



Office of Inspector General

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OFFICE OF CYBER  
ASSESSMENTS AND DATA  
ANALYTICS

AUDIT REPORT

THE DEPARTMENT OF ENERGY'S PAYMENT  
INTEGRITY REPORTING IN THE FISCAL YEAR 2022  
AGENCY FINANCIAL REPORT

DOE-OIG-23-22  
MAY 2023



**Department of Energy**  
Washington, DC 20585

May 17, 2023

MEMORANDUM FOR THE SECRETARY

SUBJECT: Audit Report on The Department of Energy's Payment Integrity Reporting in the Fiscal Year 2022 Agency Financial Report

The Payment Integrity Information Act of 2019 (PIIA) was signed into law in March 2020. 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). In accordance with PIIA and OMB requirements, we reviewed the improper payments identified in the Department of Energy's fiscal year 2022 *Agency Financial Report* (DOE/CF-0191, November 2022). The current administration has 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. We conducted this audit to determine whether the Department met OMB criteria for compliance with PIIA.

Although we determined that the Department's payment integrity reporting process was in accordance with OMB criteria, we made three recommendations in our report designed to improve management of the payment integrity program. Our recommendations focused on: (1) completing planned corrective actions for the consolidation of payment reporting sites' improper payment information in the *Agency Financial Report*; (2) updating the Office of the Chief Financial Officer's 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; and (3) expanding the Office of the Chief Financial Officer's use of data analytics, at both the Department-wide level and payment reporting site level, to identify potential root causes for improper payments that could lead to the Department's improper payment rate exceeding the OMB threshold. Management concurred with the recommendations and indicated that corrective actions were planned to address the issues identified in the report.

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

Teri L. Donaldson  
Inspector General

cc: Deputy Secretary  
Chief of Staff

DOE-OIG-23-22



**Department of Energy  
Office of Inspector General**

**The Department of Energy's  
Payment Integrity Reporting  
in the Fiscal Year 2022 Agency Financial Report  
(DOE-OIG-23-22)**

**WHY THE OIG  
PERFORMED THIS  
REVIEW**

**The Payment Integrity Information Act of 2019 (PIIA) 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.**

**In accordance with PIIA and OMB requirements, we conducted this audit to determine whether the Department of Energy met OMB criteria for compliance with PIIA.**

**What Did the OIG Find?**

The Department's fiscal year (FY) 2022 improper payment reporting was aligned with 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.

**What Is the Impact?**

Without additional improvements to its payment integrity program, the Department may be at risk of exceeding the OMB's threshold for being susceptible to improper payments. Further, without detailed information, the Department will be unable to conduct necessary analytics to identify root causes of improper payments and to help identify or prevent further improper payments.

**What Is the Path Forward?**

We made three recommendations designed to improve management of the payment integrity program. Our recommendations focused on completing corrective actions for the consolidation of payment reporting sites' improper payment information; updating annual guidance to sites to include specific direction on collecting useful and consistent data to identify detailed root causes of improper payments; and expanding the use of data analytics to identify potential root causes for improper payments that could lead to the Department's improper payment rate exceeding the OMB threshold.

# Table of Contents

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Background and Objective.....	1
Results of Review	
Reported Improper Payments.....	2
Payment Integrity Reporting Process Observations.....	5
Impact to the Department of Energy .....	8
Recommendations .....	9
Management Comments .....	10
Office of Inspector General Response .....	10
Appendices	
1. Commonly Used Terms .....	11
2. Objective, Scope, and Methodology.....	12
3. Related Reports.....	14
4. Management Comments.....	16

# Background and Objective

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## Background

The Payment Integrity Information Act of 2019 (PIIA) was signed into law in March 2020. 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). Additionally, the 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 April 2022, 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 46 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. Only payment reporting sites that experienced significant: (1) changes in legislation; (2) increases in site outlays; (3) changes to the site's payment processes that would make the site susceptible to significant improper payments; or (4) impacts from natural disasters, national emergencies, or a change to site structure that increases payment integrity risk were required to complete risk assessments during FY 2022. Twenty payment reporting sites met one or more of these criteria and performed risk assessments during FY 2022. 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 PIIA.

