Office of Inspector General

OFFICE OF CYBER ASSESSMENTS AND DATA ANALYTICS

AUDIT REPORT

THE DEPARTMENT OF ENERGY'S PAYMENT INTEGRITY REPORTING IN THE FISCAL YEAR 2023 AGENCY FINANCIAL REPORT

DOE-OIG-24-19
MAY 2024

Department of Energy
Washington, DC 20585

May 29, 2024

MEMORANDUM FOR THE SECRETARY

SUBJECT: Audit Report on The Department of Energy's Payment Integrity Reporting in the Fiscal Year 2023 Agency Financial Report

The Payment Integrity Information Act of 2019 (PIIA) was signed into law in March 2020. The PIIA requires agencies to identify and review all programs and activities they administer that may be susceptible to significant improper payments based on guidance provided by the Office of Management and Budget (OMB). The current Administration has also identified payment integrity as a top priority, focusing on reducing improper payments and protecting taxpayer money. The priority includes balancing payment integrity risks and controls to ensure funding is serving its intended purpose. In accordance with PIIA and OMB requirements, we reviewed the improper payments identified in the Department of Energy's fiscal year 2023 *Agency Financial Report* (DOE/CF-0201, November 2023). Additionally, payment integrity was noted as a critical risk area in the Office of Inspector General's recent Special Report, *Management Challenges at the Department of Energy — Fiscal Year 2024* (DOE-OIG-24-05, November 2023). We conducted this audit to determine whether the Department met OMB criteria for compliance with the PIIA.

Although we determined that the Department's payment integrity reporting process was in accordance with OMB criteria, we made four suggestions in our report designed to improve management of the payment integrity program. Our suggested actions focused on: (1) performing a gap analysis to determine the necessary human capital and data analytic resources required to handle the influx of funding from various appropriations; (2) evaluating the use of artificial intelligence, machine learning, forecasting, and trending to effectively manage improper payments; (3) evaluating and developing formalized guidance in preparation for when the Department exceeds OMB payment reporting thresholds; and (4) reevaluating the risk assessment process to allocate more emphasis on the increased spending associated with the Infrastructure Investment and Jobs Act, the Inflation Reduction Act, and the CHIPS and Science Act.

Teri L. Donaldson
Inspector General

cc: Deputy Secretary
Chief of Staff

DOE-OIG-24-19

Department of Energy
Office of Inspector General

The Department of Energy's Payment Integrity Reporting in the Fiscal Year 2023 Agency Financial Report

(DOE-OIG-24-19)

WHY THE OIG PERFORMED THIS AUDIT

The Payment Integrity Information Act of 2019 was signed into law in March 2020 and requires agencies to identify and review all programs and activities they administer that may be susceptible to significant improper payments based on guidance provided by the Office of Management and Budget (OMB). The current Administration has identified payment integrity as a top priority, focusing on reducing improper payments and protecting taxpayer money.

We conducted this audit to determine whether the Department of Energy met OMB criteria for compliance with the Payment Integrity Information Act of 2019.

What Did the OIG Find?

The Department's fiscal year 2023 improper payment reporting was aligned with OMB criteria. The Department published its fiscal year 2023 *Agency Financial Report*, and posted that report, and the accompanying materials, on its website. However, we identified areas where improvements to the payment integrity process could result in more efficient and accurate identification of improper payments. The Department has not identified underlying root causes for reported improper payments. The Department is also at risk of exceeding OMB's threshold for improper payments as a result of new spending appropriations. However, staffing shortages and lack of data analytics advancement put the Department at risk for inadequate oversight of improper payments.

What Is the Impact?

Without identifying underlying root causes, the Department is unable to take appropriate corrective actions to mitigate recurrences. Increased appropriations also place the Department at heightened risk of exceeding the OMB's improper payment threshold, which would require additional reporting responsibilities. Without the continued expansion of data analytics, the Department's ability to perform comprehensive and timely reviews will ultimately result in unidentified fraud, waste, and abuse of Department resources.

What Is the Path Forward?

We made four suggestions designed to improve management of the payment integrity program. We suggest the Department perform gap analyses to determine and acquire the necessary human capital and data analytic resources; evaluate the use of artificial intelligence, machine learning, forecasting, and trending to manage improper payments; evaluate and develop formalized guidance in preparation of exceeding the OMB threshold; and reevaluate the risk assessment process to allocate more emphasis on the increased spending associated with new spending appropriations.

