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

Audit Report

Management Letter on the Audit of the Department of Energy's Consolidated Financial Statements for Fiscal Year 2013

OAS-FS-14-06 February 2014

KPMG LLP
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Washington, DC 20006

MANAGEMENT LETTER

January 27, 2014

Mr. Gregory Friedman
Inspector General
U.S. Department of Energy
1000 Independence Avenue, S.W., Room 5D-039
Washington, DC 20585

Dear Mr. Friedman:

In planning and performing our audits of the consolidated financial statements and closing package financial statements of the United States Department of Energy (the Department), as of and for the year ended September 30, 2013, 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 the Office of Management and Budget Bulletin No. 14-02, *Audit Requirements for Federal Financial Statements*; we considered the Department's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the consolidated financial statements and closing package financial statements, but not for the purpose of expressing an opinion on the effectiveness of Department's internal control. Accordingly, we do not express an opinion on the effectiveness of the Department's internal control.

During our audit, we noted certain matters involving internal control and other operational matters that are presented in Exhibit A for your consideration. We have also presented the status of prior year findings in Exhibit B. These comments and recommendations, all of which have been discussed with the appropriate members of management, are intended to improve internal control or result in other operating efficiencies.

In addition, we identified certain deficiencies in internal control that we consider a significant deficiency, and communicated this in writing in our audit report on December 10, 2013. We issue a separate management letter addressing IT control deficiencies, including those matters we consider collectively to be a significant deficiency.

Our audit procedures are designed primarily to enable us to form opinions on the consolidated financial statements and closing package financial statements, and therefore may not bring to light all weaknesses in policies or procedures that may exist. We aim, however, to use our knowledge of the Department's organization gained during our work to make comments and suggestions that we hope will be useful to you.

We would be pleased to discuss these comments and recommendations with you at any time.

The Department's responses to the deficiencies identified in our audit are described in Exhibit A and Exhibit B. The Department's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the responses.

The purpose of this letter is solely to describe comments and recommendations intended to improve internal control or result in other operating efficiencies. Accordingly, this letter is not suitable for any other purpose.

Very truly yours,

KPMG LLP

Management Letter
Index to Exhibit A and Listing of Other Exhibits

COMMENTS

Environmental Liabilities

Background: The Department has several categories of environmental liabilities. The Office of Environmental Management (EM) program estimates include the cleanup of contaminated soil, groundwater, and facilities; the treatment, storage, and disposal of wastes; and the management of nuclear materials generated by the nuclear weapons complex during the Cold War. The Office of Legacy Management (LM) estimates include long-term surveillance and maintenance (LTS&M) of DOE sites and other sites involved in the nuclear weapons program where remediation measures have been substantially completed. Restructured environmental liabilities include cleanup projects and facilities that are not addressed in the EM or LM liabilities. Active facilities estimates, which are addressed later in this letter, include the stabilization, deactivation, and decommissioning of facilities that are still used in ongoing operations.

Finding 1: Misstatement of Prior Years' Environmental Liabilities Balance **(#13-ID-EL-01)**

In FY 2009, a Memorandum of Agreement (MOA) was issued transferring responsibility for 190 containers of remote-handled mixed low-level waste (RH-MLLW) from Nuclear Energy (NE) to Environmental Management. During the annual restructured environmental liability (REL) estimate review, NE management realized that 190 RH-MLLW containers were not included in the REL or EM estimate. As of September 30, 2012, neither EM nor NE recorded a liability for the 190 containers, resulting in an understatement of the liability of $239 million. Idaho management corrected the understatement as of September 30, 2013.

Recommendation:

1. We recommend the Manager at the Idaho Operations Office implement procedures to verify the timing of transfers of environmental liability work scope between program offices.

Management Reaction:

Management concurs with the recommendation. Procedures are already in place to adequately review restructured environmental liabilities for accuracy including the timing of environmental liability transfers between program sponsors. As a result, the INL has already made the necessary adjustments to the restructured environmental liability so that FY 2013 ending liability balances reflect accurate values.

Finding 2: Misstatement in Richland's Long-Term Stewardship Liability **(#13-RL-EL-01)**

The interim Record of Decision (ROD) for the 200-UP-1 operable unit was issued in September 2012. The interim ROD requires the Richland Operations Office to perform pump-and-treat remediation activities in combination with monitored natural attenuation (MNA) to achieve cleanup levels for all contaminants of concern. The interim ROD requires 35 years of pump-and-treat and 125 years for MNA. The Richland Operations Office calculated an adjustment to the EM liability in FY 2012 because of the interim ROD for the pump-and-treat work scope;

however, an adjustment for the MNA work scope beyond the 75 years did not occur as of September 30, 2012. This resulted in an understatement of Richland's environmental liability by approximately $256.5 million as of September 30, 2012. The Richland Operations Office recorded an adjustment for the additional years of MNA work scope as of September 30, 2013.