## Results of Review

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The Department's FY 2022 improper payment reporting was aligned with OMB criteria. Specifically, the Department published its FY 2022 *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 had taken actions to address the suggestion and recommendation we made in our prior report on *The Department of Energy's Payment Integrity Reporting in the Fiscal Year 2021 Agency Financial Report* (DOE-OIG-22-37, June 2022). Specifically, the Department clarified how technically improper payments should be reported in its *Payment Integrity Reporting Fiscal Year 2022 Guidance*, and the OCFO worked with the payment reporting sites throughout FY 2022 to ensure technically improper payments were reported, where applicable. Additionally, the OCFO stated that it created a database of all reported improper payments and was exploring the automation of the database for data entry and reporting. The OCFO indicated that improper payments would be segmented by payment reporting sites for secure access while still allowing management, and the appropriate field sites, access for quality assurance, oversight, and data analytics purposes.

Although we determined that the Department met the OMB's compliance criteria, we found areas where improvements to the payment integrity process are warranted. Specifically, the Department informed us that it had underreported its improper payments in the FY 2022 *Agency Financial Report* by approximately \$867,000. Further, we determined that new spending and loan programs resulting from the Infrastructure Investment and Jobs Act (IIJA), the Inflation Reduction Act (IRA), and the CHIPS and Science Act (CHIPS Act) introduce an increased risk that the Department may exceed the OMB's threshold for being susceptible to improper payments. As such, the Department should work with its payment sites to expand upon the methods used to identify root causes for its improper payments, so the sites can better understand why they occurred and develop plans to mitigate them in the future. The use of expanded data analytics at Department Headquarters and field sites could also result in more efficient and accurate identification of improper payments.

### Reported Improper Payments

The Department, with OMB approval,<sup>1</sup> has historically elected to report actual improper payments from the prior FY in the current year *Agency Financial Report*. In FY 2022, the Department reported that FY 2021 improper payments plus unknown payments were \$81.46 million out of \$48.42 billion in total payment outlays, resulting in an improper payment rate of 0.16 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 1 percent since its program began in FY 2002. For FY 2021, the Department reported that its improper payment amounts included underpayments of approximately \$630,000; lost discounts of approximately \$340,000; technically improper payments of \$39.22 million that

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<sup>1</sup> The OMB approved of the Department's reporting prior year payment activity in the current year *Agency Financial Report* on May 25, 2011.

were mostly due to late payments<sup>2</sup>—none of which can be recaptured; and unknown payments<sup>3</sup> of \$2.32 million. During our review, the OCFO self-reported that an error had been identified after the FY 2022 *Agency Financial Report* was published. Specifically, officials indicated that the Department’s improper payment amounts had been underreported by approximately \$867,000, as noted in the following table:

	<b>Total Improper Payments Identified for Recapture of FY 2021 and Prior Periods</b>	<b>Total Improper Payments Recaptured for FY 2021 and Prior Periods</b>
<b>Original Amount</b>	\$52,388,574	\$47,155,742
<b>Corrected Amount</b>	\$53,256,017	\$47,601,536
<b>Difference</b>	\$(867,443)*	\$(445,794)
<b>Percentage of Error</b>	2%	1%

\* Underreporting consisted of \$874,249 from omitted transactions that were offset by \$(6,806) from a correcting entry for a prior year’s submission.

The misstatement occurred because of a data entry error by a Department contractor. Specifically, while the contractor was consolidating the information from the 46 reporting sites, several lines of improper payment and recapture information totaling approximately \$874,000 reported by 1 payment reporting site were inadvertently omitted and, therefore, not included in the final consolidated file. A second set of immaterial errors totaling \$6,806 occurred because of a new process in FY 2022 that provided for sites to correct prior year submissions. The Department had proposed corrective actions, including automating part of the consolidation process, to ensure reported amounts tie back to the site totals. The Department also planned to implement a two-layer review and comparison process to confirm accurate consolidation of the site information.