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Background and Objective

Background

The Payment Integrity Information Act of 2019 (PIIA) was signed into law in March 2020. The PIIA requires agencies to identify and review all programs and activities they administer that may be susceptible to significant improper payments based on guidance provided by the Office of Management and Budget (OMB). OMB Memorandum M-21-19, *Transmittal of Appendix C to OMB Circular A-123, Requirements for Payment Integrity Improvement*, requires agencies to report technically improper payments, which are defined as a payment to the right recipient for the right amount where the payment process failed to follow all applicable statutes and regulations.

In March 2023, the Department of Energy's Office of Finance and Accounting, a component of the Office of the Chief Financial Officer (OCFO), communicated instructions to its 47 payment reporting sites for meeting improper payment and payment recapture audit requirements prescribed by the OMB. In accordance with the OMB Circular A-123, Appendix C, *Requirements for Payment Integrity Improvement*, the Department implemented a 3-year risk assessment review cycle and last completed an improper payment risk assessment in fiscal year (FY) 2021. The only payment reporting sites required to complete risk assessments during FY 2023 experienced significant: (1) increases in site outlays; (2) changes to the site's payment processes that would make the site susceptible to significant improper payments; (3) changes in legislation; or (4) impacts from natural disasters, national emergencies, or a change to site structure that increases payment integrity risk. Forty-one of the 47 reporting sites met 1 or more of these criteria and performed risk assessments during FY 2023. Based on the payment reporting site risk assessments performed and consolidated at the Department level, the OCFO determined that the Department was not susceptible to significant improper payments.

Report Objective

We conducted this audit to determine whether the Department met OMB criteria for compliance with the PIIA.

Results of Review

The Department's FY 2023 improper payment reporting was aligned with OMB criteria. Specifically, the Department published its FY 2023 *Agency Financial Report* and posted that report, and the accompanying materials, on its website. The Department also conducted improper payment risk assessments for all applicable programs, as required. To its credit, we also noted that the Department was making progress towards addressing recommendations we made in our prior report, *The Department of Energy's Payment Integrity Reporting in the Fiscal Year 2022 Agency Financial Report* (DOE-OIG-23-22, May 2023). The Department automated data links between the master improper payment consolidation file and the individual site submission file to ensure the information matched. The OCFO also executed a two-layer review process, which includes reviewing data to ensure accurate consolidation and reviewing formulas for computational accuracy and completeness. Although two of our prior year recommendations remain open, the OCFO had taken preliminary steps to expand its use of data analytics to include hiring new analytic staff, working toward performing root cause analyses that incorporate artificial intelligence and machine learning, and creating predictive analysis to help mitigate and reduce improper payment rates. The OCFO also plans to update FY 2024 Payment Integrity guidance to expand site requirements for more detailed explanations for improper payment occurrences and ensure that internal controls are in place to mitigate improper payments and fraud in response to the last recommendation.

Although we determined that the Department met the OMB's compliance criteria, we found areas where improvements to the payment integrity process could result in more efficient and accurate identification of improper payments. We determined that the Department's Payment Integrity and Services Division could benefit from additional human capital and data analytics resources to effectively manage the consolidation and reporting of improper payments. Further, we determined that new spending and loan programs resulting from the enactment of the Infrastructure Investment and Jobs Act (IIJA), the Inflation Reduction Act (IRA), the CHIPS and Science Act, and the Puerto Rico Energy Resilience Fund have only increased the risk of improper payments occurring on top of what already existed with preexisting outlays. The OCFO could benefit with the continued expansion of its data analytics program to include artificial intelligence and machine learning to help it better understand and mitigate improper payment risks. As the Department approaches the OMB's threshold for payment reporting, it should prepare a formalized approach for the additional reporting and compliance requirements. The OCFO indicated that a statistician was recently hired to begin developing an enhanced approach.

Reported Improper Payments

The Department, with OMB approval,[1] has historically elected to report actual improper payments from the prior FY in the current year *Agency Financial Report*. In the FY 2023 *Agency Financial Report*, the Department reported that FY 2022 improper payments plus

[1] The OMB approved of the Department's reporting prior year payment activity in current year *Agency Financial Reports* on May 25, 2011.

unknown payments[2] were $47.2 million out of $51.04 billion in total payment outlays, resulting in an improper payment rate of 0.09 percent. This amount was below the OMB's $100 million threshold for reporting on all aspects of improper payments. The Department also indicated that its improper payment rate has remained below one percent since its program began in FY 2002. For FY 2023, the Department reported that its improper payment amounts included underpayments of approximately $820,000; lost discounts of approximately $200,000; technically improper payments[3] of $60,000 (none of which can be recaptured); unknown payments of $100,000; and overpayments identified for recapture of $46.02 million.

