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 2011

OAS-FS-12-05

February 2012

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MANAGEMENT LETTER

January 26, 2012

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

Dear Mr. Friedman:

We have audited the consolidated financial statements of the United States Department of Energy (Department or DOE) as of and for the year ended September 30, 2011, and have issued our report thereon dated November 14, 2011. In planning and performing our audit of the consolidated financial statements, 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 Office of Management and Budget Bulletin No. 07-04, *Audit requirements for Federal Financial Statements*, as amended; we considered the Department's internal control over financial reporting (internal control) 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 Department's internal control. Accordingly, we do not express an opinion on the effectiveness of the Department's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below and as more fully described in our *Independent Auditors' Report*, which is included in the financial results section of the Department's *Fiscal Year 2011 Agency Financial Report*, we identified certain deficiencies in internal control related to information technology (IT) that we consider to be a significant deficiency.

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. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the following to be a significant deficiency in internal control:

- ***Unclassified network and information systems security*** – We noted network vulnerabilities and weaknesses in access and other security controls in the Department's unclassified computer network information systems. The identified weaknesses and vulnerabilities increase the risk that malicious destruction or alteration of data or unauthorized processing could occur. The Department should fully implement policies and procedures to improve its network and information systems security.

We will issue a separate management letter addressing IT control deficiencies, including those matters we consider collectively to be a significant deficiency.

Although not considered to be significant deficiencies or material weaknesses, we noted certain matters involving internal controls and other operational matters that are presented in Exhibit A, for your consideration. These comments and recommendations, all of which have been discussed with the appropriate members of management, are intended to improve the Department's internal control or result in other operating efficiencies.

Exhibit B presents the status of prior year management letter comments.

Management's reaction to our comments and recommendations has not been subjected to the auditing procedures applied in the audit of the consolidated financial statements and, accordingly, we express no opinion on it.

We appreciate the courteous and professional assistance that Department personnel extended to us during our audit. We would be pleased to discuss these comments and recommendations with you at any time.

This report is intended solely for the information and use of the United States Department of Energy and its Office of Inspector General and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

Management Letter
Index to Exhibit A and Listing of Other Exhibits

COMMENTS

<u>Budget</u>

Finding 1: Timely Recording of Obligations (**11-SR-B-01**)

Savannah River Operations Office (SRO) did not timely record an obligation in 1 of 27 sampled obligations. SRO executed Contract Modification 30 for Contract Identifier CC60025, on April 6, 2011, for $47,223. However, because this is a Fin Plan-type contract, the Strategic Integrated Procurement Enterprise System (STRIPES) did not post the obligating entry to the Standard Accounting and Reporting System (STARS). SRO recorded the obligation in the Budget Execution and Reporting System (BEARS), on May 13, 2011, thus reflecting the obligation in STARS as of May 31, 2011. SRO personnel identified the missing obligation during the periodic reconciliation of obligations from STARS to BEARS but did not follow-up to ensure the accuracy and completeness of obligations as of April 30, 2011. In addition, other than ad hoc reviews, there are no controls in place to ensure that the year-end balance of obligations is complete.

As a result, SRO understated obligations by $47,223 as of April 30, 2011. The selected obligation was recorded during the subsequent accounting period. While this error does not have a dollar impact on the September 30, 2011 financial statements, because a year-end control does not exist to catch unrecorded obligations that should be recorded in the current fiscal year, the potential exists for errors that do have dollar impacts on the September 30, 2011 financial statements.

Recommendation:

1. We recommend that the Acting Chief Financial Officer (CFO) of SRO ensure that the following actions are taken:

    a. Implement a manual or automated process by which the Procurement Office and/or STRIPES notifies Budget when a contract is executed and pending obligation in BEARS.

    b. Establish formal, monthly controls for the reconciliation of obligations and commitments recorded in STARS to obligations and commitments recorded in BEARS.

    c. Establish management review controls over the obligation of Fin Plan-type contracts to ensure that obligations are recorded during the proper accounting period.

Management Reaction:

Management concurs with the recommendations. Management noted that SRO currently has two contracts that are subject to Fin Plan-type processing, each of which is valued at over $100 million annually, and therefore, the specific occurrence has little impact on the accuracy of the SRO and Departmental level financial statements. Management also noted that the occurrence in question was identified and corrected before the close of the subsequent accounting period due to the reconciliation process employed by SRO staff.

To specifically address Recommendation 1 above,

a. Management plans to enable automated notification processes for the routing and delivery of award notifications. This corrective action will be implemented by October 1, 2011.

b. Management noted that SRO currently performs two different monthly reconciliations to identify differences between STARS, BEARS and STRIPES. SRO is in the process of reviewing and documenting many of its recurring processes, and these reconciliations are in scope for the review.

c. Management noted that SRO's CFO currently performs a SF-2108 Certification review at the end of the 3rd and 4th quarters, in accordance with the Department's accounting guidance. Attestation that the STARS/STRIPES and the STARS/BEARS reconciliations, as well as other financial management and data reconciliation processes have been performed is required for this review.

Finding 2: Incorrect Costed Obligations and Undelivered Order (UDO) Balances (**11-EMCBC-B-01**)

We noted for 1 out of 13 UDO's sampled as of June 30, 2011that the Environmental Management Consolidated Business Center's (EMCBC) general ledger reported a UDO balance of $284,047.37 for Contract Identifier (CID) AL65416. The UDO balance should have been $319,676.32 (the total amount obligated less total invoiced amount on the Invoice History report).

In 2005, when DOE implemented STARS, management did not set up the system to record a receipt when an invoice was paid; instead, receipts were recorded manually. For AL65416, the numerous manual receipt and interface cost entries from November 2005 through November 2006 resulted in costs exceeding payments by $35,628.95. The variance has carried over since that time. The accounting staff regularly monitors reports for costs in excess of payments, but they did not research and address this variance because it was considered an immaterial timing difference. However, management does not have an established policy for what amounts are considered immaterial. EMCBC understated the UDO balance as of June 30, 2011, by $35,628.95.

Recommendation:

2. We recommend that EMCBC management implement policies and procedures to ensure that all costed amounts recorded in the general ledger agree to invoiced amounts and accrued costs for each obligation that is not fully costed. All discrepancies, including immaterial discrepancies, should be researched and resolved in a timely manner. While discrepancies deemed to be material should be researched and resolved prior to each fiscal year end, we also recommend that immaterial discrepancies should be researched and resolved periodically to ensure that all discrepancies are addressed in a timely manner and that immaterial discrepancies do not accumulate over time to become material in nature. Furthermore, we recommend that EMCBC establish a policy to quantify the dollar threshold below which discrepancies are considered immaterial.