### Compliance with OMB Criteria

The Department’s Office of Finance and Accounting issued guidance in April 2022 that requires 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 2022 was not necessary. We noted that 20 of the 46 payment reporting sites were required to develop risk assessments based on significant changes, primarily due to increases in payment outlays. The OCFO consolidated the responses and determined that, based on the high number of sites deemed low risk, the Department was not susceptible to significant improper payments. In addition, all sites were required to submit actual improper payment and payment recapture information.

<sup>2</sup> The OMB has since clarified that late payments are no longer considered technically improper payments for all sites. Unless the program in question has a specific statutory or regulatory requirement for all payments to be timely, untimely or late payments may still be considered proper payments.

<sup>3</sup> An unknown payment could be either proper or improper, but the agency is unable to discern whether the payment was proper or improper due to insufficient, or a lack of, documentation. This can include, but is not limited to, costs questioned in previous Office of Inspector General (OIG) audit reports that await resolution.

Further, the Designated 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 site officials either confirmed that there were no significant changes or that the site had completed the required FY 2022 risk assessment. Site officials required to perform a risk assessment certified that the risk assessments included consideration of OMB-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 2022 payment integrity reporting, and the disclosure of information related to any 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 2022 payment integrity reporting involving management, employees who have significant roles in internal control over FY 2022 improper payment reporting, or others when the fraud could have a significant effect on FY 2022 improper payment reporting;
- No knowledge of any allegations of fraud or suspected fraud affecting FY 2022 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 2022 payment integrity reporting, or the occurrence of significant transactions or events that have not been properly recorded in records underlying the measurement of FY 2022 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 2022 *Agency Financial Report*. 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 the OMB, an agency is required to meet 10 specific requirements to comply with PIIA. Based on our review of the FY 2022 *Agency Financial Report*, we found that the Department complied with applicable PIIA reporting requirements, as indicated below, for

improper payments and annual unknown payments. Compliance under 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 <sup>4</sup>
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 <sup>4</sup>
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 <sup>4</sup>
8) Demonstrated improvements to payment integrity or reached a tolerable improper payment and unknown payment rate.	Not Applicable <sup>4</sup>
9) Developed a plan to meet the improper payment and unknown payment reduction target.	Not Applicable <sup>4</sup>
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 <sup>4</sup>

### 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 spending and loan authorities introduce an increased risk that the Department may exceed the OMB’s \$100 million threshold for being susceptible to improper payments. In the OIG’s Special Report on *Management*

<sup>4</sup> 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 2022 *Agency Financial Report* was not applicable.

*Challenges at the Department of Energy — Fiscal Year 2023* (DOE-OIG-23-08, November 2022), we note that the Department faces enormous challenges from increased funding received under recent spending bills. More specifically, the Department will go from a budget of \$45.3 billion in FY 2022 to managing over \$100 billion of appropriated funds and \$336 billion in loan authorities under IJA and IRA. Additionally, the CHIPS Act has authorized, but not yet appropriated, an additional \$30.5 billion. While these funds will be expended over a period of years, almost \$54 billion has already been received by the Department, and another \$13 billion will be appropriated to the Department during FY 2023.

As a result of this influx of funds, we concluded that enhancements to the payment integrity process are necessary, as it is likely that the Department's improper payments will significantly increase. Recently, the OCFO projected that the expected increase in funding could impact the Department's ability to remain under the \$100 million threshold for being susceptible to improper payments.<sup>5</sup> When the Department exceeds that threshold, it would then be mandated to implement additional requirements that are currently "Not Applicable." 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. According to the OCFO, the Department is still trying to determine if this increase in funding will have an impact on the number of improper payment sites required to report improper payments and recapture data for consolidation at the Department level. To address this risk, the OCFO's FY 2023 guidance to its payment sites includes a risk factor relating to IJA, IRA, and the CHIPS Act that would trigger a risk assessment if any of the aforementioned risk criteria are experienced. Additionally, the Department has indicated that it has implemented enhancements to the Financial Accounting Support Tool to support tracking and reporting of IJA and IRA funds.

