited manner. However, we noted that the quality assurance process did not focus on all relevant recipient

information. In addition, officials responsible for carrying out the quality assurance process were not always trained in how to address potential recipient errors.

The quality assurance process utilized by the Department detected more than 1,100 anomalies during the initial reporting cycle using an approach that was designed to identify the most likely errors and material omissions. During its first quarterly quality assurance review, the Department analyzed four data elements reported by recipients: award amount, invoiced amount, jobs created/retained, and project status. Officials believed that reviewing these particular elements would detect significant errors and material omissions in recipient reported data. While we agree that the four elements evaluated were critical, other data fields such as recipient name and congressional district could also assist the public in its efforts to determine the economic impact – jobs created/retained and funding provided – to its geographical region. Furthermore, enhancements to the Department's quality assurance process, including reviews of various elements through random comparison on a rotating basis, may assist the Department in its efforts to identify and remediate issues similar to those noted in our report.

The Department developed a training program for officials responsible for reviewing recipient data submissions that included detailed steps and procedures for cognizant officials to follow when reviewing recipient quarterly data for significant reporting errors and material omissions. Department officials indicated that they had conducted training at six locations; however, officials at a number of additional sites still needed to receive training.

Transparency and Accuracy of Recipient Reported Data

The Department placed a great deal of emphasis on its initial quality assurance process. And, arguably, it was successful in that it identified an anomaly rate of nearly 50 percent. Further, the Department had initiated changes to the quality assurance plan based on initial data reviews. However, our findings indicate that additional refinements to the quality assurance process could help to ensure that Recovery Act information is free of material errors, transparent, and ready for public consumption. Of greatest importance, such data should accurately reflect whether the Department's Recovery Act efforts are ultimately successful, especially in terms of job

creation and economic stimulation. This process could be enhanced by ensuring that all officials charged with resolving reporting errors are adequately trained, providing additional assurance that information ultimately published on Recovery.gov is not materially misstated.

RECOMMENDATIONS

To help enhance the effectiveness of the Recovery Act data quality assurance process, we recommend that the Chief Financial Officer work with program officials to:

1. Adjust the quality assurance process, as necessary, to include adding comparisons of other data elements to increase the likelihood that material omissions and significant reporting errors are detected; and,
2. Ensure that all officials with oversight responsibility for Recovery Act recipient reporting are adequately trained.

MANAGEMENT REACTION

Management concurred with the recommendations made in the report and indicated that action had been taken or was currently underway to address many of the issues identified during our review. In particular, management commented that it recently made enhancements to the quality assurance process to increase the likelihood that material omissions and significant reporting errors are detected. In addition, management noted that it was providing additional training on the Department's quality assurance process to agency reviewers in the field. Management's comments are included in their entirety in Appendix 3.

AUDITOR COMMENTS

Management's comments are responsive to our recommendations.

Appendix 1

OBJECTIVE

To determine whether the Department of Energy's (Department) quality assurance process over data reported by all recipients was effective, we examined information reported by recipients of Departmental funding as of September 30, 2009. We also sought to determine whether the Department's prime contractors were prepared to track and report on Recovery Act activities.

SCOPE

The audit was performed between September 2009 and March 2010 at Department Headquarters in Washington, D.C., the Oak Ridge Office, Oak Ridge National Laboratory, East Tennessee Technology Park, and Y-12 National Security Complex, Oak Ridge, Tennessee; the Richland Operations Office, Hanford Site; and, Pacific Northwest National Laboratory, Richland, Washington.

METHODOLOGY

To accomplish the audit objective, we:

- Obtained and reviewed the Department's policy and procedures for reviewing quarterly recipient of the American Recovery and Reinvestment Act of 2009 (Recovery Act) data pursuant to Office of Management and Budget Memorandum 09-21;
- Obtained the Department's quality assurance process results and reviewed the data for any material omissions, significant errors, and reporting anomalies;
- Compared the quality assurance process results to the recipients' reported data from Recovery.gov for any reporting anomalies that were not identified by the process and discussed the anomalies with cognizant site officials;
- Determined what changes prime contractors made to their information systems to enable Recovery Act funds and number of jobs created/retained to be appropriately tracked and reported;
- Determined the prime contractors' system controls in place to prohibit co-mingling of Recovery Act and non-Recovery Act funds; and,
- Determined the prime contractors' processes for reporting Recovery Act information to FederalReporting.gov

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 and conclusions based on our audit objectives. We believe the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. The audit included tests of internal controls and compliance with laws and regulations to the extent necessary to satisfy the audit objective. Because our review was limited, it would not necessarily have disclosed all internal control deficiencies that may have existed at the time of our audit. We also assessed performance measures in accordance with the *Government Performance and Results Act of 1993* relevant to the Recovery Act. We found that none of the seven sites reviewed had developed measures directly related to our audit. We addressed the reliability of computer-processed data which we considered to be critical to satisfying our audit objective.

Management waived an exit conference.