Management Reaction:

Management concurs with the recommendation. Management noted that an internal policy is now in place that sets materiality thresholds for cost variances, and states that all material cost discrepancies are to be resolved within the current fiscal year and that immaterial discrepancies are to be resolved at least biennially.

Finding 3: Untimely De-obligation of Stale Undelivered Orders (**11-ORO-BUD-01**)

For obligations cut-off test work at the Oak Ridge Operations Office (ORO), we tested five obligations that were recorded in October 2011 (fiscal year (FY) 2012) which were inclusive of two credit obligations (i.e. de-obligating transactions). We identified these two de-obligations as stale UDOs as of September 30, 2011 because they should have been de-obligated in FY2011: a travel obligation (TV00QE051) for $9,009 and a training obligation (TR0OR0108) for $1,700.

In September 2010, ORO realigned the obligations, costs, and payments for travel obligation TV00QE051 to a different program value; however, ORO did not de-obligate the original travel obligation due to an accounting error. Because the obligation had activity in September 2010, the stale UDO did not appear in the UDO review until September 2011 and was not de-obligated until October 2011 (FY 2012). ORO identified training obligation TR0OR0108 as a stale UDO during the third quarter SF-2108 review of UDOs. However, ORO did not de-obligate the UDO in the general ledger until FY 2012 due to a miscommunication as to who should perform the de-obligation during the third quarter UDO review. As a result of these errors, ORO overstated its UDOs balance by $10,709 as of September 30, 2011.

Recommendation:

3. We recommend that the Oak Ridge Office's Chief Financial Officer improve existing procedures to ensure that stale UDOs are de-obligated timely.

Management Reaction:

Management concurs with our recommendation. Management noted that ORO’s SF-2108 desk procedure was updated to delineate the roles and responsibilities for deobligation of training and travel and that follow-up reports will also be run to assure that obligations have been completed prior to the quarter ending.

Credit Reform/Loan Programs

Finding 4: Policy Approval and Document Management (**11-HQ-L-01**)

We noted that the DOE Loan Program Office (LPO) updated its “Credit Policies and Procedures” as of March 25, 2011 and remained in draft form through September 30, 2011. These procedures detail the internal control system designed to ensure the proper management of the Loan Programs.

For purposes of testing the Credit Reform related accounts for Direct Loans and Loan Guarantees as of September 30, 2011, we requested documentation identified by management as the support for loan related transactions including information used to support the credit rating and recovery rates established/updated by management. Management informed us that they were in the process of implementing QuickSilver, a portfolio management application, and that it would ultimately house reports documenting their portfolio analysis and conclusions. Until full implementation of QuickSilver, the LPO Portfolio Management Division (PMD) had to use desktop applications to prepare its internal management reports and manual processes to document reviews and approvals.

When documents were not on the Department's iPortal document management system or on QuickSilver, we requested the assistance of the LPO personnel. In certain cases, we did not receive the information and in other cases we received the information and found it inaccurate or incomplete.

One of the key components of the LPO's system of internal control includes the implementation of QuickSilver and integrating iPortal. This system is designed to include required official records supporting approval of transactions in the direct loan and loan guarantee programs. This system was not fully implemented as of September 30, 2011. Furthermore, the LPO had many competing priorities requesting information at the same time the financial statement audit was in process diverting its resources from fulfilling the financial audit requests.

LPO management stated that LPO personnel used the draft updated policies and procedures even though not formally approved. The lack of timely authorization and implementation of updated policies and procedures may lead to the inconsistent application of management guidance. Errors or delays in application of appropriate controls could have a significant impact on the entity's financial reporting and/or its compliance with laws and regulations.

DOE's inability to readily provide documentation for the review and support of transactions related to direct loans and loan guarantees does not meet the requirements of the Office of Management and Budget's (OMB) Circular A-123 nor DOE Order 241.3.

Recommendation:

4. We recommend that the Department's Director of the Loan Program Office:

    a. Require modifications to the LPO Policies and Procedures be approved in a more timely manner to ensure accurate financial reporting and compliance with laws and regulations, and

    b. Make authorized and approved supporting documents readily available by completing the development, implementation, and population of its system for portfolio management to include the integration of its document management system.

Management Reaction:

Management concurs with the recommendations. Management noted that the update to the LPO *Credit Policies and Procedures Manual* was approved on October 6, 2011. Management stated that it should be noted that while not approved during FY 2011, implementation of the updated section was in effect, and there was little risk of any material adverse impact on DOE's financial reporting, its compliance with laws and regulations, and inconsistent application of management guidance. This is attributable to the fact that the system deployed by the PMD in the execution of its responsibilities is characterized by the existence of standardized templates that are used in the execution of the responsibilities of staff within the Division. As noted, the population of QuickSilver, an electronic web-based monitoring system is ongoing and expected to be completed by March 31, 2012, for those transactions transferred to PMD by December 31, 2011. The *Credit Policies and Procedures Manual* has been distributed to the LPO staff in hardbound copy with the direction that it be reviewed for corrections, additions and general updates. The *Manual* will be revised to include the requirements of the newly established Risk Committee as well as the revisions to the Credit Review Board Charter.

Finding 5: Credit Subsidy Model Errors (**11-HQ-L-02**)

In order to estimate Credit Subsidy Costs, the cash flows to and from the government that are specific to each Department Loan and Loan Guarantee must be estimated and discounted utilizing the Credit Subsidy Calculator 2 (CSC2) as required by OMB. The Department developed a Credit Subsidy Cash Flow Model (Model) using Stata, an application used for financial modeling, to estimate the cash flows to and from the government and to facilitate their translation into the CSC2.

In our test work over credit reform, we found the following:

1. We identified errors in credit subsidy cash flow models reviewed for the period ending September 30, 2011. The errors noted, which were not identified by management, were:

Loan	**Error identified**
Fisker	Inconsistent dates were used to calculate interest payments and incorrect default curves were used.
Ford	Defaulted interest did not consider prepayment.
Nissan	The 2028 Quarter 3 interest payment had the decimal in wrong place.
Tesla	Used inconsistent stated interest rate and incorrect default curves.
VPG	Used incorrect default curves.
Stephentown (Beacon)	The 2030 Quarter 4 used recoveries at zero when they should have been positive; and Used incorrect credit rating.
Solar Partner VII	Inconsistency existed between capitalized and scheduled interest payments and interest rates.

2. We identified errors and/or discrepancies in the approved DOE Loan Policy Committee (LPC) FY2011 Re-estimates Results Approval Memo (Memo) for the Loan Guarantee Program dated October 22, 2011. Management subsequently updated this memo and the data elements agreed to the input in the Model used to calculate the subsidy calculations recorded in the financial statements.