Recommendation:

2. We recommend that the Manager, Richland Operations Office implement procedures to ensure that the long-term stewardship (LTS) estimates are extended beyond the 75-year accrual period if there is a statute, regulation, or enforceable agreement in place requiring activities for more than 75 years.

Management Reaction:

Management concurs with the recommendation. The Richland Operations Office will update the desktop procedures for non-EM baseline liability changes to include a provision for changes in LTS end dates related to regulatory agreements. The LTS has been updated for FY 2013 for the extension of the end date to accommodate the decision in the 200-UP-1 Record of Decision.

Finding 3: Inaccuracies in Contingency Balances **(#13-PPPO-EL-01)**

The Portsmouth Paducah Project Office (PPPO) omitted portions of the contingency estimate of approximately $250 million and $90 million relating to the PA-0040 and PA-0011X projects at Paducah, respectively. PPPO input an incorrect contingency amount for PA-0040 into EM's Integrated Planning and Budget System when recording FY 2013 updates. In addition, PPPO did not apply contingency to a portion of the recorded liability for PA-0011X. PPPO did not detect the errors during the review and reconciliation control procedures that were in place. PPPO did record an adjusting entry to correctly present these balances in the September 30, 2013 financial statements.

Recommendation:

3. We recommend that the Manager of the Portsmouth Paducah Project Office implement procedures to perform review and reconciliation of the contingency balances to ensure that the recorded environmental liability is not misstated due to omission or inclusion of inaccurate amounts.

Management Reaction:

Management concurs with the recommendation. PPPO corrected the specific errors for FY 2013 when notified by KPMG. Going forward PPPO will ensure spreadsheet calculations for contingency are reviewed by additional personnel to reduce the risk of human error.

Finding 4: Misstatements in Savannah River's FY 2012 Environmental Liabilities Balance **(#13-SR-EL-01)**

The Office of Environmental Management and the National Nuclear Security Administration (NNSA) have ongoing missions at the Savannah River Site (SRS) related to the Surplus Plutonium Disposition and Tritium programs. The EM baseline estimates for the EM cleanup work include direct and indirect costs. Indirect costs are allocated to each project based upon that project's contribution to the total direct costs for SRS. In FY 2012 SRS calculated the indirect costs for the EM Integrated Life Cycle Estimate using the entire site-wide indirect cost percentage for ESS and G&A, which included NNSA's portion of the related costs. This error overstated the SRS EM liability by $2.07 billion as of September 30, 2012. In addition, when de-escalating the LTS liability, SRS used the incorrect rate to de-escalate the estimate from current to constant dollars in FY 2012. SRS used 2.7% to de-escalate the liability instead of 2.37%. This error resulted in an understatement of the LTS portion of the liability by approximately $236 million as of September 30, 2012. SRS management corrected the estimates as of September 30, 2013.

Recommendation:

4. We recommend that the Manager, Savannah River Operations Office, direct the Assistant Manager for Mission Support to implement policies and procedures to ensure the accuracy of the indirect costs calculation and the output of the cost estimates from the Integrated Planning, Accountability, and Budgeting System (IPABS).

Management Reaction:

SRS calculated the indirect costs for the EM FY 2012 Integrated Life Cycle Estimate (ILCE) using the entire site-wide indirect cost percentage for ESS and G&A, which included NNSA's portion of the related costs, rather than using only the portion attributable to EM. The FY 2012 Management & Operating (M&O) EM Contract Performance Baseline (CPB) Indirect Cost Summary tables included summary documentation of indirect costs for the total site - EM, NNSA, and Work for Others. The FY 2012 ILCE update inadvertently assumed the indirect documentation included only the EM share of indirect costs. This misunderstanding caused the ILCE to be overstated in FY 2012.

Beginning in FY 2013, the EM CPB no longer includes site wide indirect work scope summary tables. The ILCE team developed a new EM Indirect Costs Template populated by the M&O contractor to include only the EM share of the indirect costs. The new template was accurately utilized in the FY 2013 ILCE update thus correcting the indirect costs in the ILCE. The development of the EM Indirect Costs Template will ensure this condition will not occur in the future.