PRIOR REPORTS

- *The Department of Energy's Quality Assurance Process for Prime Recipients' Reporting for the American Recovery and Reinvestment Act of 2009* (OAS-RA-10-01, October 2009). This report identified that the Department of Energy (Department) had developed a quality assurance process to facilitate the quarterly reviews of recipient data. The process included procedures to compare existing information from the Department's financial information systems with that reported to FederalReporting.gov by recipients. In addition, plans were in place to notify recipients of anomalies or errors exposed by the quality assurance process. While the Department has made a good deal of progress in this area, the report did identify several issues which could, if not addressed, impact the effectiveness of the quality assurance process.
- *Department of Energy's Efforts to Meet Accountability and Performance Reporting Objectives of the American Recovery and Reinvestment Act* (OAS-RA-09-04, September 2009). This audit revealed that the Department's efforts to develop, refine, and apply control structure needed to ensure, timely, and reliable reporting to be both proactive and positive. However, there were certain issues relating to American Recovery and Reinvestment Act of 2009 (Recovery Act) performance management, accounting and reporting accuracy, and timeliness that needed to be addressed and resolved. In particular, at the time of the review, no determination was made whether or not prime and sub recipients could properly segregate and report both accounting and performance measures.
- *The American Recovery and Reinvestment Act at the Department of Energy* (OAS-RA-09-01, March 2009). This report informed the Department leadership of the risks that it should consider as stimulus activities progress. Specifically, the report identified specific risks discovered during past reviews and investigations in areas such as fund accountability and reporting, grant and cooperative agreement execution, contract management, and the management of loan guarantee efforts. The report also provides the Department with "lessons learned" and suggests approaches for reducing the risks associated with the Recovery Act funding. Suggested actions are included that should be considered during Recovery Act planning and program execution to help reduce the likelihood that historical problems will recur. The report also describes the Department's initial efforts to identify risks and to develop strategies to help ensure that the Recovery Act goals and objectives are satisfied.

March 26, 2010

MEMORANDUM FOR: Rickey R. Hass
Deputy Inspector General
For Audit Service

FROM: STEVE ISAKOWITZ (NO SIGNATURE 508 VERSION)
CHIEF FINANCIAL OFFICER

SUBJECT: Comments to Draft Report – “Accounting and Reporting for the American Recovery and Reinvestment Act by the Department of Energy’s Funding Recipients”

Thank you for the opportunity to review your draft report on Recovery Act recipient reporting. As noted by your report, the quality assurance program developed by the Office of the Chief Financial Officer for the period reviewed by the draft report (third quarter 2009) was a success. Subsequent to the period reviewed by the Office of Inspector General, recipient reporting has improved substantially. For the fourth quarter 2009 reporting period, a greater percentage of the Department's recipients reported and a higher percentage of their reports were reviewed by the Department.

The Office of the Chief Financial Officer is committed to continuously improving the reporting process for Recovery Act recipients and has initiated several efforts to further enhance the reporting process. These initiatives include:

- Training to over 300 agency reviewers on the Department’s quality assurance process at five DOE sites;
- Multiple webinars on the quality assurance process;
- Outreach campaign to agency reviewers to encourage them to ensure timely recipient reporting and error correction; and
- Continued enhancements to the processes for identifying questionable data reporting.

The Department concurs with both IG recommendations, which have already been implemented. Please see the attached for detailed responses to the draft report’s recommendations.

**Response to Inspector General Draft Report
A10RA049- Draft Report “Accounting and Reporting for the American Recovery and Reinvestment Act
(ARRA) by the Department of Energy’s Funding Recipients”**

To help enhance the effectiveness of the Recovery Act data quality assurance process, we recommend that the Chief Financial Officer work with the program officials to:

Recommendation 1

Adjust the quality assurance process, as necessary, to include adding comparisons of other data elements to increase the likelihood that material omissions and significant reporting errors are detected; and,

Management Decision

Concur. The Office of the Chief Financial Officer has already implemented this recommendation. The quality assurance process is continuously adjusted to account for changes in reporting guidance and, more importantly, to improve the Department’s quality assurance review of recipient data. Recent enhancements include additional comparisons for payments, final reports, and award types and updated logic used for assessing the award amount, thus increasing the likelihood that material omissions and significant reporting errors are detected. The Office of the CFO will continue to adjust its quality assurance process as necessary to address any issues identified in future reporting periods.

Estimated Completion Date: Completed.

Recommendation 2

Ensure that all officials with oversight responsibility for Recovery Act recipient reporting are adequately trained.

Management Decision

Concur. The Office of the CFO has completed numerous training initiatives to ensure that all officials with oversight responsibility have the opportunity to be trained on Recovery Act recipient reporting and oversight responsibilities. These initiatives include:

- Training to over 300 agency reviewers on the Department’s quality assurance process at five DOE sites;
- Multiple webinars on the quality assurance process;
- Outreach campaign to agency reviewers to encourage them to ensure timely recipient reporting and error correction; and

Additionally, the Office of the CFO has developed draft guidance on how the Department will review recipient data submitted to OMB for the reporting period covering the first quarter of 2010. The broad concepts of the document have been shared with the Field Offices and some select individuals at Headquarters. When the OMB guidance is finalized the Office of the CFO will provide agency reviewers 24/7 access to a recorded webinar they can review at their convenience.

Estimated Completion Date: Completed.

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