3. After the Stata model is run, the resulting output is saved in an excel file for input in the CSC2 calculator. However, prior to running the CSC2 calculator, manual adjustments are allowed to account for certain loan characteristics or unique events. For FY2011, in addition to the manual adjustments made due to errors discovered, DOE made manual adjustments for the fixed Financial Institution Partnership Program calculation, cash grant loss calculations under the repayment method, and recoveries calculation for the one other loan. These manual adjustments can override the approved Stata model and related output.

The agency has not established or implemented sufficient policies and procedures over the re-estimate process nor identified specifically designated resources to properly monitor compliance over this process.

The impact of the errors used in the Model was a $16,316,936 understatement of subsidy cost before corrections. The lack of properly implemented controls increases the risk that DOE would not properly calculate and record its credit subsidy re-estimates. In addition, information used in the Model was not originally supported with appropriately documented evidence demonstrating LPC approval of that information. Furthermore, manual adjustments are more susceptible to error than systems designed to use automation with an appropriate change control process, which can result in incorrect information used to record transactions reported in the financial statements.

Recommendation:

5. We recommend that the Department's Director of the Loan Program Office:

    a. Complete efforts to improve and implement LPO policies, procedures, and internal controls for the credit re-estimation process;

    b. Ensure that supporting documentation for the models undergo a more robust review process; and

    c. Consider enhancements to its Model to reduce, if not eliminate, manual adjustments between the Stata model used and the input for the CSC2.

Management Reaction:

Management concurs with the recommendations. Management noted the LPO is taking steps to reduce the opportunity, size, and occurrence of errors in cash flows and in summary memos. The LPO will:

a. Produce a revised process map outlining the procedures and internal controls for re-estimates.

b. Implement two layers of review to improve accuracy. Secondary internal reviewers – not the model operators who author the memos – will review the case flows and summary memos prior to making them final. And,

c. Initiate a cash flow model update with emphasis on reducing the number of manual adjustments. It is noted that certain manual adjustments have been required by OMB in order to gain OMB's approval of each individual cash flow. However, DOE's model update will endeavor, pursuant to approval by OMB, to eliminate manual adjustments and replace them with permanent model features.

Environment, Safety, and Health (ES&H) Compliance

Finding 6: Inaccuracies in the ES&H Liability (**11-BNL-ES&H-01**)

Brookhaven National Laboratory (BNL) has not implemented sufficient internal controls to ensure that its ES&H liability is complete, accurate, and readily verifiable. We found the following errors in BNL's ES&H liability:

- Incurred no costs for activity data sheet (ADS) AA8D0063, but reduced the ES&H liability for costs of $9.1 million during FY 2010.

- Included liability estimates of 483,000 as of September 30, 2010 for three actions already completed prior to that date.

- Included a liability estimate of $280,000 as of September 30, 2011 for one project that was not an ES&H compliance project.

- Added two activities to ADS AA8D0086, site water system improvements, during FY 2011, one of which duplicated activities in another ADS, but did not adjust the ADS liability to reflect the estimated cost of the additional activities.

We also noted that BNL does not review the ES&H liability detail prior to submission to the Chicago Operations Office to ensure that the amounts reported therein include only ES&H projects, reflect changes in cost estimates and work completed during the reporting period, and that the total agrees to the liability recorded in the general ledger. As a result of these errors, BNL understated its ES&H liability by $8,617,000 as of September 30, 2010. In addition, as of September 30, 2011, BNL overstated the ES&H liability by $280,000 due to incorrectly including one project; and understated the ES&H liability by approximately $2.6 million because the liability for the water system improvements ADS was not adjusted to reflect added work scope.

Recommendation:

6. We recommend that the Manager, Brookhaven Site Office (BHSO) direct Brookhaven to develop and implement internal controls to ensure that transactions and adjustments affecting Brookhaven's ES&H liability are accurately recorded and that estimates included in the liability are valid and are supported by adequate documentation. These controls should include:

   a. Management review of supporting detail for the ES&H liability reported to Chicago as of June 30 and September 30 to ensure that the current liability estimate does not contain any non-ES&H projects;

   b. Management review of supporting detail for the ES&H liability reported to Chicago as of June 30 and September 30 to ensure that the amounts reported accurately reflect current cost estimates and do not include the costs of work already completed;

   c. Reconciliation of the total of the supporting detail in item (b) above to the ES&H liability recorded in the general ledger; and,

   d. Require ADS Project Champions to affirm on a quarterly basis that the estimate for each ADS for which they are responsible is an accurate reflection of current estimates of costs for planned corrective actions and is supported by adequate documentation.

   Additionally, we recommend that the Manager of the BHSO direct Brookhaven to update the activity data sheet for AA8D0086 to ensure that the scope of work for this activity data sheet is not captured in other activity data sheets and that the liability associated with the updated activity data sheet accurately reflects the work scope.

Management Reaction:

Management concurs with the recommendations, with the change noted in d below, and will direct Brookhaven Science Associates (BSA), the management and operating (M&O) contractor at BNL, to develop and implement internal controls to ensure that transactions and adjustments affecting Brookhaven's ES&H liability are accurately recorded and documented. Those internal controls include:

a. BSA management review of supporting detail for the ES&H liability reported to Chicago as of June 30 and September 30 to ensure that the current liability estimate does not contain any non-ES&H projects.

b. BSA management review of supporting detail for the ES&H liability reported to Chicago as of June 30 and September to ensure that the amounts reported accurately reflect current cost estimates and do not include the costs of work already completed.

c. Reconciliation of the total of the supporting detail in item b above to the ES&H liability recorded in the general ledger.

d. BSA management to develop a procedure for the third and fourth quarter to review and affirm that the estimates are an accurate reflection of costs for planned corrective actions and are supported by adequate documentation.

The BHSO will also direct BSA to update the activity data sheet for AA8D0086 to ensure that the scope of work for this activity data sheet is not captured in other activity data sheets and that the liability associated with the updated activity data sheet accurately reflects the work scope.

Environmental Liabilities

Background: The Department has several categories of environmental liabilities, including the Office of Environmental Management (EM) program's baseline estimates for its cleanup projects; stabilization, deactivation, and decommissioning of active facilities; and restructured environmental liabilities (REL) covering cleanup projects and facilities that are not addressed in the EM or active facilities liabilities.

The Department owns many government facilities and laboratories for which the Department's CFO relies upon field or operations offices to collect, report, and reconcile financial statement data. In addition to Federal regulations, the CFO issues annual guidance, which provides field sites with methods and standards required for proper preparation and reporting of financial information.

