



OFFICE OF INSPECTOR GENERAL

U.S. Department of Energy

AUDIT REPORT

DOE-OIG-20-40

May 2020

**THE DEPARTMENT OF ENERGY'S
IMPROPER PAYMENT REPORTING IN
THE FISCAL YEAR 2019 AGENCY
FINANCIAL REPORT**



Department of Energy
Washington, DC 20585

May 11, 2020

MEMORANDUM FOR THE SECRETARY

A handwritten signature in black ink, appearing to read "Teri L. Donaldson".

FROM: Teri L. Donaldson
Inspector General

SUBJECT: INFORMATION: Audit Report on "The Department of Energy's Improper Payment Reporting in the Fiscal Year 2019 Agency Financial Report"

BACKGROUND

The *Improper Payments Elimination and Recovery Improvement Act of 2012* (IPERIA) was signed into law on January 10, 2013, amending the *Improper Payments Elimination and Recovery Act of 2010* (IPERA) and the *Improper Payments Information Act of 2002*. The Office of Management and Budget (OMB) issued Memorandum M-18-20, Appendix C to Circular Number A-123, *Requirements for Payment Integrity Improvement*, as implementation guidance to Federal agencies for IPERIA in June 2018. While all three laws are still in effect, the agency Inspector General guidance included in OMB Memorandum M-18-20 focuses on compliance with IPERA. The Department of Energy's Office of Finance and Accounting, a component of the Office of the Chief Financial Officer (OCFO), communicated instructions for meeting improper payment and payment recapture audit requirements, prescribed by OMB Circular Number A-123, to its 48 payment reporting sites. In accordance with OMB M-18-20, the Department implemented a 3-year risk assessment review cycle and last completed an improper payment risk assessment in fiscal year (FY) 2018. Only payment reporting sites that experienced significant: (1) changes in legislation, (2) increases in outlays, or (3) changes to the site's payment processes that would make the site susceptible to significant improper payments were required to complete risk assessments during FY 2019. Twenty-one sites met one or more of these criteria and performed risk assessments in the past year. Based on the site risk assessments performed in FY 2019 and consolidated at the Departmental level, the OCFO determined that the Department was not susceptible to significant improper payments.

OMB requires the Office of Inspector General to perform an annual review of the Department's improper payment reporting in its Agency Financial Report (AFR), and accompanying materials, to determine whether the Department was compliant with IPERA. The objective of this audit was to determine whether the Department met the OMB criteria for compliance with IPERA.

RESULTS OF AUDIT

The Department's FY 2019 improper payment reporting was in accordance with OMB criteria. Specifically, the Department published an AFR for FY 2019 and posted that report, as well as

accompanying materials, on its website. Although we determined that the Department met the criteria for compliance with OMB, we found that enhancements to the OCFO's review process could improve reliability of the improper payments reported. Specifically, although in previous years the OCFO had conducted site visits that evaluated the site's improper payment processes, the reviews were limited and were not scheduled for FY 2020 due to travel restrictions as the result of the coronavirus pandemic. We also noted that the onsite review process was not documented in a formalized standard operating procedure and believe that improved oversight could ensure more accurate reporting of improper payments.

Details of Testing

The Department's Office of Finance and Accounting issued guidance that required all payment reporting sites to confirm that there were no significant changes related to legislation, increases in outlays equal to or greater than 10 percent, or changes in the site's payment processes that would make it susceptible to significant improper payments. If no such occasions occurred, then a site risk assessment for FY 2019 was not necessary. We noted that 21 sites were required to develop risk assessments based on significant changes, and the OCFO consolidated these responses, determining that the Department was not susceptible to significant improper payments. In addition, all sites were required to submit actual improper payment and payment recapture information.

