

# GAO Highlights

Highlights of [GAO-17-235](#), a report to the Ranking Member, Committee on Homeland Security and Governmental Affairs, U.S. Senate

## Why GAO Did This Study

Over the past decade, incidents of fraud by DOE contractors have occurred. From 2003 through 2008, employees of one contractor at DOE's Hanford site in Washington state made hundreds of fraudulent purchases and solicited and received kickbacks. In another case, Hanford contractors agreed to pay a combined \$125 million to settle disputed claims regarding federal dollars spent on nonnuclear-compliant parts. To help federal program managers combat fraud, in July 2015, GAO issued leading practices for managing fraud risks.

GAO was asked to review DOE's processes, programs, and practices for managing its risk of fraud. This report examines (1) DOE's approach to managing its risk of fraud and other improper payments and challenges, if any, that may limit the effectiveness of this approach; (2) the extent to which DOE's approach incorporates leading practices; and (3) the application of data analytics in identifying potential indicators of fraud or other improper payments associated with selected DOE contracts.

## What GAO Recommends

GAO is making six recommendations, including that DOE establish invoice review policies and procedures, employ leading practices such as data analytics to help manage fraud risk, and require that its contractors maintain sufficiently detailed cost data for reconciling with amounts charged. DOE generally concurred with five of GAO's six recommendations but did not agree to require contractors to maintain detailed data. GAO continues to believe that the recommendation is valid, as discussed in the report.

View [GAO-17-235](#). For more information, contact David C. Trimble at (202) 512-3841 or [trimbled@gao.gov](mailto:trimbled@gao.gov).

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## DEPARTMENT OF ENERGY

### Use of Leading Practices Could Help Manage the Risk of Fraud and Other Improper Payments

## What GAO Found

The Department of Energy (DOE) manages the risk of fraud and improper payments through its internal controls program, which includes, among other things, prepayment invoice reviews and post payment audits. However, several challenges limit the effectiveness of this approach. For example, DOE does not have a department-wide invoice review policy or well-documented procedures at five of the six sites with invoice review responsibilities. Consequently, DOE has no assurance that control activities at these sites are operating as intended. Time constraints also limit the effectiveness of invoice reviews. For example, some invoices can have numerous associated transactions and the reviews must be completed within a limited time frame before payment, which may be as short as 10 days.

DOE's approach to managing fraud risk does not incorporate leading practices such as creating a dedicated antifraud entity to lead fraud risk management activities; conducting regular fraud risk assessments that are tailored to the program; developing and documenting a strategy to mitigate assessed fraud risks; or designing and implementing specific control activities, such as data analytic activities, to prevent and detect fraud. By not implementing leading practices, DOE is missing an opportunity to organize and focus its resources in a way that would allow it to mitigate the likelihood and impact of fraud. Moreover, the Fraud Reduction and Data Analytics Act of 2015 establishes requirements aimed at improving federal agencies' controls and procedures for assessing and mitigating fraud risks through the use of data analytics. The legislation also directs the Office of Management and Budget (OMB) to, among other things, establish implementation guidelines that incorporate fraud risk management leading practices. DOE officials told GAO that they plan to meet the requirements of the act but should not be expected to implement private industry leading practices prior to the issuance of OMB guidance. Incorporating leading practices could also help DOE more effectively implement the act's requirements once OMB guidance is available.

It is not possible to fully employ data analytics as a tool to identify potential indicators of fraud or other improper payments at DOE because of limitations in contractor-maintained cost data. Much of the cost data maintained by the two DOE contractors GAO selected for data analytic purposes could not be used because these data did not include a complete universe of transactions that was reconcilable with amounts billed to DOE or did not contain details necessary to determine the nature of costs charged to DOE. Because DOE does not require its contractors to maintain sufficiently detailed transaction-level cost data that are reconcilable with amounts charged to DOE, it is not well positioned to employ data analytics as a fraud detection tool. Effective fraud risk managers collect and analyze data and identify fraud trends and use them to improve fraud risk management activities, according to leading practices that GAO has previously identified. Without the detailed data necessary to conduct such analysis, DOE is missing an opportunity to develop, refine, and improve its experience with data analytic tools and techniques, and better position itself to meet the requirements of the Fraud Reduction and Data Analytics Act.