Finding 7: Omission of Prior Year Actual Costs (**11-RL-EL-01**)

The Richland Operations Office (Richland) found during a field reconciliation and review performed during FY 2011that several program codes related to American Recovery and Reinvestment Act of 2009 (ARRA) funding were not included in the STARS capital and operating expenditures reconciliation reports in FY 2010. In FY 2009, the ARRA funding was recorded by Headquarters, but in FY 2010, it was to be recorded by field sites. The balances in the STARS reports are used to reduce the EM liability recorded in the financial statements. Therefore, the Richland environmental liability was overstated by approximately $582.9 million as of September 30, 2010.

Recommendation:

7. We recommend that the Richland Operations Office follow newly established procedures to ensure that all program codes are reviewed and updates are made to capture all actual costs appropriately in the STARS capital and operating expenditures reconciliation reports.

Management Reaction:

Management concurs with the recommendation. Management noted that accounting procedures are now in place to capture new Environmental Liability program codes for both capital acquisitions and operating expenditures.

Finding 8: Risk Register Documentation (**11-HQ-EL-01**)

The Department's environmental liability includes contingency provisions to compensate for uncertainties in the program's technical cleanup work scope. In FY 2011, EM began recording contingency based on a revised risk management process, which uses probabilistic analyses to evaluate the potential impacts of identified project risks on project work scopes in accordance with site risk management plans. The analyses are used to estimate the amount of contingency needed for successful project completion.

Each field site's risk documentation generally includes one or more risk registers, which summarize potential risks that affect project scope, cost, and schedule, if realized; this documentation is supported by information for each risk contained either in the risk register or in the risk threat/opportunity assessment forms. The risk registers and the assessment forms document the cost and schedule impacts used in the risk assessment process.

The assessed cost and schedule impacts for a number of risks we tested during the audit are based on subject matter experts' analyses. In certain cases, the sites had not maintained supporting documentation for these analyses. While the assessment of certain risks requires significant judgment from subject matter experts, the basis for the judgments, in some cases, was not clearly documented or correlated with the estimates for the corresponding activities in the cost and schedule baselines.

In addition, although EM review teams from Headquarters evaluated the sufficiency of the assessments for individual risks at several field sites, EM did not evaluate the sufficiency of the contingency provisions calculated based on the project risk registers for projects and field sites taken as a whole. These documentation weaknesses increase the likelihood of inconsistent risk reporting between sites and across reporting periods; furthermore, the absence of documentation of factors considered in past assessments may increase the effort required to support the bases for future risk assessments.

Recommendation:

8. We recommend that EM implement policies and procedures to enhance the quality and consistency of project risk identification and assessment, including:

    a. A standard level of documentation, with incremental emphasis on higher probability and higher cost risks, for the cost and schedule impacts included in the risk registers, including factors considered by subject matters experts; and

b. Evaluation of the sufficiency of contingency provisions calculated at the field sites as a whole and consistency of the calculated contingency provisions based on the project risk registers across the sites.

Management Reaction:

Management concurs with our recommendations. Management notes this is the first year that EM project risk management plans have been used as the primary means to determine contingency for EM's environmental liability as part of the audited Agency Financial Statement. Also, EM conducted its first formal Integrated Project Team (IPT) review of project Risk Registers. Management stated that EM sites are in compliance with all applicable requirements for conducting risk assessments. These include DOE Orders and Guides (DOE Order 413.3B and DOE Guide 413.3-7A), in addition to EM policy and guidance ("EM Protocol for the Application of Contingency and Management Reserve" and "Guidance for the Preparation of the Fiscal Year 2011 Environmental Liability Estimate").

During the FY 2011 financial statement audit process, EM and KPMG discussed improvements relating to the use of the EM project risk management plans to estimate contingency as part of the environmental liability estimate. Throughout the audit, it was apparent that the accounting-based audit process placed additional demands on the risk management staff, primarily related to supporting documentation of risk probabilities and consequences. EM and the projects provided a significant volume of documentation to support the values used in the Risk Registers.

EM and KPMG have identified several lessons learned from its initial experience in the use of risk-based contingency in the EM liability cost estimate. The KPMG recommendations are intended to provide additional lessons-learned to improve the process next year. Two points are stressed in the recommendations: 1) increase consistency across sites and 2) improve documentation.

Management stated that EM plans to apply the recommendation related to documentation to the following areas:

a. Provide documentation of subject matter expert inputs to the risk register.

b. Ensure Risk Assessment Forms provide a proper reference to reports, studies, price quotations, or other supporting documents to allow them to be retrieved from a records system, if needed.

c. Improve the revision control, monitoring and tracking mechanisms on Risk Register updates.

d. During the IPT review of site Risk Registers, ensure the review teams evaluate the traceability and transparency of the supporting documentation.

The work scope executed by EM projects is challenging with unique state and local conditions faced by each site. This makes the standardization of risk quantification extremely difficult. The site baselines with specific project assumptions; site conditions; state and local regulatory framework; as well as labor and material requirements make consistency across sites impractical. However, sharing Risk Registers among EM projects could allow for the opportunity to more consistently identify project risks (e.g., recognizing risks that may have been over looked) and serve as a forum to better manage the current set of risks across the complex. This also could allow sites to discuss the standards and best practices for risk management for similar EM projects.

Management stated that EM plans to apply the recommendation on complex-wide consistency to the following areas:

a. Provide clear guidance and direction to the sites on how to improve their risk identification processes with an emphasis on increased consistency by reviewing similar risks at other sites. Additional direction will be provided in the FY 2012 Environmental Liability Guidance and an update to the Standard Operating Policy and Procedure (SOPP) for conducting the annual environmental liability process.

b. Improve the review criteria and the overall approach to next year's IPT review of site Risk Registers. EM plans to include more specific review criteria to focus on consistency between sites by program mission area. It should be noted that the planned EM reorganization will be based on Program Mission units. This type of organization will assemble expertise by mission area and enhance the consistency across EM projects performing similar missions.

c. EM will look at approaches to make risk documentation from the sites easily available to others as updates to the Risk Management Plans, Risk Registers, and Risk Assessment Forms occur during the year.

Finding 9: Error in the Prior Period West Valley Environmental Liability (**11-HQ-EL-02**)

Under the West Valley Demonstration Project (WVDP) Act, the Department used facilities on the site of the Western New York Nuclear Service Center (WNYNSC) near West Valley, NY to demonstrate solidification techniques for potential use in preparing high-level waste (HLW) for disposal. The Act required the Department to decontaminate and decommission (D&D) the tanks and other facilities in which the HLW was stored, the facilities used in the solidification of the waste, and any materials and hardware used in connection with the project and provided for a measure of cost sharing between the Department and the State of New York.