Compliance with OMB Criteria

The Department's Office of Finance and Accounting issued guidance in March 2023 that required all payment reporting sites to confirm that there were no: (1) significant changes related to legislation; (2) increases in outlays equal to or greater than 10 percent; (3) changes in the site's payment processes; or (4) impacts from natural disasters that would make it susceptible to significant improper payments. If no such occasions occurred, then a site risk assessment for FY 2023 was not necessary. We noted that 41 of 47 payment reporting sites were required to develop risk assessments based on payment reporting site funding changes. In addition to self-evaluating whether a risk assessment needed to be conducted, all sites were required to submit actual improper payment and payment recapture information. Although several sites reported receiving significant increases in appropriation funding, none were assessed a risk rating higher than low.

The Designated Financial Officer or Contractor Chief Financial Officer at payment reporting sites was also required to certify the accuracy of improper payments and risk ratings. The certifications indicated that site officials either confirmed that there were no significant changes or that the site had completed the required FY 2023 risk assessment. Site officials required to perform a risk assessment certified that the risk assessments included consideration of OMB and Department-required risk factors as they related to payment activities; accurately reflected self-assessment of susceptibility to significant improper payments; and were supported by documentation used to make the determination. In addition, payment reporting site officials 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 2023 payment integrity reporting, and the disclosure of information related to any noncompliance;

- Documented procedures in place to implement requirements of the Payment Integrity Program;

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[2] Per OMB Circular A-123, Appendix C, an unknown payment is a payment that could be either proper or improper, but the agency is unable to discern whether the payment was proper or improper at the time of reporting.
[3] Per OMB Circular A-123, Appendix C, a technically improper payment is a payment made to an otherwise qualified recipient for the right amount, but the payment failed to meet all regulatory and/or statutory requirements. A technically improper payment is a non-monetary loss type of improper payment.

- Compliance, in all material respects, with applicable laws and regulations that could have a significant effect on the achievement of the objectives of FY 2023 Payment Integrity Reporting in the event of noncompliance;

- Responsibility for the design and implementation of programs and controls to prevent, deter, and detect fraud while understanding that misrepresentations arising from fraudulent improper payment reporting activity are intentional misstatements or omissions of information to obtain something of value;

- No knowledge of any fraud or suspected fraud affecting FY 2023 payment integrity reporting involving management, employees who have significant roles in internal control over FY 2023 improper payment reporting, or others when the fraud could have a significant effect on FY 2023 improper payment reporting;

- No knowledge of any allegations of fraud or suspected fraud affecting FY 2023 payment integrity reporting received in communications from employees, former employees, regulators, or others; and

- No deficiencies in internal controls that could have a significant effect on FY 2023 payment integrity reporting, or the occurrence of significant transactions or events that have not been properly recorded in records underlying the measurement of FY 2023 payment integrity reporting.

The OCFO collected and reviewed site-level risk assessments, improper payment results, and certifications from the payment reporting sites. This information was summarized and reported by the Department in the Other Information section of its FY 2023 *Agency Financial Report*. Based on the 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 the OMB, an agency is required to meet 10 specific requirements to comply with the PIIA. Based on our review of the FY 2023 *Agency Financial Report*, we found that the Department complied with applicable PIIA reporting requirements for improper payments and annual unknown payments, as indicated in the following table. Compliance under the PIIA means that the agency has done the following:

OMB Criteria for Compliance	**Was Criteria Met?**
1) Published payment integrity information with the annual financial statement.	Yes
2) Posted the annual financial statement and the accompanying materials on the agency website.	Yes

3) Conducted improper payment risk assessments for each program with annual outlays greater than $10 million at least once in the last 3 years.	Yes
4) Adequately concluded whether the program is likely to make improper payments and unknown payments above or below the statutory threshold.	Yes
5) Published improper payment and unknown payment estimates for programs susceptible to significant improper payments and unknown payments in the accompanying materials to the annual financial statement.	Not Applicable[4]
6) Published corrective action plans for each program for which an estimate above the statutory threshold was published in the accompanying materials to the annual financial statement.	Not Applicable[4]
7) Published an improper payment and unknown payment reduction target for each program for which an estimate above the statutory threshold was published in the accompanying materials to the annual financial statement.	Not Applicable[4]
8) Demonstrated improvements to payment integrity or reached a tolerable improper payment and unknown payment rate.	Not Applicable[4]
9) Developed a plan to meet the improper payment and unknown payment reduction target.	Not Applicable[4]
10) Reported an improper payment and unknown payment estimate of less than 10 percent for each program for which an estimate was published in the accompanying materials to the annual financial statement.	Not Applicable[4]