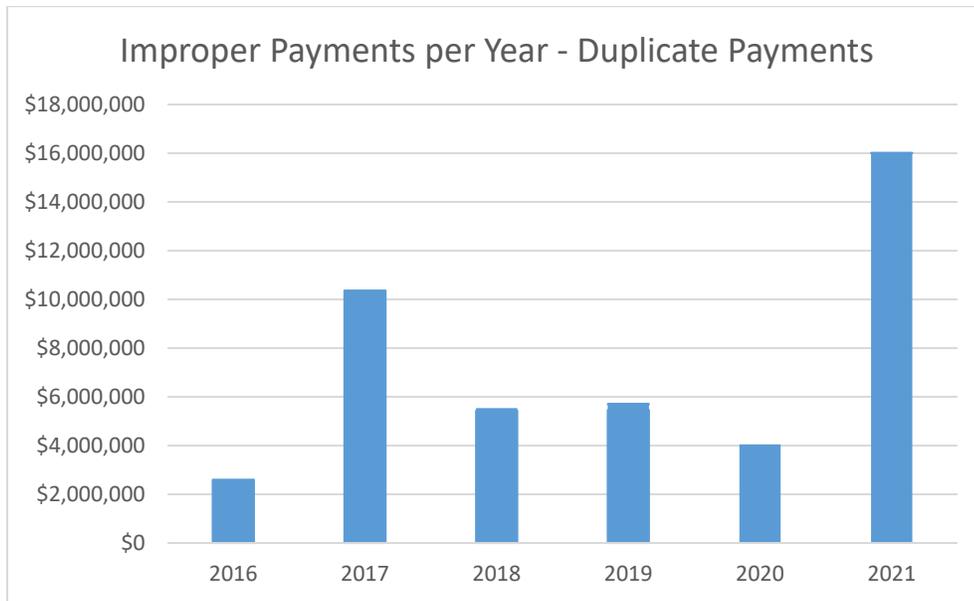
In our prior report on *The Department of Energy's Payment Integrity Reporting in the Fiscal Year 2020 Agency Financial Report* (DOE-OIG-21-27, May 2021), we suggest that the OCFO consider making enhancements to the improper payment quality assurance process to include comparing and analyzing historical data to assist in developing a more analytical approach to managing improper payments. Further, the Government Accountability Office's 2017 report on the *Department of Energy: Use of Leading Practices Could Help Manage the Risk of Fraud and Other Improper Payments* (GAO-17-235, March 2017) recommends that the Department implement leading practices for managing the Department's risk of fraud, including designing and implementing specific control activities such as fraud awareness training and data analytics, to prevent and detect fraud and other improper payments. Despite being issued over 6 years ago, the recommendation remains open as of February 2023. However, the Department indicated that it had informed the Government Accountability Office in April 2023 that steps had been taken to explore approaches to data analytics. For example, a survey was sent to reporting entities in November 2022 to determine what data analytics were already being performed to mitigate fraud risk in six focus areas. Moving forward, the OCFO should expand the use of data analytics to identify and address root causes for improper payments that could lead to the Department's improper payment rate exceeding the OMB threshold. We acknowledge that while the OCFO

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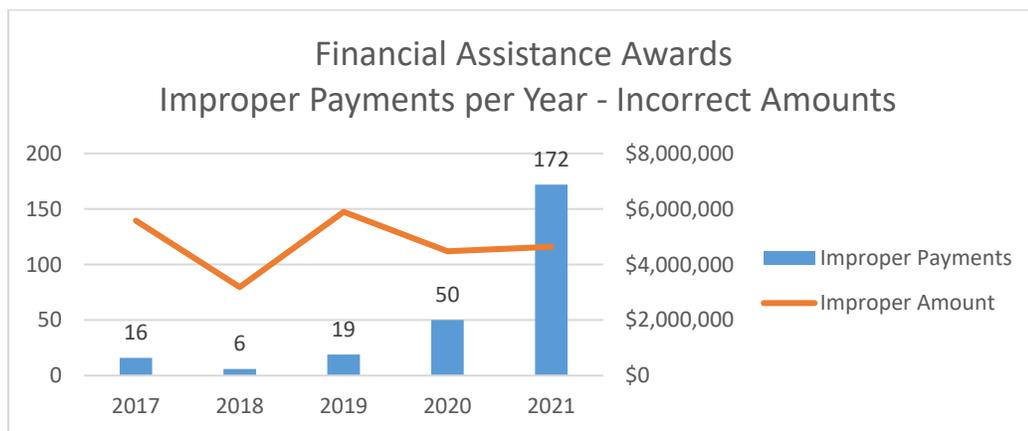
<sup>5</sup> The OMB's clarification that excludes late payments, unless a specific statutory or regulatory requirement exists for all payments to be timely, will result in a revised estimate because most of the \$39.2 million technically improper payments in FY 2022 were qualified as late payments.

does analyze the data received, the ability to conduct in-depth analysis of payment reporting sites is limited because only summary-level data for root causes is collected by the OCFO. However, our analysis of this data indicated a few trends.