In FY 2010, the Department issued a Final Environmental Impact Statement (EIS) for Decommissioning and/or Long-Term Stewardship at the WVDP and WNYSC and a Record of Decision (ROD), which selected a phased decision-making alternative for decommissioning activities at West Valley. The phased decision-making alternative specified the Phase 1 decommissioning activities at the site, but deferred a final decision on Phase 2 activities until FY 2020. At the time of the ROD, the Department considered each of the Phase 2 alternatives, including monitor and maintain, close-in-place, and site-wide removal, to be equally likely. Since West Valley's Federal baseline already incorporated the costs associated with Phase 1 activities and a Phase 2 approach of monitor and maintain, EM did not significantly adjust the liability in FY 2010.

In August 2010, a Consent Decree, which assigned responsibility and financial obligation allocations between the Department and the State of New York, was issued. The Consent Decree assigned responsibility to the Department for 50 percent of the remediation action selected for the Nuclear Regulatory Commission (NRC)-licensed disposal area (NDA) and 30 percent of the remediation action selected for the state-licensed disposal area (SDA) until decommissioning of these facilities is complete. The Department previously assumed that it would only be responsible for monitoring and maintaining the NDA until completion of Phase 2 decommissioning activities, at which point the State of New York would resume overall responsibility for this facility. The Consent Decree also provided a breakout of financial obligation allocations between the Department and the State of New York, which segregated costs into four general allocations. However, the Department and State of New York still needed to reach agreement on the actual cost allocations as of September 30, 2010.

Although the Final EIS, ROD, and Consent Decree collectively provided sufficient evidence that a substantial increase was needed in the environmental liability, EM did not record an estimate for incremental costs. As of September 30, 2010, estimates of the work scope associated with the close-in-place alternative, which represented the most cost-effective alternative for Phase 2 decommissioning activities, ranged from $78 million to $578 million. Subsequently, in FY 2011, EM recorded an adjustment of $675 million to the West Valley liability to account for Phase 2 decommissioning activities. The FY 2011 adjustment represented a 148 percent increase in the site's liability from FY 2010. As a result, West Valley's environmental liability as of September 30, 2010 was understated.

Recommendation:

9. We recommend that the Director of the EM Office of Strategic Planning and Analysis establish policies and procedures to identify and record environmental liability estimates when they are reasonably estimable.

Management Reaction:

Management concurs with the recommendation. EM issues guidance on the environmental liability each year. Management stated that EM will ensure that the guidance for FY 2012 addresses the recommendations above. In addition, EM will work with each site to ensure their liability estimates are complete.

Finding 10: Miscalculation of the EM Program Direction Estimate (**11-HQ-EL-03**)

The Department's environmental liability includes estimated costs associated with three EM support projects: Program Direction, Mission Support, and Technology Development.

For the near-term baseline, i.e., FY 2012 through FY 2017, EM records a liability for these projects based upon approved funding targets provided by EM's Office of Budget. For the out-years, i.e., FY 2018 and beyond, EM calculates the cost estimates as a percentage of EM's overall cleanup liability.

EM calculated the Program Direction, Mission Support, and Technology estimates based upon preliminary EM liability data in the Integrated Planning and Budgeting System (IPABS) as of September 29, 2011. However, the EM liability in IPABS increased after September 29, 2011. Additionally, EM calculated the Program Direction and Mission Support estimates based on the anticipated costs of the EM cleanup program through FY 2051, and calculated the Technology Development estimate based on anticipated costs through FY 2050. The completion of the cleanup program will not occur until 2060, when the work at the Hanford Site in Richland, Washington is scheduled to end. The estimates for the Headquarters projects therefore did not consider the costs that will be incurred during the last several years of the cleanup program.

As of September 30, 2011, the Program Direction, Mission Support, and Technology Development estimates were understated by $919 million, including $166 million of contingency, prior to an adjustment made by the Department to correct this error.

Recommendation:

10. We recommend that the Director, Office of Strategic Planning & Analysis implement procedures to perform a detailed review over the calculations used to develop the Program Direction, Mission Support, and Technology Development estimates to ensure that the estimates are include valid inputs and are properly calculated.

Management Reaction:

Management concurs with the recommendations. Management agrees with the finding for HQ Projects, based on the previously established approach for estimating future liability costs for the HQ Project PBSs. However, these HQ functions are not true projects; and therefore, would not be expected to track with overall EM complex costs or include contingency. In addition, as sites complete entry of their final cost estimates for the fourth quarter report to KPMG, changes in the overall EM complex liability costs require changes in the HQ support costs. This is not always practical when site cost changes in many cases occur right at the last opportunity to make changes.

Management stated that EM plans to propose a different approach for the FY 2012 environmental liability audit which will reflect a better and more realistic estimate of the HQ support function costs and be more stable from continual changes as EM complex costs change.

Management stated that EM will work with the CFO and KPMG to develop the new approach for FY 2012. EM will document the new approach, and provide any necessary updates to its annual Environmental Liability guidance to support the start of the FY 2012 environmental liability audit.

Environmental Liabilities for Active Facilities

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 CFO and operated by a contractor. 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 15 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 11: Inaccuracies in the Active Facilities Data Collection System (**11-Y12-AF-01**)

Our review of a statistically selected sample of 35 facilities and structures from the Y-12 National Security Complex's (Y-12) FY 2011 AFDCS population disclosed that Y-12 incorrectly recorded the footprint for Buildings 9106, 9201-05, 9204-02E, and 9207. As a result of these errors, Y-12 understated the interim active facilities liability estimate by $905,546 as of June 30, 2011. Site personnel corrected the errors prior to the final liability calculation as of September 30, 2011.

Recommendation:

11. We recommend that the National Nuclear Security Administration's (NNSA) Field CFO, in conjunction with the Y-12 Site Office (YSO) Manager, direct Y-12 employees responsible for updating AFDCS to review and adhere to AFDCS guidance regarding footprint calculations.

Management Reaction:

Management concurs with our recommendation. Management noted that Y-12 will implement the appropriate AFDCS guidance to use the area of the largest floor to calculate the footprint of facilities, rather than its historical practice of using the area of the building actually in contact with the ground as the footprint. Management anticipates the implementation of the proposed corrective action by January 2012.

Finding 12: Inaccuracies in the Active Facilities Data Collection System (**11-BNL-A-01 (Revised)**)

Our interim review of 35 facilities and structures disclosed that BNL assigned the incorrect model type to 4 facilities: Facility 510, Facility 815, Facility 832, and Facility 593. Also, our interim review of newly listed contaminated facilities in AFDCS disclosed that BNL incorrectly included Facility 0598 in its June 30, 2011 active facilities environmental liability estimate, which was also included in the EM environmental liability as of June 30, 2011.

Our final review of 10 no liability and asbestos facilities and structures disclosed that BNL assigned the incorrect model type to one facility, Facility 729.