SRS incorrectly used the wrong escalation rate to de-escalate the long-term stewardship estimate from current to constant dollars in FY 2012. The escalation rate used was 2.7 percent, but it should have been 2.37 percent. The FY 2012 ILCE utilized the correct escalation factor in development of the Current Dollar estimates; however, the escalation rates, (located in a different IPABS module) were not updated when the new lifecycle estimate was loaded. The LTS escalation rates were updated with the FY 2013 ILCE update.

The DOE-SR ILCE Indirect Rates and Escalation Business Rules Process, and Environmental Liability Procedure will be revised to require checks to validate the escalation rates in IPABS. Additionally, SRS will submit a suggestion to Headquarters to combine the IPABS cost and escalation modules to reduce future errors.

Finding 5: Misstatements in the Recorded Environmental Liabilities **(#13-HQ-SP-01)**

During our test work over the Mixed Oxide Fuel Fabrication Facility (MFFF), we noted the recorded liability included the same costs for a portion of the program in two separate components of the liability computation, resulting in double counting of the costs. In addition, the estimates for a portion of the liability incorrectly included the effects of escalation. The effects of the double counting and escalation resulted in a $3 billion overstatement of the liability.

Recommendation:

5. We recommend the Office of Finance and Accounting (OFA) and the National Nuclear Security Administration's Assistant Deputy Administrator, Office of Fissile Materials Disposition, implement procedures and controls related to the review and reconciliation of the environmental liabilities balance for the U.S. Plutonium Disposition Program to ensure that the recorded balances are accurate and not misstated due to double counting or inclusion of escalated amounts.

Management Reaction:

NNSA’s Office of Fissile Materials Disposition and the Office of the Chief Financial Officer’s (OCFO) Office of Finance & Accounting agree with the recommendations. NNSA and OCFO will implement procedures and controls to perform and review the annual U.S. Surplus Plutonium Disposition liability estimate.

OCFO will incorporate a process to obtain NNSA’s certification that the final liability estimate does not include escalated amounts. OCFO will require an additional certification from NNSA that the final liability does not include the duplication of costs (i.e. design costs).

<u>Environmental Liabilities for Active Facilities</u>

Background: The Department’s liability for remediation of active facilities includes anticipated remediation costs for active and surplus facilities managed by the Department’s ongoing program operations, which will ultimately require stabilization, deactivation, and decommissioning. The estimated costs are largely based on a cost-estimating model, which extrapolates stabilization, deactivation, and decommissioning costs from facilities included in

EM's baseline estimates to those active and surplus facilities with similar characteristics owned by other (non-EM) programs. The Department's methodology for calculating an environmental liability estimate for active facilities relies on a web-based system managed by the Headquarters Office of the Chief Financial Officer. This system, known as the Active Facilities Data Collection System (AFDCS), relies on field site personnel to input an appropriate cost model code, square footage, and footprint for each building, from which the liability is calculated. Data collection for each facility includes the square footage or gallons and the assignment to one of 16 facility contamination model codes. In addition, AFDCS collects data regarding asbestos contamination in order to calculate a liability for affected facilities that would otherwise not require remediation. Field site personnel review and make necessary revisions to the facility data each year before certifying the data in AFDCS. A limited number of sites use other appropriate cost-modeled estimates or site-specific estimates.

Finding 6: Inaccuracies in the Active Facilities Data Collection System **(#13-Y12-AF-01)**

Our interim review of a statistically-selected sample of 30 facilities and structures from the Y-12 National Security Complex's (Y-12) FY 2013 AFDCS population disclosed that Y-12 understated the footprint for one facility by 246 square feet. Y-12 did not comply with AFDCS guidance that instructs sites to calculate the footprint using the largest floor in the building rather than the first floor. Because of this error, Y-12 understated the Active Facilities liability by $23,039 as of June 30, 2013. This error was corrected prior to the final liability calculation as of September 30, 2013.

Recommendation:

6. We recommend that the NNSA Field Chief Financial Officer, in conjunction with the Y-12 Site Office Manager, direct Y-12 employees responsible for updating AFDCS to review and adhere to AFDCS guidance regarding footprint calculations.

Management Reaction:

Management concurs with the recommendation. The National Nuclear Security Administration's Field Chief Financial Officer, in conjunction with the NPO Field Office Manager, will direct Y-12 employees responsible for updating AFDCS to review and adhere to AFDCS guidance regarding footprint calculations.