Utilizing the root cause of improper payments, we noted that the monetary amounts of improper payments attributed to duplicate payments increased by almost four times what it was in FY 2020. The Department attributed approximately \$4 million in FY 2020 of improper payments to duplicate payments and \$16 million in FY 2021.



Further, when trending the root causes of improper payments for Financial Assistance Awards, we noted that the number of improper payments attributed to incorrect amounts more than tripled from FY 2020 to FY 2021.



Although we were able to perform some trending of the data provided, we were unable to determine the actual reasons why improper payments occurred. For instance, duplicate payments were identified as the reason a payment was improper; however, we cannot determine why the

duplicate payment happened. Additionally, while we were able to determine that the number of Financial Assistance Award improper payment transactions associated with incorrect amounts had significantly increased last year, the reason an incorrect amount was paid was not captured in the data provided to the OCFO by the payment reporting sites. For these reasons, we determined that it would be prudent for the OCFO to include in its annual guidance to sites more specific direction on collecting useful and consistent data to assist in determining detailed causes of their reported improper payments and analyzing this data, so plans may be developed to mitigate future improper payments.

## Impact to the Department

Without additional improvements to its payment integrity program, the Department may be at risk of exceeding the OMB's \$100 million threshold for being susceptible to improper payments in the future. Specifically, 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 the OIG's transition to conducting the incurred cost audits of the Department's contractors. As noted in our 2021 Special Report, *The Transition to Independent Audits of Management and Operating Contractors' Annual Statements of Costs Incurred and Claimed* (DOE-OIG-21-26, April 2021), there was an increased likelihood of fraud, waste, and abuse; significant lapses in the audits of subcontracts; and other major deficiencies that had occurred because the internal audit departments of the Department's management and operating contractors were relied upon to audit their own incurred costs. Any resulting questioned costs that arise from the OIG's transition to performing cost audits of the Department's contractors should be included in the Department's reported improper payments. These costs, in addition to the cost trends identified earlier in this report, increase the risk that the Department may exceed the OMB's threshold for being susceptible to improper payments.

## Recommendations

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Although we determined that the Department's payment integrity reporting process was in accordance with OMB criteria, we recommend that the OCFO:

1. Complete planned corrective actions associated with the consolidation of payment reporting sites' improper payment information to ensure accurate information is reported in the *Agency Financial Report*;
2. 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; and
3. Expand the use of data analytics at both Department Headquarters and payment reporting sites to better identify potential improper payments and the root causes for improper payments, especially as expenditures will increase due to IIJA, IRA, and the CHIPS Act.

## Management Comments

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Management concurred with our findings and recommendations. Management indicated that processes to mitigate errors in the payment integrity consolidation process would be implemented for preparing payment integrity data for inclusion in the FY 2023 *Agency Financial Report*. Management also indicated that the FY 2024 payment integrity guidance would further expand directions to identify details for why an improper payment occurred. Finally, management indicated that a data analytics survey is in process to determine what data analytics activities are being performed by Federal and contractor sites across the Department.

Management's comments are included in Appendix 4.

## Office of Inspector General Response

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Management's comments and planned corrective actions were responsive to our recommendations.

## Commonly Used Terms

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

## 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 2023 through April 2023 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) 2022 *Agency Financial Report*. This audit was conducted under Office of Inspector General project number A23FN001.