We found that BNL personnel did not follow the AFDCS and asbestos guidance for identifying and recording active facility estimates. Furthermore, the BHSO did not perform adequate reviews of the contractor-prepared active facility liability estimate. As a result, BNL overstated its active facilities liability by a net $133.5 million, including $132.8 million for the four model code errors and $.711 million for the double counting of Facility 0598, as of June 30, 2011. Site personnel corrected the error prior to the final liability calculation as of September 30, 2011. In addition, BNL overstated the final active facilities liability estimate by $111,000 as of September 30, 2011 for the asbestos model code error identified above.

Recommendation:

12. We recommend that the Manager, BHSO, implement policies and procedures to:

    1. Ensure the BNL employees and contractors are appropriately following active facility guidance, specifically relating to model code categories, coordination with EM to prevent double counting, and asbestos.

    2. Perform appropriate internal review of the contractor-prepared active facility liability estimate.

Management Reaction:

Management concurs with the recommendations. However, during the factual accuracy review, BSA indicated that based on the definition of a mixed waste, the appropriate code for building 815 is G (Mixed Waste) rather than code F (Building with Hazardous Contamination) as stated in the condition of the finding. The coding of this facility will be re-evaluated during FY 2012. BHSO will request BSA, the managing and operating contractor at BNL, to implement policies and procedures to:

a. Ensure employees and contractors are appropriately following active facility guidance, specifically relating to model code categories and asbestos. Improve coordination with EM to prevent the double counting of liabilities contained in the active facility estimate and the EM estimate.

b. Perform appropriate internal review of the contractor-prepared active facility estimate.

Auditor's Response:

We appreciate management's response to our finding and are encouraged by the corrective actions planned by management. Management's response indicated that it concurred with the recommendations, but disagreed with the factual accuracy of the assessment of the model code classification for Facility 815. However, the Department did revise the classification for this facility from model code G to model code F during the 4^{th} quarter of FY 2011. The Department corrected its records as of September 30, 2011, to reflect a liability for this facility that is consistent with our conclusion. KPMG maintains that the most appropriate model code is F – Building with Mixed Contamination, as opposed to model code G – Building with Hazardous Contamination based on the supporting documentation and meetings held with personnel familiar with both the facility and applicable guidance.

<u>**Human Resources**</u>

Finding 13: Leave Approval Forms (**11-HQ-H-01**)

During FY 2011, we found that five Departmental elements reviewed were unable to provide evidence of a completed "Request for Leave or Approved Absence," OPM Form 71, or other acceptable method of approval for five of the 51 sample items selected from payroll disbursements made during the nine months ended June 30, 2011.

Recommendation:

13. We recommend that:

a. The Director of the Office of Human Capital Management, in coordination with the payroll staff, revises DOE Order 322.1C Section 4.d.3.d to ensure consistent application across the Department. These revisions should:

    i. Require organizational units who have the capability to use the Department's electronic leave request form to do so; and

    ii. Require organizational units to document other approved methods to request leave and their appropriateness in lieu of an OPM Form 71.

b. Additionally, we recommend that the Director of the Human Capital Policy Division reinforce DOE Order 322.1C Section 4.d.3.d, as revised, through:

   i. Reviewing all alternative methods approved by Departmental elements; and

   ii. 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 recommendations. Management stated that 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 will be incorporated into the revision of DOE Order 322.1C. Management also noted that 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.

Finding 14: Missing Personnel File (**11-SNL-P-01(Revised)**)

Sandia National Laboratories (SNL) was unable to provide a personnel file for 1 of 30 sampled plan participants. The missing personnel file corresponded to an employee originally hired at SNL's Livermore, CA location. The employee later transferred to SNL's Albuquerque, NM location; however, Livermore's Human Resources (HR) department failed to send the personnel file to the HR department in Albuquerque. Additionally, Livermore's HR department is no longer in possession of the employee's file. As a result, we were unable to corroborate the accuracy of the information in the pensions census data file with the employee's personnel file.

Recommendation:

14. We recommend that the NNSA Head of Contracting Activity, in conjunction with the Sandia Site Office Manager, instruct Sandia to implement policies and procedures to ensure adequate retention of personnel records.

Management Reaction:

Management concurs with the recommendation. Management also noted that SNL will: (a) conduct a complete audit of active personnel files at both the NM and CA sites, identify any gaps that exist, and address those problems with improved control methods; and (b) revise the process for transferring a file between sites, so the sending site retains a copy of the file until the receiving site confirms that the file has been received, and include the transmittal and receipt documents in the file. Management anticipates completing these actions by October 2011.

Finding 15: Estimated Pension and Post-Retirement Asset Values (**11-KCP-P-01**)

Kansas City Plant's (KCP) contractor reported estimated September 30, 2011 asset values, rather than actual values, as required by generally accepted accounting principles and Departmental accounting guidance. As a result, the asset values reported in the Department's consolidated financial statements for

KCP's two pension plans as of September 30, 2011 were understated by $1.2 million, resulting in a corresponding overstatement in the accrued liabilities for these plans.

Recommendation:

15. We recommend that the NNSA CFO, in conjunction with the Kansas City Site Office (KCSO) Manager, ensure that guidance issued by the Department's Office of Finance and Accounting regarding the annual pension and post-retirement benefit submission is followed.

Management Reaction:

Management concurs with the recommendation. Management notes that guidance will be issued to the KCP contractor to incorporate a review of the pension and PRB submission by KCSO prior to submission to Headquarters.

<u>Inventory</u>

Finding 16: Error in the Prior Period Stockpile Materials Inventory (**11-INL-NM-01**)

The FY 2010 annual Nuclear Materials Inventory Assessment (NMIA) report issued by the NNSA Office of Nuclear Materials Integration indicated that the Idaho National Laboratory (INL) had a quantity of plutonium that was in excess of national security needs. In September 2010, INL determined that the materials in question were also excess to the laboratory's mission needs and appropriately recorded an environmental liability for their disposition. However, INL did not record a timely corresponding adjustment to its nuclear materials allowance account. Therefore, INL's stockpile materials inventory was overstated by $275 million as of September 30, 2010.

Recommendation:

16. We recommend the Idaho Operations Office Manager direct the INL contractor, Battelle Energy Alliance (BEA), to establish accounting policies and internal controls to ensure that changes in the stockpile materials inventory are recorded in the proper accounting period.

Management Reaction:

Management concurs with the recommendation. Management notes that the Idaho Operations Office has provided BEA with clarifying guidance that requires stockpile materials inventory changes to be appropriately and accurately recorded in the proper accounting period. Management also stated that the INL contractor has already recorded the adjusting accounting entries to report the nuclear material allowance change as fiscal year 2010 activity.

Finding 17: Inaccuracies in Standard Weapons Costs (**11-Y12-NM-01**)

The Department's nuclear weapons production program encompasses various locations under the direction of NNSA. Each location has a specific production mission and role within the complex. Production units transfer between locations at a Bill of Material (BOM) standard cost, which represents the direct labor, direct material, and indirect manufacturing cost.