Payment Integrity Reporting Process Observations

While the Department was compliant with OMB guidance for programs that were not deemed susceptible to improper payments, we determined that new programs and spending surges introduce an increased risk that the Department may exceed the OMB's $100 million annual threshold for being susceptible to improper payments. If the Department exceeds that threshold, it would then be mandated to implement additional requirements. For example, the Department may no longer be able to report improper payment data a year in arrears. Instead, estimates based on current-year data may need to be published in addition to establishing payment reduction targets and corrective action plans. In the Office of Inspector General's Special Report, *Management Challenges at the Department of Energy — Fiscal Year 2024* (DOE-OIG-24-05, November 2023), we noted that the Department was provided an unprecedented $99 billion in new appropriations, $30.5 billion in new authorizations, and an enhanced loan authority of over $400 billion. To facilitate the spending, more than 70 new Department programs were created. However, this did not result in the creation of new reporting sites for this cycle specifically related to the new funding. According to the OCFO, the additional funds

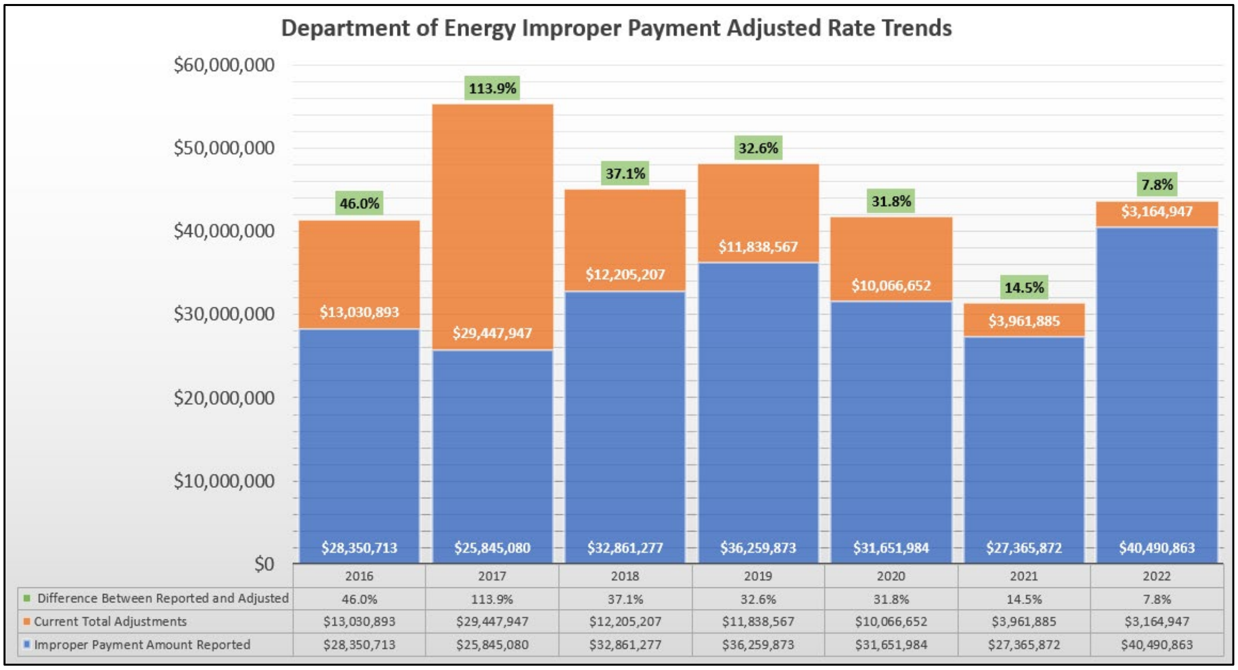
[4] The Department concluded its programs were not susceptible to significant improper payments as defined by OMB guidance. Therefore, the reporting of statistical estimates of improper payments, corrective actions, and reduction targets in the FY 2023 *Agency Financial Report* was not applicable.

will be reported based on the payment reporting site. These new appropriations and authorizations, in combination with establishing numerous Departmental programs and staffing shortages, has the potential to put tremendous strain on the Payment Integrity and Services Division, which has been tasked with oversight and improper payment reporting. Expanding human capital and data analytic resources will help reduce the strain and risk associated with this unprecedented situation.