We obtained the risk assessments and improper payment submittals for the 46 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: Bonneville Power Administration in Portland, Oregon; Golden Field Office in Golden, Colorado; Mission Support and Test Services, LLC in Las Vegas, Nevada; and the Office of Science Consolidated Service Center 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 2022 *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 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;

## Appendix 2

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- Determined whether the Department published corrective action plans in the FY 2022 *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. In particular, 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 to demonstrate commitment to integrity and ethical values; control activities and the related principle to design control activities; risk assessment and the related principle to identify, analyze, and respond to risk; and monitoring and the related principle to perform monitoring activities. 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 officials waived an exit conference on May 11, 2023.

## Related Reports

### Office of Inspector General

- Special Report on [\*Management Challenges at the Department of Energy — Fiscal Year 2023\*](#) (DOE-OIG-23-08, November 2022). The Office of Inspector General (OIG) reported that the Department of Energy will grow from managing a \$45.3 billion budget in fiscal year (FY) 2022 to managing over \$100 billion of appropriated funds and \$336 billion in loan authorities under the Infrastructure Investment and Jobs Act and the Inflation Reduction Act. The CHIPS and Science Act has authorized, but not yet appropriated, an additional \$30.5 billion. While these funds will be expended over a period of years, almost \$54 billion has already been received by the Department, and another \$13 billion will be appropriated to the Department during FY 2023. These massive spending bills create enormous challenges for management. The scale and magnitude of these new spending and loan programs introduce a greatly increased risk of fraud, waste, and mismanagement. The potential use of data analytics could save the taxpayers substantial funds and improve efficiency and oversight.
- 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 Office of Management and Budget (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.
- Audit Report on [\*The Department of Energy’s Payment Integrity Reporting in the Fiscal Year 2020 Agency Financial Report\*](#) (DOE-OIG-21-27, May 2021). The OIG found that the Department’s FY 2020 improper payment reporting was in accordance with OMB criteria. Specifically, the Department published an *Agency Financial Report* for FY 2020 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 could result in more accurate and transparent reporting. For example, the *Agency Financial Report* did not disclose that the Department was tracking nearly \$200 million in unresolved questioned costs pending allowability determinations by contracting officers. We also found that these questioned

costs were not being resolved in a timely manner, as required by Federal regulations. Furthermore, we determined that certain locations did not appear to be reporting all improper payment information, which could have understated the amounts of improper payments reported in the Department's *Agency Financial Report*.

- Special Report on [\*The Transition to Independent Audits of Management and Operating Contractors' Annual Statements of Costs Incurred and Claimed\*](#) (DOE-OIG-21-26, April 2021). This Special Project report summarized the results of a multi-year review of the Cooperative Audit Strategy. Prior to 1994, the OIG, with assistance from independent public accounting firms, was responsible for auditing the annual Statements of Costs Incurred and Claimed for the Department's management and operating contracts. Since 1994, the Cooperative Audit Strategy placed the primary audit function within the internal audit departments of the Department's management and operating contractors. As a result, the contractors' internal audit departments conducted the audits of their own annual Statements of Costs Incurred and Claimed. In addition, the Cooperative Audit Strategy allowed these audits to rely upon auditing standards promulgated by the Institute of Internal Auditors instead of the U.S. Government Accountability Office's generally accepted government auditing standards. We recommended that the OIG and the Department transition to an independent audit strategy. This recommendation was made due to systemic threats to auditor independence; the increased likelihood of fraud, waste, and abuse; significant lapses in the audits of subcontracts; and other major deficiencies.
- Audit Report on [\*The Department of Energy's Improper Payment Reporting in the Fiscal Year 2019 Agency Financial Report\*](#) (DOE-OIG-20-40, May 2020). The OIG found that the Department's FY 2019 improper payment reporting was in accordance with OMB criteria. Specifically, the Department published an *Agency Financial Report* for FY 2019 and posted that report, as well as accompanying materials, on its website. While we determined that the Department met OMB compliance criteria, we found that enhancements to the Office of the Chief Financial Officer's review process could improve reliability of the improper payments reported. Specifically, although in previous years the Office of the Chief Financial Officer had conducted site visits that evaluated the sites' improper payment processes, the reviews were limited and were not scheduled for FY 2020 as a result of travel restrictions due to COVID-19. We also noted that the onsite review process was not documented in a formalized standard operating procedure, and we concluded that improved oversight could ensure more accurate reporting of improper payments.