During FY 2011, Y-12 incorrectly calculated its BOM standard cost due to a formula error that went unnoticed in the Microsoft Excel spreadsheet used by the site to calculate a new BOM standard cost. In turn, the miscalculated BOM standard was applied to inventory transfers to other sites in the weapons production complex throughout the year. As a result, inventory was understated at Y-12 and was overstated at the Pantex Plant as of September 30, 2011. In October 2011, revised transfer vouchers were issued, and adjusting entries were made at both Y-12 and the Pantex Plant to correct the balances for FY 2011 consolidated financial statement reporting purposes.

Recommendation:

17. We recommend that the NNSA CFO, in conjunction with the YSO Manager, direct the Y-12 contractor to take measures to ensure that adequate controls exist to maintain the accuracy of the value applied to inventory transfers.

Management Reaction:

Management concurs with the recommendation. Management plans to develop and implement corrective actions by December 2011.

<u>Procurement</u>

Finding 18: Incorrect Trading Partner Code (**11-XN9-PRO-01(Revised)**)

KPMG selected a sample of 95 disbursements for the period October 1, 2010 through April 30, 2011 for detailed testing. Our audit procedures identified one invoice with another Federal agency using an incorrect trading partner code.

DOE personnel inadvertently entered an incorrect trading partner code when creating the supplier record. An annual review of trading partner codes, performed by the CFO Office of Financial Control and Reporting (OFCR) in March 2011, failed to identify the error.

There is no impact to the Department's financial statements from trading partner coding errors; however, trading partner code errors cause incorrect reporting of intragovernmental balances to Treasury for elimination in the government-wide financial statements. Due to this error, the government-wide intragovernmental balances will be out of balance by $5,820.39.

Recommendation:

18. We recommend that the Department's Director, Office of Finance and Accounting direct OFCR personnel to evaluate the annual trading partner review procedures in place to ensure that the proper trading partner code is recorded for each intragovernmental transaction.

Management Reaction:

Management concurs with the recommendation. Management noted that key controls to mitigate the risks of material misstatements due to supplier record trading partner errors will be evaluated and tested in FY 2012.

Finding 19: Inaccuracies in the Capitalization of Disbursements (**11-INL-PRO-01**)

BEA serves as the M&O contractor responsible for performing day-to-day operations in support of the site mission at the INL. As an integrated contractor, whose financial information is included in the Department's consolidated financial statements, BEA is responsible for accurately recording its disbursements, including classification of those disbursements. In order to properly classify disbursements, BEA personnel submit a request for funding determination for procurements of $50,000 or more before they begin the procurement process. The Funding Determination Coordinator, a BEA employee, determines the appropriate type of funding for the purchase. If the funding type used is capital funding, all expenditures are tracked and capitalized.

INL incorrectly expensed 1of 25 sampled disbursements. The error related to the wiring of an alarm system that should have been capitalized rather than expensed. As a result, INL overstated expense and understated capitalized assets by $87,130 as of June 30, 2011.

Recommendation:

19. We recommend that the Idaho Operations Office Manager direct the BEA Chief Financial Officer to implement policies and procedures to ensure that disbursements are properly capitalized or expensed in conjunction with or prior to the approval for payment.

Management Reaction:

Management concurs with the recommendation. Management stated that BEA has already evaluated processes and controls and implemented corrective actions to mitigate potential future capitalization errors.

<u>Property, Plant, and Equipment</u>

Finding 20: Property, Plant, and Equipment Capitalization and Depreciation (**11-SNL-F-01**)

During our review of asset additions as of September 30, 2011, we noted that:

a. Sandia did not timely capitalize six assets, in the proper fiscal year, based on the asset's placed in service date. Instead, Sandia capitalized these assets at a later calendar date using the correct placed in-service date. As such, the net book value for these six assets as of September 30, 2011 is correctly stated. However, Sandia did not properly record these items in SGL 74000100, per DOE guidance.

b. Sandia did not capitalize and depreciate eight assets using the correct in-service date.

c. Sandia capitalized an asset for an amount different from the supporting documentation.

d. For two assets that were improvements to an original asset, Sandia recorded retroactive depreciation to the original placed in-service date of the original asset, rather than over the remaining useful life of the asset.

e. Sandia incorrectly capitalized one asset. Sandia previously capitalized the asset in FY 2008 in connection with a capital lease, and fully amortized it in the current year.

During our review for existence of assets as of September 30, 2011, we noted that one asset capitalized incorrectly as the capitalized amount did not agree to the supporting documentation.

Based on the evidence obtained, it appears current desk procedures and/or controls are either not properly designed or effective to place assets in service using the proper in-service dates and amounts. As a result, as of September 30, 2011, the net book value of Sandia's PP&E was overstated by $759,638.

Recommendation:

20. We recommend the NNSA Field Chief Financial Officer, in conjunction with the Manager of the Sandia Site Office, enhance existing policies and procedures to (1) record the actual in-service date for capitalized assets; (2) record the actual amount for capitalized assets; and, (3) only capitalize assets meeting DOE's capitalization criteria.

Management Reaction:

Management concurs with the recommendations. Sandia has provided the following actions in response to the recommendations:

a. Sandia’s Accounting Analyst has now reviewed the procedure for adding these capital assets through the STARS system per DOE guidance.

b. The accounting organization is working on changing the property form to remove the “acquisition date” and change it to “date placed in service.” Additionally, the date at the top of the property form will be removed to reduce confusion related to the date placed in service.

c. Sandia will follow its capitalizing procedure and have its Fixed Asset Analysts review the information that will be recorded in the Oracle general ledger system. This will ensure that the proper amount is recorded.

d. The accounting organization will work with our IT organization to make sure that Sandia’s accounting system will begin depreciation for enhancements to an asset on the date the enhancement is placed in service and not the original asset date. This type of transaction is not common, and with the new depreciation threshold of $500,000, the occurrence of this type of transaction will be rare.

e. Sandia will provide more training to its personnel to assure that assets will not be duplicated in the system.

Finding 21: Existence of PP&E (**11-NS9-F-01**)

During our review of the existence of assets as of June 30, 2011, the NNSA Sandia Site Office, Albuquerque Complex, Facilities and Projects Division, could not identify one asset because the description of the property asset in the Facility Information Management System (FIMS) was not clear, or not adequately detailed to identify the existence of the asset. Further, the entity could not provide alternative documentation (contracts, transfer documents, disposal and excess reports, final cost reports, etc.) to support the existence or disposal of this asset.