Finding 7: Revision of AFDCS Cost Models **(#13-HQ-AF-01)**

OFA determined during their internal review of the active facilities liability estimate as of September 30, 2012, that the AFDCS cost model improperly calculated the active facilities environmental liability related to asbestos for certain facilities. OFA performed a manual calculation to mitigate the cost model inaccuracies; however, the manual calculation process utilized is vulnerable to computation error. A programming error in AFDCS allowed field sites to leave certain asbestos related questions blank, which resulted in a number of assumptions made by the OFA during the manual asbestos calculation process in FY 2013. In addition, output from the AFDCS cost models for the asbestos and non-asbestos liabilities provided to

KPMG required revisions based on KPMG's review of the output schedules. Interim drafts of the liability required updates; however, there was no significant impact on the recorded asbestos liability as of September 30, 2013.

Recommendation:

7. We recommend the Director, Office of Finance and Accounting, review and update the AFDCS cost models to ensure the accuracy of the automated calculations of the Department's Active Facilities liability and related reporting, thereby eliminating manual calculations and significantly reducing the resources expended to review and reconcile the liability estimate.

Management Reaction:

Management concurs with the finding and noted it will implement the corrective actions pertaining to the recommendations. OFA stated it would work closely with its subcontractor to assess and revise as necessary the AFDCS asbestos and non-asbestos cost models.

<u>Financial Reporting</u>

Finding 8: Incomplete and Untimely Review of Manual Journal Entries Prepared and Posted by the Same User **(# 13-HQ-FR-01)**

The Department's financial system, the Standard Accounting & Reporting System (STARS), has a user responsibility of "General Ledger (GL) Posting Superusers." This user responsibility allows a person to both create and post manual journal entries in STARS. To address this segregation of duties risk, the Department's OFA implemented a control whereby a system configuration in STARS would generate automated emails to an individual at Headquarters. These emails notify the individual at Headquarters (the control owner) any time a journal entry is made where the creator and poster/approver are the same person. Upon receiving the automated email, the individual at Headquarters is to follow up with the GL Posting Superuser's supervisor, so the supervisor can independently determine if the manual journal entry had a legitimate business purpose, was reasonable and well supported, and accurate. During our manual journal entry test work three instances were identified where Headquarters emailed the GL Posting Superuser who created/posted the entry for approval rather than his/her supervisor. In addition, it was determined the control owner deviated from the Department's A-123 manual journal entry internal control guidance that requires timely follow-up on GL Posting Superuser manual journal entries. The control owner performed the control quarterly or semi-annually. Finally, the control owner did not maintain an audit trail of follow-up with the GL Posting Superuser's supervisor and approval by the supervisor. We were able to determine the manual journal entries were accurate and valid for FY 2013.

Recommendation:

8. We recommend the Director, Office of Finance and Accounting:

a. Ensure that the Control Owner sends the GL Posting Superuser manual journal entries to the appropriate supervisor(s) for review and approval, regardless of whether the GL Posting Superuser is at the top of his or her group, office, division, etc., in line with existing internal control guidance; and,

b. Implement policies and procedures to require that control owners maintain documentation of the required approvals as evidence of control performance.

Management Reaction:

Management concurs with the finding and noted that it will implement the corrective actions pertaining to the recommendations. Specifically, OFA stated it would adhere to its OMB A-123 internal controls guidance as written by the Department, without exception, to promote the consistent and timely performance of controls over time. OFA noted it will conduct the direct GL entry review upon receipt of the STARS Alert Notification. In addition, OFA noted it will assign a backup control owner to conduct the GL entry review to ensure that it can still be performed in a timely manner in the absence of the primary control owner. OFA also stated it will develop a tracking mechanism to maintain and monitor the components of the direct GL review process, and this tracking mechanism will be readily available upon request.

Human Resources

Finding 9: Calculation of Federal Employees Benefit Cost Factors **(#13-HQ-HR-01)**

During our review of the Department's calculation of imputed costs related to benefit programs for the fourth quarter of FY 2013, we noted the Department did not follow the instructions included in OPM's Benefits Administration Letter Number 13-302 (BAL 13-302). The Department used the FY 2012 rates for Civil Service Retirement System (CSRS) and Federal Employees Retirement System (FERS) employees in the FY 2013 fourth quarter calculation instead of the FY 2013 rates included in BAL 13-302. The use of the incorrect pension program cost factors resulted in an $8 million understatement in FY 2013 imputed costs and imputed financing sources. The Department corrected the understatement in the September 30, 2013, financial statements.

Recommendation:

9. We recommend the Director, Office of Finance and Accounting, ensure the Department thoroughly reviews imputed cost calculations for consistency with the instructions in OPM's Benefit Administration Letters.