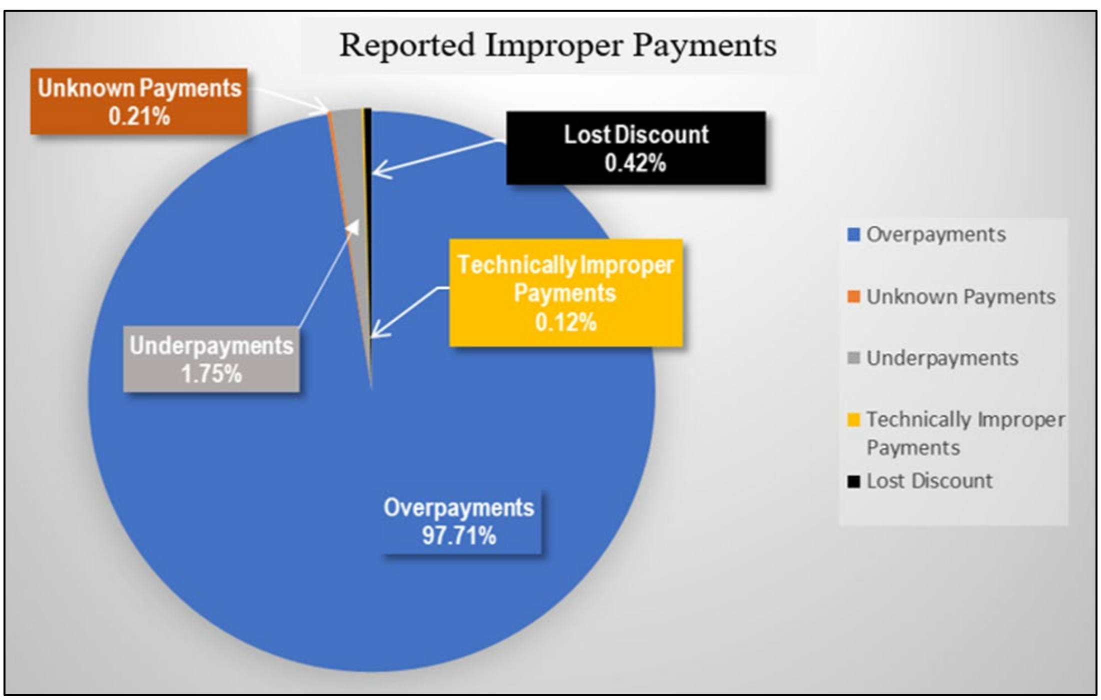
As a result of the influx of funds, we concluded that enhancements to the Department's payment integrity process are necessary, as it is likely that improper payments will significantly increase. To address the risks associated with the funding increases, the OCFO's FY 2023 guidance to its payment sites included a risk factor relating to the IIJA, the IRA, and the CHIPS and Science Act that would trigger a risk assessment if any of the aforementioned risk criteria are experienced. As previously noted, several sites reported receiving significant increases in appropriation funding, but all sites calculated their overall risk as low. Given the significant increases in funding, it is concerning that all sites are continuing to report their risk as low. The OCFO indicated that the Department is developing a spending dashboard (DOE Lifecycle Dashboard) to track funding; however, it is still being finalized. While this dashboard may help identify the sites with increased funding, a reevaluation of the way risks are allocated to include more emphasis on the associated spending is needed.

In our Special Report, *The Department of Energy's Considerations and Use of Data Analytics* (DOE-OIG-24-14, March 2024), we identified that the Department often lacks the data necessary to make critical decisions, evaluate and effectively manage risks, or gain visibility into program results. Data access, management, and analytics challenges hinder the Department's ability to enhance data-driven decision making, detect fraud, and ensure appropriate stewardship of Federal resources. The Department's ability to perform comprehensive and timely analytics is still maturing, and delayed implementation could result in unidentified fraud, waste, and abuse of the Department's resources. Further, in our prior report, *The Department of Energy's Payment Integrity Reporting in the Fiscal Year 2020 Agency Financial Report* (DOE-OIG-21-27, May 2021), we suggested that the OCFO consider making enhancements to the improper payment quality assurance process to include comparing and analyzing historical data to assist in developing a more analytical approach to managing improper payments. However, the OCFO has yet to use this data to forecast future improper payment rates. The OCFO indicated that it is still evaluating the criteria for the analytics needed to reasonably forecast future improper payments.

When looking at historical adjustments (amendments made to previously reported improper payment totals) provided by the OCFO, we noted that the Department made adjustments of more than $10 million (30 percent or more) in 5 of the past 7 years. This data could have been used to forecast and possibly prevent recurrences of high adjustment rates. While the adjustment amount data was available internally, it was not reported in any documents accessible by the public.



While the OCFO analyzes the data received, the ability to conduct in-depth analysis of payment reporting sites is limited because only summary-level data was collected by the OCFO from the payment reporting sites. Further, we looked at the percentage breakdown of the types of improper payments as reported in FY 2023 and noted that nearly 98 percent, or $46 million, of improper payments were attributed to overpayments. The Department recaptured $41.07 million of those overpayments.



Note: The graphic represents the FY 2023 *Agency Financial Report* where the Department reported FY 2022 actual improper payments.