Furthermore, the Federal Field Chief Financial Officer or Contractor Chief Financial Officer at payment reporting sites was required to certify the accuracy of improper payments and risk ratings. The certifications indicated that the site either confirmed that there were no significant changes or that the site had completed the required FY 2019 risk assessment. Sites required to perform a risk assessment certified that (1) the risk assessment included consideration of OMB-required risk factors as they relate to payment activities; (2) the risk assessment and rating accurately reflected self-assessment of susceptibility to significant improper payments; and (3) the risk assessment was supported by documentation used to make the determination. In addition, payment reporting sites were required to acknowledge:

- Responsibility for the identification of and compliance with all aspects of laws, regulations, contracts, or grant agreements that could have a significant effect on the achievement of the objectives of FY 2019 Payment Integrity Reporting and disclose information related to any noncompliance;
- Responsibility for the design and implementation of programs and controls to prevent, deter, and detect fraud with the understanding that misrepresentations arising from fraudulent improper payment reporting activity are intentional misstatements or omissions of information in order to obtain something of value;
- No knowledge of any fraud or suspected fraud affecting FY 2019 Payment Integrity Reporting involving management, employees who have significant roles in internal control over FY 2019 Improper Payment Reporting, or others where the fraud could have a significant effect on FY 2019 Improper Payment Reporting;

- No knowledge of any allegations of fraud or suspected fraud affecting FY 2019 Payment Integrity Reporting received in communications from employees, former employees, regulators, or others; and
- No knowledge of deficiencies in internal control that could have a significant effect on FY 2019 Payment Integrity Reporting or significant transactions or events that have not been properly recorded in records underlying the measurement of FY 2019 Payment Integrity Reporting.

The OCFO was responsible for collecting and reviewing risk assessments, improper payment results, and the Chief Financial Officer certifications from the payment reporting sites. This information was summarized and reported by the Department in the “Other Information” section of its FY 2019 AFR. Based on these results and the Department’s historically low improper payment totals, the Department concluded that its programs were not susceptible to significant improper payment risk and, as a result, not subject to additional reporting requirements such as corrective action plans and annual improper payment reduction targets.

According to OMB, an agency is required to meet six specific requirements to comply with IPERA. Based on our review of the Department’s FY 2019 AFR, we found that the Department complied with IPERA reporting requirements, as indicated below. Compliance under IPERA means that the agency has:

OMB Criteria for Compliance	Was Criteria Met?
1. Published an 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 to Section 3321 note of Title 31 United States Code (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 AFR (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 AFR.	Not Applicable ¹

¹ The Department concluded that 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 was not required.

During our review, we noted opportunities for the Department to enhance its verification of reported improper payment amounts. Specifically, the OCFO stated that it no longer had a separate Internal Review function but instead used cross-functional site visits conducted by various Office of Finance and Accounting staff over the last few years. To date, the Office of Finance and Accounting had included internal controls/payment integrity as a topic during site visits conducted at the Savannah River Site in April 2018, Hanford Site in April 2019, and the Strategic Petroleum Reserve Office in July 2019. Site visits were selected based on need/areas of concern, best practices, and information sharing/training. The OCFO indicated that officials wanted to select a number of locations to perform detailed improper payment reviews during FY 2020 to ensure the adequacy of information and compliance with OMB criteria. However, we noted that the site visits did not occur due to the coronavirus pandemic travel restrictions. We believe that continuing this oversight function would improve the Department's payment integrity process. For example, Western Area Power Administration officials indicated that they believed the improper payments they were able to identify increased over the past few years as a result of improved internal coordination and auditing procedures. As such, we believe that the Department would benefit from continuing OCFO site visits to review the site's improper payment processes. The OCFO has acknowledged that periodic site visits would strengthen the Department's payment integrity program but noted that the site visits are subject to staff availability.

SUGGESTED ACTION

Although we determined that the Department's improper payment reporting was in accordance with OMB criteria, we suggest that the Office of the Chief Financial Officer:

1. Resume conducting annual site visits to review improper payment processes.

Attachments

cc: Chief of Staff
Deputy Chief Financial Officer

OBJECTIVE, SCOPE, AND METHODOLOGY

OBJECTIVE

We conducted this audit to determine whether the Department of Energy met the Office of Management and Budget's criteria for compliance with the *Improper Payments Elimination and Recovery Act of 2010*.

SCOPE

The audit was conducted from February 2020 through April 2020 at Department Headquarters in Germantown, Maryland. This audit was conducted under the Office of Inspector General project number A20FN007. Consistent with guidance established in Office of Management and Budget Memorandum M-18-20, the scope of the audit was the "Payment Integrity Reporting" section of the Department's Fiscal Year 2019 Agency Financial Report.