Management Reaction:

Management concurs with the finding and noted it will implement the corrective actions pertaining to the recommendations. OFA stated it will review OPM's Benefit Administration Letters on a quarterly basis to ensure the imputed costs calculation contains the most current rates.

Procurement

Finding 10: Invalid Accounts Payable Balances **(#13-NS1-PRO-01)**

During our interim procurement testing, 5 of 25 Standard General Ledger (SGL) Accounts Payable balances were not correctly cancelled by Los Alamos National Security. The subcontracts related to four of the balances were closed in 2009 and prior. In each case, the employee who completed the closeout did not perform the final step of de-obligating funds from the SGL back to the respective Los Alamos National Laboratory (LANL) organization.

In addition, the fifth account relates to a subcontract that was also closed in 2009. The employee who completed the closeout of the account did not perform the final two steps: change the status to "Final Closeout" and de-obligating the funds from the SGL back to the respective LANL organization. These five errors resulted in an overstatement of the Accounts Payable balance by $449 as of June 30, 2013.

Recommendation:

10. We recommend the NNSA Field Chief Financial Officer (CFO), in conjunction with the Manager of the LANL Field Office, follow existing policies and procedures to ensure that the closeout process is followed through to completion, clearing out any remaining payables on existing items.

Management Reaction:

Management concurs with the recommendation. The NNSA Field CFO, in conjunction with the Los Alamos Field Office, stated it will monitor corrective action procedures and ensure compliance with applicable policies and procedures for de-obligation of funds within the accounts payable by LANL.

Property, Plant and Equipment

Finding 11: Construction Work in Process **(#13-CHF-F-01)**

During our interim testing we found that the Fermi National Accelerator Laboratory (Fermi) did not transfer the operating funded portion of project number 481 (Particle Physics Division-Minerva) from construction work in progress (CWIP) to completed property, plant, and equipment (PP&E) at the date the facility was placed in service in January 2012. As of June 30, 2013, Fermi understated PP&E, accumulated depreciation, and depreciation expense for FY 2013. Fermi made a correcting entry in FY 2013 to record the asset and cumulative depreciation to include the unrecorded depreciation from FY 2012, increasing depreciation expense $100,000.

Recommendation:

11. We recommend that the Manager, Fermi Site Office, direct Fermi National Accelerator Laboratory to develop procedures to ensure timely transfer of assets from CWIP to completed PP&E when a project is completed or when assets are placed into service.

Management Reaction:

Management concurs with the recommendation. Fermi Site Office Management noted that Fermi National Accelerator Laboratory is currently developing procedures to ensure timely transfer of assets following project completion and stated procedural updates will be fully implemented by October 31, 2013.

Finding 12: Timely Transfers of CWIP **(#13-LBNL-F-01)**

During our final test work we determined Lawrence Berkeley National Laboratory (LBNL) did not transfer completed projects out of CWIP accounts in a timely manner. The Department's Financial Management Handbook defines a timely manner as within 6 months after placed in service. As of June 30, 2013, LBNL had approximately 53 projects in CWIP that were completed, but not transferred to completed PP&E. This resulted in an understatement of PP&E by approximately $20 million during the year and an overstatement of depreciation expense by approximately $2 million as of September 30, 2013. LBNL corrected the PP&E balance as of September 30, 2013.

Recommendation:

12. We recommend that the Manager, Berkeley Site Office, direct the Management and Operating contractor for LBNL to continue to implement and operate a control process sufficient to move completed projects from CWIP in a timely fashion, but not to exceed six months.

Management Reaction:

Management concurs with the recommendation. The Berkeley Site Office stated that the Contracting Officer will direct the Management and Operating contractor for LBNL to continue to implement and operate a control process sufficient to move completed projects from CWIP in a timely fashion, not to exceed six months, by January 31, 2014.