According to information collected by the OCFO from the Department's payment reporting sites, the large share of root causes attributing to the overpayment amount includes duplicate payments of $12 million, incorrect amounts of $7.4 million, and ineligible recipients of $12.9 million. While the Department attributed the overpayments to these areas, it had not identified the true underlying root causes for why the overpayments occurred and, therefore, cannot formulate effective corrective actions to mitigate recurrences. We were unable to determine the actual reasons the improper payments occurred without tracing each individual transaction to the site or contractor where the improper payment occurred. Likewise, the OCFO only evaluated the root causes based on the consolidation of the summary-level data submitted and certified by the sites. However, according to OMB Circular A-123, Appendix C, a root cause is something that would directly lead to an improper payment, and if corrected, would prevent the improper payment. It also noted that identifying the root cause requires the program to continue asking, "Why did this occur?"—until the root cause is identified. In our prior report, *The Department of Energy's Payment Integrity Reporting in the Fiscal Year 2022 Agency Financial Report* (DOE-OIG-23-22, May 2023), we also noted that only summary-level data for root causes had been collected by the OCFO and recommended that the annual guidance be updated to include more direction on payment reporting sites' collection of useful and consistent data to identify detailed root causes of reported improper payments and on developing plans to mitigate them in the future. The OCFO is still in the process of implementing this recommendation and estimates a July 2024 completion date. The OCFO is working towards the development of analytic tools to further analyze the root cause data to help identify controls and areas of improvement to make a predictive analysis on mitigating and reducing the improper payment rates. There is no timeline for the full deployment of an initial predictive model.

In the Government Accountability Office's report, *Improper Payments: Information on Agencies' Fiscal Year 2023 Estimates* (GAO-24-106927, March 2024), it found that most of the $236 billion in Government-wide improper estimates for FY 2023 consisted of overpayments.

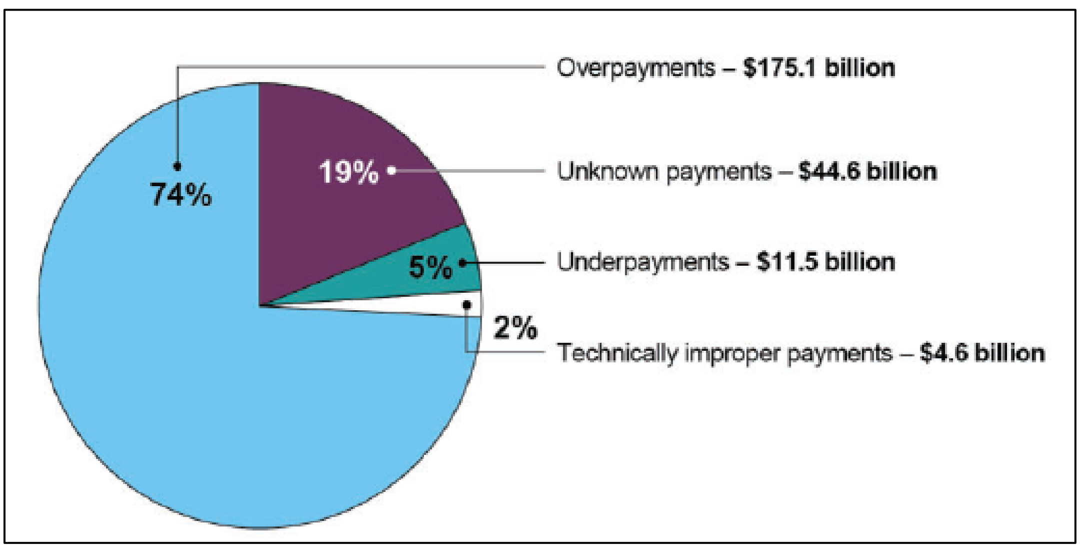


Image Source: Government Accountability Office analysis of the OMB PaymentAccuracy.gov data | GAO-24-106927

The Department's improper payments, much like the rest of the Federal Government, primarily consists of overpayments. When taking into consideration the higher overpayment rates and historical adjustments made by the Department, we determined that it would be prudent for the OCFO to consider reporting current year estimates to promptly identify incurred cost and mirror counterparts within the Federal Government.

