



OFFICE OF INSPECTOR GENERAL

U.S. Department of Energy

AUDIT REPORT

OAI-FS-17-03

November 2016

**FEDERAL ENERGY REGULATORY
COMMISSION'S FISCAL YEAR 2016
FINANCIAL STATEMENT AUDIT**



Department of Energy
Washington, DC 20585

November 30, 2016

MEMORANDUM FOR THE CHAIRMAN, FEDERAL ENERGY REGULATORY
COMMISSION

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 "Federal Energy Regulatory
Commission's Fiscal Year 2016 Financial Statement Audit"

The attached report presents the results of the independent certified public accountants' audit of the balance sheets of the Federal Energy Regulatory Commission (Commission), as of September 30, 2016 and 2015, and the related statements of net cost, changes in net position, budgetary resources, and custodial activity for the years then ended.

To fulfill Office of Inspector General (OIG) audit responsibilities, we contracted with the independent public accounting firm of KPMG LLP (KPMG) to conduct the audit, subject to our review. KPMG is responsible for expressing an opinion on the Commission's financial statements and reporting on applicable internal controls and compliance with laws and regulations. The OIG monitored audit progress and reviewed the audit report and related documentation. This review disclosed no instances where KPMG did not comply, in all material respects, with generally accepted Government auditing standards. The OIG did not express an independent opinion on the Commission's financial statements.

KPMG concluded that the combined financial statements present fairly, in all material respects, the respective financial position of the Commission as of September 30, 2016 and 2015, and its net costs, changes in net position, budgetary resources, and custodial activities for the years then ended, in accordance with United States generally accepted accounting principles.

As part of this review, auditors also considered the Commission's internal controls over financial reporting and tested for compliance with certain provisions of laws, regulations, contracts, and grant agreements that could have a direct and material effect on the determination of financial statement amounts. The results of the auditors' review disclosed no instances of noncompliance or other matters required to be reported under generally accepted Government auditing standards or applicable Office of Management and Budget guidance.

We appreciate the cooperation of your staff during the audit.

Attachment

cc: Executive Director, Federal Energy Regulatory Commission
Chief Financial Officer, Federal Energy Regulatory Commission
Chief Financial Officer, CF-1
Deputy Chief Financial Officer, CF-2
Director, Internal Controls and Evaluation Division, Federal Energy Regulatory Commission
Director, Office of Finance and Accounting, CF-10
Deputy Director, Office of Finance and Accounting, CF-10
Assistant Director, Office of Financial Policy and Internal Controls, CF-12
Acting Team Leader, Office of Financial Policy and Internal Controls, CF-12
Audit Resolution Specialist, Office of Financial Policy and Internal Controls, CF-12
Audit Coordinator, Federal Energy Regulatory Commission

Performance and Accountability Reports are available for download on the Commission's
Web site: <http://www.ferc.gov>

INDEPENDENT AUDITOR'S REPORT



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

Independent Auditors' Report

The Federal Energy Regulatory Commission and the
The Acting Inspector General, United States Department of Energy

Report on the Financial Statements

We have audited the accompanying financial statements of the Federal Energy Regulatory Commission (the Commission), which comprise the balance sheets as of September 30, 2016 and 2015, and the related statements of net cost, changes in net position, budgetary resources, and custodial activity for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America, in accordance with the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and in accordance with Office of Management and Budget (OMB) Bulletin No. 15-02, *Audit Requirements for Federal Financial Statements*. Those standards and OMB Bulletin No. 15-02 require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Commission's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Commission's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion on the Financial Statements

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Federal Energy Regulatory Commission as of September 30, 2016 and 2015, and its net

1



costs, changes in net position, budgetary resources, and custodial activity for the years then ended in accordance with U.S. generally accepted accounting principles.

Other Matters

Interactive Data

Management has elected to reference to information on websites outside the Agency Financial Report to provide additional information for the users of its financial statements. Such information is not a required part of the basic financial statements or supplementary information required by the Federal Accounting Standards Advisory Board. The information on these websites has not been subjected to any of our auditing procedures, and accordingly we do not express an opinion or provide any assurance on it.

Required Supplementary Information

U.S. generally accepted accounting principles require that the information in the Management's Discussion and Analysis section be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Federal Accounting Standards Advisory Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audits were conducted for the purpose of forming an opinion on the basic financial statements as a whole. The Letter from Chairman Bay, Strategic Plan Overview, Message from the Chief Financial Officer, Other Information – including the Combined Schedule of Spending, Improper Payments Information Act (IPIA) Reporting, and Civil Monetary Penalty Adjustment for Inflation – and the Appendices of the Agency Financial Report are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audits of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.



Other Reporting Required by Government Auditing Standards

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements as of and for the year ended September 30, 2016, we considered the Commission's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Commission's internal control. Accordingly, we do not express an opinion on the effectiveness of the Commission's internal control. We did not test all internal controls relevant to operating objectives as broadly defined by the *Federal Managers' Financial Integrity Act of 1982*.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Commission's financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Commission's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests of compliance disclosed no instances of noncompliance or other matters that are required to be reported herein under *Government Auditing Standards* or OMB Bulletin No. 15-02.

We also performed tests of its compliance with certain provisions referred to in Section 803(a) of the *Federal Financial Management Improvement Act of 1996* (FFMIA). Providing an opinion on compliance with FFMIA was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests of FFMIA disclosed no instances in which the Commission's financial management systems did not substantially comply with the (1) Federal financial management systems requirements, (2) applicable Federal accounting standards, and (3) the United States Government Standard General Ledger at the transaction level.



Purpose of the Other Reporting Required by Government Auditing Standards

The purpose of the communication described in the Other Reporting Required by *Government Auditing Standards* section is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the Commission's internal control or compliance. Accordingly, this communication is not suitable for any other purpose.

KPMG LLP

Washington, D.C.
November 14, 2016

FEEDBACK

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

Please send your comments, suggestions, and feedback to OIG.Reports@hq.doe.gov and include your name, contact information, and the report number. You may also mail comments to:

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.