STATUS OF PRIOR YEAR FINDINGS

Prior Year Findings Related to Internal Controls and Other Operational Matters (with parenthetical references to findings)	***Status at September 30, 2013***
Closing Package	
1. Lack of Sufficient Review of Closing Package Submission (**12-HQ-CP-01**)	Closed in FY 2013
Credit Reform	
2. Timely Recording of Disbursements (**12-HQ-L-01**)	Closed in FY 2013
Environment, Safety & Health Compliance	
3. Inaccuracies in ES&H Liability (**11-BNL-ESH-01**)	Closed in FY 2013
Environmental Liabilities	
4. Errors in the Prior Period Environmental Liabilities for NNSA Sites (**10-NS9-EL-01**)	Closed in FY 2013
5. Risk Register Documentation (**10-HQ-EL-01**)	Closed in FY 2013
6. Double Counting of the Long-Term Stewardship Liability (**12-HQ-EL-01**)	Reissued in FY 2013- see repeat finding 1
Environmental Liabilities for Active Facilities	
7. Inaccuracies in the Active Facilities Liability (**11-BNL-A-01**)	Closed in FY 2013
8. Inaccuracies in the Active Facilities Liability (**12-CHF-AF-01**)	Closed in FY 2013
9. Inaccuracies in the Active Facilities Liability (**12-NS1-AF-01**)	Closed in FY 2013
10. Errors in the Active and Surplus Facilities Liabilities (**12-NRLFO-AF-01**)	Closed in FY 2013
11. Error in the Prior Period Asbestos Liability (**12-HQ-AF-01**)	Closed in FY 2013

Financial Reporting

12. Misclassification of Debt Related to the Credit Reform Program (**12-HQ-FR-01**)	Closed in FY 2013

Grants

13. Grant Closeout (**09-CH9-GL-01**)	Reissued in FY 2013- see repeat finding 2

Inventory

14. Incorrectly Writing Off Component Parts Inventory (**12-Y12-NM-01**)	Closed in FY 2013
15. Incorrect Nuclear Materials Allowance (**12-NNSA-NM-01**)	Closed in FY 2013

Human Resources

16. Leave Approval Forms (**11-HQ-H-01**)	Reissued in FY 2013- see repeat finding 3
17. Pension Assets Clarifications Levels (**12-INL-P-01**)	Closed in FY 2013
18. Census Data Review (**12-LBNL-P-01**)	Reissued in FY 2013- see repeat finding 4

Property, Plant, & Equipment

19. Property, Plant, and Equipment Capitalization and Depreciation (**11-SNL-F-01**)	Closed in FY 2013
20. Property, Plant, and Equipment Capitalization and Depreciation (**12-NS1-F-01**)	Reissued in FY 2013- see repeat finding 5

Procurement

21. Incorrect Trading Partner Codes (**11-XN9-PRO-01**)	Closed in FY 2013
22. Accounts Payable- Invalid Accounts Payable Balances (**12-XN9-PRO-01**)	Closed in FY 2013
23. Disbursements (**12-NS1-PRO-01**)	Closed in FY 2013

<u>Reissued Findings in FY 2013:</u>

<u>Environmental Liabilities</u>

Repeat Finding 1: Double Counting of the Long-term Stewardship Liability **(#12-HQ-EL-01)**

During FY 2012, cognizance of long-term stewardship and maintenance (LTS&M) operations at the Mound Site in Miamisburg, Ohio transferred from Environmental Management (EM) to Legacy Management (LM). LM recorded an LTS&M liability for Mound at the time of the transfer; however, EM did not remove the liability from its books. EM did not have controls to ensure that it removes a site from the long-term stewardship (LTS) liability once it has been transferred to LM in a timely manner. As a result, the Department overstated their liability by $42 million. The Department corrected the error at the consolidated level for its September 30, 2012 financial statements. However, our follow up in FY 2013 indicated that both EM and LM continued to record a liability for LTS activities at Mound as of June 30, 2013.

Recommendation:

1. We continue to recommend that:

   a. The Director, Office of Strategic Planning & Analysis, should implement procedures to identify and remove sites from Integrated Planning, Accountability, and Budgeting System (IPABS) that have transferred to Legacy Management in a timely manner.

   b. The Director, Office of Financial Control and Reporting (OFCR), should implement procedures to perform a reconciliation of the LTS and LTS&M sites to ensure the liability is not misstated due to double counting.

Management Reaction:

Management concurs with the recommendation. OFCR, EM and LM plan to hold bi-annual discussions at third and fourth quarter to discuss sites that have transferred from EM to LM. LM will provide a list of site transfers to the OFCR during the third and fourth quarter Note 3 submissions. EM will eliminate the liability of sites transferring to LM from IPABS in a timely manner. Finally, OFCR will reconcile LM's list of transfers with the field site third and fourth quarter Note 3s to ensure the liabilities for sites transferring are not double counted by EM and LM.

<u>Grants</u>

Repeat Finding 2: Grant Closeout **(#09-CH9-GL-01)**

In each of the FY 2009, 2010, and 2011 audits, we identified one or more grants that had not been closed out timely by the Chicago Office. The Chicago Office has since closed out those grants. In FY 2012, our review did not identify any additional instances where grants had expired over 3 years ago. However, the Chicago Office confirmed the issue still existed and that there were grants that expired over 3 years ago, which had not yet been closed out.

