



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 2015
Agency Financial Report

OAI-FS-16-08

April 2016



Department of Energy
Washington, DC 20585

April 21, 2016

MEMORANDUM FOR THE SECRETARY

FROM:

A handwritten signature in black ink, appearing to read "Rickey R. Hass".

Rickey R. Hass
Acting Inspector General

SUBJECT:

INFORMATION: Audit Report on "The Department of Energy's Improper Payment Reporting in the Fiscal Year 2015 Agency Financial Report"

The attached report presents the results of an audit of the Department of Energy's Improper Payment Reporting in the Fiscal Year 2015 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 of 2012* (IPERIA). The objective of this audit was to determine the accuracy and completeness of agency reporting and evaluate agency performance in reducing improper payments under IPERIA.

KPMG expressed the opinion that the Department complied with all requirements of IPERIA. KPMG is responsible for the attached report dated April 6, 2016, 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 the Department did not comply with applicable auditing standards.

Report No.: OAI-FS-16-08

Attachment

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

Performance Audit of the
Department of Energy's
Improper Payment Reporting
in the
FY 2015 Agency Financial Report

Prepared for:

U.S. Department of Energy
Office of Inspector General

As of Date:

April 6, 2016

KPMG LLP
1801 K Street, NW
Washington, DC 20006

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Suite 12000
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ATTACHMENT

Executive Summary

April 6, 2016

Mr. Rickey R. Hass
Acting Inspector General
IG-1/Forrestal Building
U.S. Department of Energy
1000 Independence Avenue, S.W.
Washington, DC 20585

Dear Mr. Hass:

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) 2015 Agency Financial Report (AFR). Our work was performed during the period of January 4, 2016 through February 24, 2016 and our results are as of February 24, 2016.

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 2015 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 of 2012* (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.



ATTACHMENT

As our report further describes, KPMG LLP (KPMG) identified no compliance issues or findings. As part of our review, KPMG also noted that the Department's Office of Finance and Accounting (DOE-OFA) addressed four of the five recommendations provided in the Government Accountability Office's report on *DOE's Risk Assessments Should be Strengthened* (GAO-15-36, December 2014), issued in FY 2015.

* * * * *

This performance audit did not constitute an audit of any portion of the Department's FY 2015 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
OFA	Office of Finance and Accounting
OMB	Office of Management and Budget
PAR	Performance and Accountability Report
U.S.C.	United States Code

Background

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 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, 2015.

DOE-OFA communicated IPERIA reporting guidance, based on the OMB memorandum, to its 43 payment reporting sites (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, Loans and “Other”. DOE-OFA reporting guidance included the OMB definitions for a payment, improper payment, program, and payment types/classifications. 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 was required to perform a risk assessment using the nine risk factors outlined in M-15-02 and 2 DOE identified risk factors. The format was significantly revised in FY 2015 to improve consistency among the sites and improve documentation supporting the risk ratings. A description of the risk factor, rating criteria and/or questions to consider during the evaluation were included to assist sites in determining a risk rating by payment type; and
- Improper Payment “actual” results for Vendor/Contracts, Payroll, Travel, Grants, Loans 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, Loans and “Other.”

DOE-OFA was responsible for collecting the risk assessment ratings and improper payment results from the sites included in the scope of the FY 2015 IPERIA assessment and reporting on improper payments for the Department in the Other Information section of the FY 2015 Agency Financial Report (AFR). DOE-OFA utilized the results received from the 43 sites to compile an agency-wide improper payment risk assessment. 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 OMB M-15-02.

Included in OMB M-15-02 are responsibilities of agency Inspectors General with regard to determining an agency’s compliance with IPERIA. Accordingly, the *Objective, Scope, and Methodology* section of this report has been designed to address Part II, Sections A(3) and A(4) of OMB 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 OMB 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 AFR or PAR (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 AFR or PAR.

Scope

As established in OMB M-15-02, the scope of the audit was the Department's FY 2015 improper payment and reporting disclosure within the Improper Payments Information and Reporting section of the Other Information to the FY 2015 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 GAO's report on *DOE's Risk Assessments Should be Strengthened* 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 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 considering dollar outlay, payment type, and error rate. The three sites selected comprise 28 percent of the total dollar outlays for disbursements in FY 2015. The sites selected were the Naval Reactors Laboratory Field Office – Bechtel Marine Propulsion Corporation, Golden Field Office, 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 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;
- Confirmed if management addressed the recommendations provided in GAO's report on *DOE's Risk Assessments Should be Strengthened*; 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 the 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 that DOE-OFA addressed four of the five GAO recommendations provided in GAO's report on *DOE's Risk Assessments Should be Strengthened* in FY 2015 through enhanced guidance, risk assessment templates, and communication on how to complete a thorough risk assessment for improper payments. Additionally, DOE-OFA performed a management level review of information provided by the field sites to determine if the responses were sufficient.

GAO's fifth recommendation requested that the Department improve public reporting on the amount of known improper payments by disclosing additional information regarding the amount and the extent to which improper payments could be occurring. GAO's report noted that the Department did not disclose information on prior year improper payments and settled costs (i.e. improper payments that occurred in prior fiscal years but were not identified until a later year). GAO noted that the Department was reporting more information than required, but recommended that when the total improper payment amount is reported that more information should be provided about that amount. As a result, the Department included in its FY 2014 presentation a footnote to the Disposition of Recaptured Funds table which noted that recaptured funds included "recapture that occurred in FY 2013 for payments made in previous years due to Statement of Cost Incurred and Claimed, Single Audits, contract closeouts, etc." During the AFR review process DOE was required to remove this table from the FY 2015 report as the table was intended to report recapture amounts from certain agencies. DOE has stated that they will restructure the information and include it in the FY 2016 AFR.

Management Response to Report



Department of Energy
Washington, DC 20585

March 28, 2016

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

FROM: TOM PARK, DIRECTOR
OFFICE OF FINANCE AND ACCOUNTING

SUBJECT: Comments to the Draft Audit Report on "The Department of Energy's
Improper Payment Reporting in the Fiscal Year 2015 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 2015 Agency Financial Report*. The objective of the audit was to complete an evaluation of the accuracy and completeness of the Department's reporting and to evaluate its performance in reducing improper payments, under the *Improper Payments Elimination and Recovery Improvement Act of 2012*.

My staff has provided technical comments via a separate email to your staff for inclusion in the final report. To address the "Other Matters" raised concerning the fifth recommendation of GAO's report, *IMPROPER PAYMENTS: DOE's Risk Assessments Should be Strengthened in FY 2015 (GAO-15-36)*, the Department will include narrative in the Improper Payments Information and Reporting section of the FY 2016 Agency Financial Report to fully disclose improper payments as a result of settled disallowed costs. We will continue to apply the required level of focus to ensure risk assessments provide an appropriate level of detail and analysis necessary to maintain low improper payment levels.

If you have any questions concerning this response, please contact Mindy Bledsoe of my staff 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.