Impact to the Department of Energy

Without improvements to its payment integrity program to include identifying underlying root causes, the Department is at risk of exceeding the OMB's $100 million threshold for being susceptible to improper payments in the future. If the Department exceeds that threshold, it would then be mandated to implement additional requirements. For example, the Department may no longer be able to report improper payment data a year in arrears. Instead, estimates based on current-year data may need to be published in addition to establishing payment reduction targets and corrective action plans. In addition to the expected increase in improper payments resulting from the influx of funding received under recent spending bills, we also anticipate that questioned costs could increase as a result of recurrent incurred cost auditing activities. Not reporting or identifying questioned costs in the year they occur could lead to similar situations as previously reported in our report, *Department of Energy's Management of the ActioNet Information Technology Support Contract* (DOE-OIG-19-35, June 2019), which identified $294 million in questioned costs; however, as of September 30, 2023, the questioned costs remain open pending determination. In addition to the cost trends identified earlier in this report, these costs combined with only obtaining summary-level root causes increase the risk that the Department may exceed the OMB's threshold for being susceptible to improper payments recurrences. Further, the understaffed Payment Integrity and Services Division's increased responsibility of additional compliance reporting, combined with the lack of data analytic maturity, could increase the risk of inadequate oversight.

Suggested Actions

In our prior report, we made three recommendations, two of which have not been fully addressed. We recommended that the Chief Financial Officer update its annual guidance to sites to include more specific direction on payment reporting sites' collection of useful and consistent data to identify detailed root causes of reported improper payments and on developing plans to mitigate them in the future. We also recommended that the use of data analytics be expanded at both Department Headquarters and payment reporting sites to better identify potential improper payments and the root causes for improper payments, especially as expenditures increase due to the IIJA, the IRA, and the CHIPS and Science Act. When implemented, these recommendations should help mitigate recurrences of improper payments across the Department.

While our current review determined that the Department's payment integrity reporting process was in accordance with OMB criteria, we identified areas of improvement that could help improve the improper payment reporting process. We suggest that the Chief Financial Officer:

1. Perform a gap analysis to determine and acquire the necessary human capital and data analytic resources required within the Payment Integrity and Services Division to handle the expected increase in outlays associated with the influx of funding from various appropriations;

2. Coordinate with the Chief Information Officer and Chief Data Officer to evaluate the use of, and implement as appropriate, artificial intelligence, machine learning, forecasting, and trending to effectively manage improper payments;

3. Evaluate potential future needs and begin developing formalized guidance to account for the additional requirements associated with reporting improper payments utilizing current year estimates in preparation for if the Department exceeds the OMB threshold; and

4. Reevaluate the risk assessment process to allocate more emphasis on the increased spending associated with the IIJA, the IRA, and the CHIPS and Science Act.

Appendix 1

Commonly Used Terms

Department of Energy	Department
Fiscal Year	FY
Infrastructure Investment and Jobs Act	IIJA
Inflation Reduction Act	IRA
Office of Management and Budget	OMB
Office of the Chief Financial Officer	OCFO
Payment Integrity Information Act of 2019	PIIA

Appendix 2

Objective, Scope, and Methodology

Objective

We conducted this audit to determine whether the Department of Energy met the Office of Management and Budget (OMB) criteria for compliance with the Payment Integrity Information Act of 2019 (PIIA).

Scope

The audit was conducted remotely from January 2024 through May 2024 at Department Headquarters in Germantown, Maryland. Consistent with guidance established in the OMB Memorandum M-21-19, *Transmittal of Appendix C to OMB Circular A-123, Requirements for Payment Integrity Improvement*, the scope of the audit was the Payment Integrity Reporting section of the Department's fiscal year (FY) 2023 *Agency Financial Report*. This audit was conducted under Office of Inspector General project number A24FN002.

We obtained the risk assessments and improper payment submittals for the 47 payment reporting sites that were consolidated by the Office of the Chief Financial Officer to report PIIA 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 four payment reporting sites for further review: Nuclear Waste Partnership LLC, Carlsbad, New Mexico; Office of River Protection, Richland Washington; Fermi Research Alliance, LLC, Batavia, Illinois; and Chief Financial Officer Payment Services in Oak Ridge, Tennessee.

Methodology

To accomplish our audit objective, we analyzed the Payment Integrity Reporting section in the Other Information section of the Department's FY 2023 *Agency Financial Report*. We completed the following procedures to assess compliance with OMB requirements:

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

- Determined whether the Department published corrective action plans in the FY 2023 *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 and programs in its agency-wide risk assessment;

- Assessed whether the Department verified that there were no significant changes in legislation, increases in its funding level, or changes to the sites' payment process;

- Evaluated whether the Department verified that the applicable payment reporting sites conducted a risk assessment;

- Verified whether 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 designed for each program deemed susceptible to improper payments; and

- Assessed whether the Department met OMB monitoring and tracking requirements, if applicable.

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 objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions 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. We assessed the following internal control components and underlying principles significant to the audit objective: control environment and the related principles to exercise oversight responsibility and enforce accountability; control activities and the related principle to design control activities but also design activities for information systems; and risk assessment and the related principle to identify, analyze, and respond to risk. However, because our review was limited to these internal control components and underlying principles, it may not have disclosed all internal control deficiencies that may have existed at the time of this audit. We did not rely on computer-processed data to satisfy our audit objective.