During our FY 2013 follow up on the prior year finding, we randomly selected a sample of 25 grants. One grant expired over 3 years prior to the date of testing. The grant project period ended December 31, 2008, and the grantee submitted a final expenditure report on May 8, 2009.

Recommendation:

2. We continue to recommend that the Manager, Chicago Office, direct the Assistant Manager, Office of Acquisition and Assistance, to implement policies and procedures to ensure that grant files are closed in the required time period after receipt of the final expenditure report.

Management Reaction:

Management concurs with the recommendation. The Chicago Office indicated that timely closeout of awards remains an office priority. Management noted that, based on current estimates, it is anticipated that the Chicago Office will close out over 1,600 expired awards in FY 2013, which will be the greatest number closed out in a single fiscal year. Management noted it intends to continue deploying resources required to resolve the backlog of grants to be closed out. Assuming funding for the support service contractor closeout assistance remains available at the anticipated funding level, the active workload remains at the current level and the Chicago full-time employee allocation is not adversely impacted due to circumstances beyond their control, management estimates the finding will be resolved on or about September 30, 2014.

<u>Human Resources</u>

Repeat Finding 3: Leave Approval Forms (#11-HQ-H-01)

In FY 2011, our review of 51 payroll disbursements identified five instances where the Department was unable to provide evidence of a completed Office of Personnel Management (OPM) Form 71, *Request for Leave or Approved Absence*, or another acceptable method of approval. Our follow-up in FY 2012 found that the Office of Human Capital Management (HCM) had properly revised DOE Order 322.1C, Section 4.d.3.d to ensure consistent application across the Department. However, our review of 25 payroll disbursements for the nine months ended June 30, 2012, identified two instances where the Department was unable to provide evidence of a completed OPM Form 71 or other acceptable method of approval.

In FY 2013, during our review of 25 payroll disbursement samples for the 9 months ended June 30, 2013, the Department was unable to provide evidence of a completed OPM Form 71, "Request for Leave or Approved Absence," or other acceptable method of approval for 4 sample items.

Recommendation:

3. We continue to recommend that the Director, Human Capital Policy Division reinforce DOE Order 322.1C Section 4.d.(3)(d), as revised, through:

a. Reviewing all alternative methods approved by Departmental elements; and,

b. Reviewing the training provided to supervisors on this subject to ensure that each organizational unit is aware that leave approvals must be completed and approved each time an employee requests leave exceeding one hour.

Management Reaction:

Management concurs with the recommendation. Management states it will adopt the recommendations and that when DOE Order 322.1C is revised, it would incorporate the requirement to exclusively use an authorized time and attendance system to electronically record the timely approval of an employee's absences for more than 1 hour. In the interim, the Office of the Chief Human Capital Officer will issue a memorandum to Heads of Departmental Elementals, Resource Directors, and Human Resource Directors reminding them of the requirements and proper procedures for leave approval. In addition, the current "Supervisory Essentials Training Program" for supervisors and managers includes a module on Time and Attendance that covers the supervisor's role and responsibility and all reporting requirements for Time and Attendance. Management stated it will ensure this module is continued in any future updates to the training program.

Repeat Finding 4: Census Data Review **(#12-LBNL-P-01)**

During the Fiscal Year (FY) 2012 audit, we reported that the University of California Retirement Plan (UCRP)/University of California Office of the President (UCOP), who is responsible for managing Lawrence Berkeley National Laboratory's pension and postretirement benefit (PRB) plans, did not have an internal control structure in place to ensure that management reviews the census data for accuracy and completeness before submission to the actuary in accordance with the guidance established by the Office of Finance and Accounting. Instead, UCOP relied on the actuary to perform periodic reviews of the census data file to ensure all requested data from UCOP is complete. Our follow up in FY 2013 indicated that UCOP has not implemented controls to ensure the census data is reviewed prior to submission to the actuary.

Recommendation:

4. We continue to recommend the Manager, Berkeley Site Office, direct the Management and Operating contractor for Lawrence Berkeley National Laboratory to ensure guidance issued by the Department's Office of Finance and Accounting is followed regarding having an internal control structure in place to ensure the census data used to perform the pension and PRB accounting calculation ties back to the payroll census data.

Management Reaction:

Management concurs with the recommendation. Management stated that the Contracting Officer will direct the University of California Office of the President to ensure guidance issued by the Department’s Office of Finance and Accounting is followed regarding having an internal control structure in place to ensure the census data used to perform the pension and PRB accounting calculation ties back to the payroll census data.