We obtained the risk assessment and improper payment submittals of the 48 payment reporting sites that were consolidated by the Office of the Chief Financial Officer to report *Improper Payments Elimination and Recovery Act of 2010* results. The improper payment submittals included the site-level Chief Financial Officer certifications, risk assessments, and payment results. To gain an understanding of the reporting methodologies, we judgmentally selected six payment reporting sites for further review, including the Golden Field Office, Western Area Power Administration, Idaho Operations Office, Consolidated Nuclear Security, Nuclear Waste Partnership, and Brookhaven National Laboratory.

METHODOLOGY

To accomplish our audit objective, we analyzed the "Payment Integrity Reporting" section of the "Other Information" in the Department's Fiscal Year 2019 Agency Financial Report. We completed the following procedures to assess compliance with Office of Management and Budget requirements:

- Gained an understanding of the Department's *Improper Payments Elimination and Recovery Act of 2010* reporting process and controls;
- Confirmed whether the Department's policies and procedures were in accordance with the *Improper Payments Elimination and Recovery Act of 2010*;
- Determined whether the Department published an Agency Financial Report for the most recent fiscal year, and posted the report and accompanying materials, on its website;
- Determined if the Department published improper payment estimates for all programs and activities identified as susceptible to significant improper payments;
- Determined if the Department reported a gross improper payment rate of less than 10 percent;

- Determined whether the Department published corrective action plans in the Agency Financial Report for those programs with significant improper payments;
- Evaluated whether the Department published and met annual reduction targets for each program assessed to be at risk for and identified to have significant improper payments;
- Confirmed if management considered all agency disbursements/programs in its agency-wide risk assessment;
- Determined if the Department verified that there were no significant changes in legislation, increases in its funding level, or changes to the site's payment processes;
- Determined if the Department verified that the payment reporting sites conducted a risk assessment;
- Determined if the Department reported a statistically valid estimate of the improper payments for each program deemed susceptible to improper payments;
- Determined if management executed the assessment methodology as designed for each program deemed susceptible to improper payments;
- Assessed whether the Department met Office of Management and Budget monitoring/tracking requirements, if applicable; and
- Reviewed Office of Management and Budget waivers and exemptions for improper payments reporting.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards required 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 objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusion based on our audit objective. Accordingly, we assessed significant 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. Finally, we did not rely on computer-processed data to satisfy our audit objective.

Management waived an exit conference on April 28, 2020.

PRIOR REPORTS

- Audit Report on [*The Department of Energy's Improper Payment Reporting in the Fiscal Year 2018 Agency Financial Report*](#) (DOE-OIG-19-33, May 2019). The Office of Inspector General found that the Department of Energy's fiscal year 2018 improper payment reporting was in accordance with Office of Management and Budget criteria. Specifically, the Department published an Agency Financial Report for fiscal year 2018 and posted that report, as well as accompanying materials, on its website. While we determined that the Department met the criteria for compliance with the Office of Management and Budget, we found that one Office of the Chief Financial Officer process improvement related to our prior year's report was still ongoing. The Office of the Chief Financial Officer also agreed that an opportunity existed for the Department to enhance transparency relative to the payment reporting sites' financial outlays.
- Audit Report on [*The Department of Energy's Improper Payment Reporting in the Fiscal Year 2017 Agency Financial Report*](#) (DOE-OIG-18-32, May 2018). The Office of Inspector General found that the Department's fiscal year 2017 improper payment reporting was in accordance with Office of Management and Budget criteria. Specifically, the Department published an Agency Financial Report for fiscal year 2017 and posted that report, as well as accompanying materials, on its website. While we found that the Department met the criteria for compliance with the Office of Management and Budget, we also noted opportunities for the Department to enhance internal controls relative to the payment sites' improper payment reporting certifications. Specifically, we determined that the Department may benefit from a more rigorous review of the payment reporting sites' submittals for improper payments.
- Audit Report on [*The Department of Energy's Improper Payment Reporting in the Fiscal Year 2016 Agency Financial Report*](#) (OAI-FS-17-09, April 2017). KPMG LLP expressed the opinion that the Department complied with all requirements of the *Improper Payments Elimination and Recovery Improvement Act of 2012*. Specifically, KPMG LLP found that the Department published an Agency Financial Report for the most recent fiscal year, and posted that report and any accompanying materials required by the Office of Management and Budget, on the Department's website. The Department's Office of Finance and Accounting elected to implement a 3-year risk assessment review cycle, as allowed for by Office of Management and Budget Memorandum M-15-02, and, as such, did not perform risk assessments in fiscal year 2016.

FEEDBACK

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