Management officials waived an exit conference May 17, 2024.

Appendix 3

Related Reports

Office of Inspector General

- Special Report on *The Department of Energy's Considerations and Use of Data Analytics* (DOE-OIG-24-14, March 2024). The Office of Inspector General (OIG) found that while Federal efforts to promote information as a valuable national resource and strategic asset have increased, the Department of Energy often lacks the data necessary to make critical decisions, evaluate and effectively manage risks, or gain visibility into program results. The Department relies on contractors to execute much of its diverse mission, creating a decentralized environment in which authoritative source data may be uncollected or is collected and stored in various systems and databases throughout the complex. This presents data access, management, and analytics challenges that hinder the Department's ability to enhance data-driven decision making, detect fraud, and ensure appropriate stewardship of Federal resources. This report introduces the legal framework and leading practices supporting the use of data access, management, and analytics while highlighting past data management and analytics shortcomings within the Department.

- Special Report on *Management Challenges at the Department of Energy — Fiscal Year 2024* (DOE-OIG-24-05, November 2023). The OIG found that unprecedented challenges raised by the passage of the Infrastructure Investment and Jobs Act, the Inflation Reduction Act, the Chips and Science Act, and the Puerto Rico Energy Resilience fund. Specifically, these funds collectively provided the Department with an unprecedented $99 billion in new appropriations, $30.5 billion in new authorizations, and an enhanced loan authority of over $400 billion. This situation brings risk to the taxpayers—the combination of standing up 72 new Department programs, a real risk of funding entities owned or controlled by foreign adversaries, and a historic expansion of the Department's loan program. It noted that the loan packages are on an accelerated schedule. One category of loan guarantees worth an estimated $250 billion will expire on September 30, 2026. Another category of loan guarantees worth an estimated $40 billion will expire on the same date—$290 billion over the next 3 years or roughly $8 billion per month over the next 36 months. There is no precedent in the Department for this level and pace of financing. Further, many of these projects are designed to promote innovation by financing projects not otherwise acceptable by private equity investors—projects the markets do not view acceptable.

- Audit Report on *The Department of Energy's Payment Integrity Reporting in Fiscal Year 2022 Agency Financial Report* (DOE-OIG-23-22, May 2023). The OIG found that the Department's fiscal year (FY) 2022 improper payment reporting was aligned with the Office of Management and Budget (OMB) criteria. Specifically, the Department published its FY 2022 *Agency Financial Report* and posted that report, and the accompanying materials, on its website. However, we identified areas where improvements to the payment integrity process are warranted. Specifically, the

Department informed us that it underreported its improper payments in the FY 2022 *Agency Financial Report* by approximately $867,000 because of a data entry error created by a third-party contractor. Additionally, new spending and loan programs introduce an increased risk that the Department may exceed the OMB's $100 million threshold for being susceptible to improper payments. Because of this influx of funds, we determined that enhancements to the payment integrity process are necessary.

- Audit Report on *The Department of Energy's Payment Integrity Reporting in the Fiscal Year 2021 Agency Financial Report* (DOE-OIG-22-37, June 2022). The OIG found that the Department's FY 2021 improper payment reporting was aligned with the OMB criteria. Specifically, the Department published its FY 2021 *Agency Financial Report* and posted that report, as well as accompanying materials, on its website. Although we determined that the Department met OMB compliance criteria, we found that enhancements to the payment integrity process related to technically improper payments could result in more consistent and transparent reporting. We determined that one of the four sites we reviewed reported late payments as technically improper payments. While two other payment reporting sites provided examples of late payments upon inquiry, the payments were not included in the sites' technically improper payment reporting. We also determined that the payment reporting sites we reviewed were reporting improper payments to the Department in groups by the identified root cause. However, this practice was not required or consistently executed by the payment reporting sites.

Government Accountability Office

- *Improper Payments: Information on Agencies' Fiscal Year 2023 Estimates* (GAO-24-106927, March 2024)
- *A Framework for Managing Improper Payments in Emergency Assistance Programs* (GAO-23-105876, July 2023)
- *OVERSIGHT OF AGENCY SPENDING: Implementing GAO Recommendations Could Help Address Previously Identified Challenges at Commerce, DOE, and EPA* (GAO-23-106726, March 2023)
- *IMPROPER PAYMENTS: Improvements Needed to Ensure Reliability and Accuracy in DOE's Risk Assessments and Reporting* (GAO-20-442, June 2020)
- *PAYMENTS IN LIEU OF TAXES: Revisions to DOE Order Could Provide Better Assurance that Payments Meet Goals* (GAO-20-122, October 2019)

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