



U.S. Department of Energy
Office of Inspector General
Office of Audits and Inspections

Audit Report

Federal Energy Regulatory
Commission's Fiscal Year 2012
Financial Statement Audit



Department of Energy
Washington, DC 20585

November 15, 2012

MEMORANDUM FOR THE CHAIRMAN, FEDERAL ENERGY REGULATORY
COMMISSION

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

FROM: Rickey R. Hass
Deputy Inspector General
for Audits and Inspections
Office of Inspector General

SUBJECT: INFORMATION: Federal Energy Regulatory Commission's Fiscal
Year 2012 Financial Statement Audit

The attached report presents the results of the independent certified public accountants' audit of the Federal Energy Regulatory Commission's (Commission) balance sheets as of September 30, 2012 and 2011, and the related statements of net costs, changes in net position, budgetary resources and custodial activity.

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

KPMG concluded that the financial statements present fairly, in all material respects, the financial position of the Commission as of and for the years ended September 30, 2012 and 2011, and its net costs, changes in net position, budgetary resources and custodial activities for the years then ended, in conformity with United States generally accepted accounting principles.

The auditors' review of the Commission's internal control structure and compliance with certain laws and regulations disclosed no instances of noncompliance or other matters required to be reported under generally accepted Government auditing standards or applicable Office of Management and Budget guidance.

Report No.: OAS-FS-13-03

Attachment

cc: Executive Director, Federal Energy Regulatory Commission
Chief Financial Officer, Federal Energy Regulatory Commission
Director, Internal Controls and Evaluation Division, Federal Energy Regulatory Commission
Acting Deputy Chief Financial Officer, CF-2
Director, Office of Finance and Accounting, CF-10
Director, Office of Financial Risk, Policy and Controls, CF-50
Assistant Director, Office of Financial Risk, Policy and Controls, CF-50
Audit Resolution Specialist, Office of Financial Risk, Policy and Controls, CF-50
Team Leader, Office of Financial Risk, Policy and Controls, CF-50

<http://www.ferc.gov/about/strat-docs/2012-audit.pdf>



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

Independent Auditors' Report

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

We have audited the accompanying balance sheets of the Federal Energy Regulatory Commission (the Commission) as of September 30, 2012 and 2011, and the related statements of net cost, changes in net position, budgetary resources, and custodial activity (hereinafter referred to as "financial statements") for the years then ended. The objective of our audits was to express an opinion on the fair presentation of these financial statements. In connection with our fiscal year 2012 audit, we also considered the Commission's internal control over financial reporting and tested the Commission's compliance with certain provisions of applicable laws, regulations, and contracts that could have a direct and material effect on these financial statements.

Summary

As stated in our opinion on the financial statements, we concluded that the Commission's financial statements as of and for the years ended September 30, 2012 and 2011, are presented fairly, in all material respects, in conformity with U.S. generally accepted accounting principles.

As discussed in our Opinion on the Financial Statements, the Commission changed its presentation for reporting the statement of budgetary resources in fiscal year 2012.

Our consideration of internal control over financial reporting was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses as defined in the Internal Control Over Financial Reporting section of this report.

The results of our tests of compliance with certain provisions of laws, regulations, and contracts disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*, issued by the Comptroller General of the United States, and Office of Management and Budget (OMB) Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements*, as amended.

The following sections discuss our opinion on the Commission's financial statements; our consideration of the Commission's internal control over financial reporting; our tests of the Commission's compliance with certain provisions of applicable laws, regulations, and contracts; and management's and our responsibilities.

Opinion on the Financial Statements

We have audited the accompanying balance sheets of the Federal Energy Regulatory Commission as of September 30, 2012 and 2011, and the related statements of net cost, changes in net position, budgetary resources, and custodial activity for the years then ended.



In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Federal Energy Regulatory Commission as of September 30, 2012 and 2011, and its net costs, changes in net position, budgetary resources, and custodial activity for the years then ended, in conformity with U.S. generally accepted accounting principles.

As discussed in Note 2 to the financial statements, the Commission changed its presentation for reporting the Statement of Budgetary Resources in fiscal year 2012, based on new reporting requirements under OMB Circular No. A-136, *Financial Reporting Requirements*. As a result, the Federal Energy Regulatory Commission's statement of budgetary resources for fiscal year 2011 has been adjusted to conform to the current year presentation.

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

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The information in the Performance Report section and the Appendices of the Performance and Accountability Report are presented for the purposes of additional analysis and are not a required part of the financial statements. Such information has not been subjected to the auditing procedures applied in the audits of the financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

Internal Control Over Financial Reporting

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the Responsibilities section of this report and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. In our fiscal year 2012 audit, we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

We noted certain additional matters that we will report to management of the Commission in a separate letter.



Compliance and Other Matters

The results of our tests of compliance as described in the Responsibilities section of this report, exclusive of those referred to in the *Federal Financial Management Improvement Act of 1996* (FFMIA), disclosed no instances of noncompliance or other matters that are required to be reported herein under *Government Auditing Standards* or OMB Bulletin No. 07-04.

The results of our tests of FFMIA disclosed no instances in which the Commission's financial management systems did not substantially comply with the (1) Federal financial management systems requirements, (2) applicable Federal accounting standards, and (3) the United States Government Standard General Ledger at the transaction level.

* * * * *

Responsibilities

Management's Responsibilities. Management is responsible for the financial statements; establishing and maintaining effective internal control over financial reporting; and complying with laws, regulations, and contracts applicable to the Commission.

Auditors' Responsibilities. Our responsibility is to express an opinion on the fiscal year 2012 and 2011 financial statements of the Commission based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Bulletin No. 07-04. Those standards and OMB Bulletin No. 07-04 require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Commission's internal control over financial reporting. Accordingly, we express no such opinion.

An audit also includes:

- Examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements;
- Assessing the accounting principles used and significant estimates made by management; and
- Evaluating the overall financial statement presentation.

We believe that our audits provide a reasonable basis for our opinion.

In planning and performing our fiscal year 2012 audit, we considered the Commission's internal control over financial reporting by obtaining an understanding of the Commission's internal control, determining whether internal controls had been placed in operation, assessing control risk, and performing tests of controls as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Commission's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Commission's internal control over financial reporting. We did not test all internal



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controls relevant to operating objectives as broadly defined by the *Federal Managers' Financial Integrity Act of 1982*.

As part of obtaining reasonable assurance about whether the Commission's fiscal year 2012 financial statements are free of material misstatement, we performed tests of the Commission's compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the determination of the financial statement amounts, and certain provisions of other laws and regulations specified in OMB Bulletin No. 07-04, including the provisions referred to in Section 803(a) of FFMIA. We limited our tests of compliance to the provisions described in the preceding sentence, and we did not test compliance with all laws, regulations, and contracts applicable to the Commission. However, providing an opinion on compliance with laws, regulations, and contracts was not an objective of our audit and, accordingly, we do not express such an opinion.

This report is intended solely for the information and use of the Commission's management, the Department of Energy's Office of Inspector General, OMB, the U.S. Government Accountability Office, and the U.S. Congress and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

November 6, 2012

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