<u>Repeat Finding 5:</u> Property, Plant and Equipment Capitalization and Depreciation **(#12-NS1-F-01)**

During our test work during the FY 2012 audit, we reported Los Alamos National Laboratory (LANL) had incorrectly capitalized a refurbishment to a building that did not extend the useful life of the building. As the building was fully depreciated at the time of the addition, the entire addition was retroactively depreciated instead of being depreciated over the estimated useful life of the addition. In addition, LANL capitalized a security system upgrade to a building that did not add to the useful life of the building and recorded retroactive depreciation on the addition. The original placed in service date of the building was used as the basis for calculating depreciation, rather than over the remaining useful life of the building.

As of September 30, 2013, LANL had not completed the corrective action plan (CAP) to address the recommendations in the referenced finding. LANL plans to complete the CAP in Fiscal Year 2014. The risk remains that upgrades and refurbishments are not properly capitalized and depreciated.

Recommendation:

5. We continue to recommend the Acting Director, Office of Financial Risk, Policy and Controls enhance existing policies and procedures to determine the appropriate associated useful life of betterments associated with, or attached to, fully or near fully depreciated assets that will provide future utility to the Department. Additionally, we continue to recommend that the National Nuclear Security Administration's Field Chief Financial Officer, in conjunction with the Manager of the Los Alamos Site Office, train and remind employees of the existing policies and procedures to (1) record the actual in-service date for capitalized assets; and, (2) record the appropriate useful life for additions to currently existing assets.

Management Reaction:

Management concurs in principle with the recommendation. The Office of Financial Risk, Policy and Controls noted it has taken the auditor's conclusions and recommendations into consideration as part of the ongoing project to revise the Financial Management Handbook, including Chapter 10 of the *Financial Management Handbook, Property, Plant, and Equipment*, and future updates of the *Financial Management Handbook* may include additional changes to further clarify existing requirements regarding the capitalization of betterments, as appropriate. The Office of Financial Risk, Policy and Controls management believes there is no deficiency with the existing policy and considers the recommendation to be closed.

The National Nuclear Security Administration's (NNSA) Field Chief Financial Officer (FCFO) concurs with the second recommendation. The NNSA FCFO stated it will provide training and remind employees of the existing policies and procedures to (1) record the actual in-service date for capitalized assets; and, (2) record the appropriate useful life for additions to currently existing assets. The NNSA FCFO noted it will also issue the Office of Financial Risk, Policy and Control's enhanced policy to NNSA Integrated Contractors when received.

ACRONYMS

AFDCS	Active Facilities Data Collection System
BAL	Benefits Administration Letter
CAP	Corrective Action Plan
CFO	Chief Financial Officer
CPB	Contract Performance Baseline
CSRS	Civil Service Retirement System
CWIP	Construction Work in Progress
Department or DOE	Department of Energy
EM	Office of Environmental Management
ES&H	Environment, Safety, and Health
ESS	Essential Site Services
FCFO	Field Chief Financial Officer
FERS	Federal Employees Retirement System
FSO	Fermi Site Office
FY	Fiscal Year
G&A	General and Administrative
GL	General Ledger
HCM	Office of Human Capital Management
ILCE	Integrated Life Cycle Estimate
IPABS	Integrated Planning, Accountability, and Budgeting System
LANL	Los Alamos National Laboratory
LBNL	Lawrence Berkeley National Laboratory
LM	Office of Legacy Management
LTS	Long-Term Stewardship
LTS&M	Long-Term Surveillance and Maintenance
M&O	Management and Operating
MFFF	Mixed Oxide Fuel Fabrication Facility
MNA	Monitored Natural Attenuation
MOA	Memorandum of Agreement
NE	Nuclear Energy
NNSA	National Nuclear Security Administration
OCFO	Office of Chief Financial Officer
OCFR	Office of Financial Control and Reporting
OFA	Office of Finance and Accounting
OMB	Office of Management and Budget
OPM	Office of Personnel Management
PP&E	Property, Plant, and Equipment
PPPO	Portsmouth Paducah Project Office
PRB	Post-Retirement Benefits (other than Pensions)
REL	Restructured Environmental Liability
RH-MLLW	Remote Handled Mixed Low-Level Waste
ROD	Record of Decision
SGL	Standard General Ledger

SRS	Savannah River Site
STARS	Standard Accounting and Reporting System
UCOP	University of California Office of the President
UCRP	University of California Retirement Plan
Y-12	Y-12 National Security Complex

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