### Government Accountability Office

- [\*Department of Energy: Use of Leading Practices Could Help Manage the Risk of Fraud and Other Improper Payments\*](#) (GAO-17-235, March 2017).

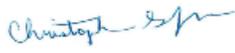
## Management Comments



**Department of Energy**  
Washington, DC 20585

May 11, 2023

MEMORANDUM FOR      TERI L. DONALDSON  
   INSPECTOR GENERAL

FROM:                      CHRISTOPHER S. JOHNS   
   DEPUTY CHIEF FINANCIAL OFFICER

SUBJECT:                  Response to IG Draft Report entitled: "The Department of  
   Energy's Payment Integrity Reporting in the Fiscal Year 2022  
   Agency Financial Report (A23FN001)"

Thank you for the opportunity to review and comment on the subject draft report. The Office of the Chief Financial Officer appreciates your team's effort and herewith, we provide the comments and actions planned or already taken by the Department in the attachment.

If you have any questions regarding this response, please contact Mindy Bledsoe, Division Director, Payment Integrity & Services Division, Office of Finance and Accounting at 301-903-2553 or [Mindy.Bledsoe@hq.doe.gov](mailto:Mindy.Bledsoe@hq.doe.gov).

Enclosure

cc:

Karin Dasuki – Director, Office of Finance & Accounting  
Rachel Denchfield – Deputy Director, Office of Financial Reporting & Business Analysis/OFA  
Tim Buchholz – Program Analyst, Payment Integrity & Services Division  
Shane Murray – Accountant, Payment Integrity & Services Division  
Genoa Mitchell – Accountant, Payment Integrity & Services Division

Enclosure

**Management Response**  
**OIG Draft Report: The Department of Energy's Payment Integrity Reporting**  
**in the Fiscal Year 2022 Agency Financial Report (A23FN001)**

**Recommendation 1:** Complete planned corrective actions associated with the consolidation of payment reporting sites' improper payment information to ensure accurate information is reported in the *Agency Financial Report*.

**DOE Response: Concur**

DOE identified processes to mitigate errors in the Payment Integrity consolidation process and will implement the revised processes for preparation of the payment integrity data included in the FY 2023 AFR.

**Estimated Completion Date: November 2023**

**Recommendation 2:** 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.

**DOE Response: Concur**

Beginning in January 2023, DOE used trend analysis of root causes and categories to pinpoint issues and OCFO is implementing targeted deep dives to identify areas of improvement to reduce improper payments/assist in identifying missing internal controls for the payment categories.

OCFO will expand FY 2024 Payment Integrity guidance to further expand directions to sites to identify details related to why an improper payment occurred and ensure internal controls are in place to mitigate improper payments and fraud in the future.

**Estimated Completion Date: July 2024 or earlier if conditions support earlier release.**

**Recommendation 3:** Expand the use of data analytics at both Department Headquarters and payment reporting sites to better identify potential improper payments and the root causes for improper payments, especially as expenditures will increase due to IIJA, IRA, and the CHIPS Act.

**DOE Response: Concur**

DOE's Data Analytics Working Group (DAWG), led by the OCFO, was created to leverage, integrate, and synchronize the various data analytic efforts across the Department. The DAWG is represented by Headquarters and Field Office personnel across DOE. A data analytics survey is in process to determine what data analytics are being performed by Federal and contractor sites across the DOE complex to mitigate fraud and strengthen controls over high-risk in six focus areas: rebates, grants/cooperative agreements, loans, cybersecurity, labor charging, and materials & services.

# Appendix 4

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**Enclosure**

**Management Response**  
**OIG Draft Report: The Department of Energy's Payment Integrity Reporting**  
**in the Fiscal Year 2022 Agency Financial Report (A23FN001)**

DOE is completing analysis of the data call responses and determining how the ongoing analytics reported by the respondents mitigate the six fraud focus areas and incorporating additional analytics into the annual Payment Integrity Program to identify root causes and mitigate improper payments and fraud.

**Estimated Completion Date: July 2024 or earlier if conditions allow.**

## **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 202-586-1818. For media-related inquiries, please call 202-586-7406.