Records custodians incorrectly applied the minimum retention requirement to real property records. As the owners of FIMS, the property inventory tracking system, did not properly communicate retention requirements, the records custodians destroyed the records after the initial period of minimum document retention. Records (contracts, transfer documents, disposal and excess reports, final cost reports, etc.) must be kept until final disposition of real property. As a result, the asset cannot be identified.

Recommendation:

21. We recommend that the Manager, Sandia Site Office, ensures that the Property Managers of the NNSA Sandia Site Office, Albuquerque Complex, Facilities and Projects Division, perform the following:

    a. Perform an inventory of the Albuquerque Complex to validate existence of all property recorded in FIMS, as required by the FIMS Handbook and annual guidance issued by the Office of Engineering and Construction Management.

    b. Perform a validation of FIMS assets records for the Albuquerque Complex, as required by the FIMS Handbook and annual guidance issued by the Office of Engineering and Construction Management.

    c. Remove from FIMS those assets that cannot be identified or located and notify the Field Financial Management Division to remove those same assets from the STARS Fixed Asset module.

Management Reaction:

Management concurs with the recommendations. The Sandia Site Office believes the assets exist and the FIMS database is correct. However, due to the destruction of records, the Albuquerque Complex, Facilities and Projects Division (F&PD) is not able to specifically identify and "touch" the asset. F&PD will perform an inventory (during the annual validation which is scheduled for February 27 – 29, 2012), identify assets that are not verifiable, and work with the Field Financial Management Division to determine appropriate action.

Exhibit B

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, 2011**
Environmental Liabilities	
1) Omission of Contaminated Facilities (**10-SR9-EL-01**)	Closed in FY 2011
2) Errors in the Prior Period Environmental Liabilities for NNSA Sites (**10-NS9-EL-01**)	Reissued in FY 2011 – See repeat finding number 1.
3) Errors in the Prior Period Los Alamos Environmental Liability (**10-NS1-EL-01 (Revised)**)	Closed in FY 2011
4) Liabilities Recorded in Improper Accounting Period (**10-ID9-REL-01**)	Closed in FY 2011
5) Cost and Schedule Variance Misstatement (**09-RL9-EL-01**)	Closed in FY 2011
6) Misstatement of the Interim Fiscal Year 2008 Environmental Liabilities Estimated Balance (**08-RL9-EL-01**)	Closed in FY 2011
Environmental Liabilities for Active Facilities	
7) Inaccuracies in the Active Facilities Data Collection System (**10-OR4-AF-01**)	Closed in FY 2011
8) Inaccuracies in the Active Facilities Data Collection System (**10-NSQ-AF-01**)	Closed in FY 2011
9) Inaccuracies in the Active Facilities Data Collection System (**10-NS1-AF-01**)	Closed in FY 2011
10) Inaccuracies in the Active Facilities Liability (**10-ID9-AF-01**)	Closed in FY 2011
11) Prior Period Inaccuracies in the Active Facilities Liability (**10-CH9-AF-01 (Revised)**)	Closed in FY 2011
12) Duplicate Property Records in AFDCS (**10-XN9-AF-01**)	Closed in FY 2011
Financial Reporting	
13) Internal Control Environment – SGL Account Reconciliations (**10-ORS-FR-01 (Revised)**)	Closed in FY 2011
14) Lack of Control to Ensure Management Review over Manual Journal Entries before Posting (**10-XN9-FR-01**)	Closed in FY 2011
Grants	
15) Grant Closeout (**09-CH9-GL-01**)	Reissued in FY 2011 – See repeat finding number 2.
Human Resources (Payroll)	
16) Leave Approval Form (**10-NS9-H-01**)	Closed in FY 2011
17) Leave Approval Forms (**10-XN9-H-01**)	Closed in FY 2011
Inventory	
18) Incorrect Application of Standard Cost to No-Cost Inventory (**10-NR9-NM-01**)	Closed in FY 2011
19) Miscalculation of Standard Transfer Value for Tritium	

(**09-XN9-NM-01**)	Closed in FY 2011

Procurement

20) Accounts Payable – Transaction Code Errors (**10-OR9-PRO-01**)	Closed in FY 2011
21) Invalid Accounts Payable Balances (**10-NSG-PRO-01**)	Closed in FY 2011
22) Invalid Accounts Payable Balances (**10-OR2-PRO-01**)	Closed in FY 2011

Property, Plant, and Equipment (PP&E)

23) Addition and Retirement of Fixed Assets (**10-ORO-PPE-01**)	Closed in FY 2011
24) Property, Plant, and Equipment Capitalization (**10-NS3-PPE-01**)	Closed in FY 2011
25) Property, Plant, and Equipment Capitalization (**10-ORS-PPE-01**)	Closed in FY 2011
26) Timeliness of Capitalization (**10-NSH-PPE-01**)	Closed in FY 2011
27) Property, Plant, and Equipment Capitalization (**10-OR4-PPE-01**)	Closed in FY 2011

<u>Reissued Findings in FY 2011:</u>

<u>Environmental Liabilities</u>

Repeat Finding 1: Errors in the Prior Period Environmental Liabilities for NNSA Sites (**10-NS9-EL-01**)

During the FY 2010 audit, we reported that significant changes in NNSA's environmental liabilities that occurred in FY 2009 were not recorded until FY 2010. These prior period adjustments recorded in FY 2010 totaled approximately $2.34 billion (absolute value). We recommended that the NNSA Field CFO, in conjunction with all NNSA Site Offices, distribute the OFCR's annual financial statement guidance and the EM Standard Operating Policies and Procedures (SOPP) to appropriate personnel with the NNSA organization in a timely manner and to ensure that NNSA contractors are appropriately following environmental liability guidance and applicable accounting standards. Additionally, we recommended that the NNSA Field CFO, in conjunction with all NNSA Site Offices, develop and implement policies and procedures that clearly define the roles and responsibilities at all levels of environmental liabilities estimating and reporting that provide for appropriate review and monitoring of the various environmental liability estimates.

Our follow-up in FY 2011 indicates that NNSA has implemented corrective actions, including the distribution of environmental liability guidance to appropriate personnel, and completed its review of the various environmental liability estimates. However, during the FY 2011 reviews of the various environmental liability estimates, NNSA identified approximately $91.8 million (absolute value) of adjustments that were not recorded in FY 2010; therefore, this finding remains open.

Recommendation:

1. We continue to recommend that the NNSA Field CFO, in conjunction with all NNSA Site Offices, ensure that NNSA contractors are appropriately following environmental liability guidance, specifically OFCR's annual financial statement guidance and EM's SOPP, and

applicable accounting standards and develop and implement policies and procedures that clearly define the roles and responsibilities at all levels of the environmental liabilities estimate and reporting to provide for appropriate review and monitoring of the various environmental liability estimates.

Management Reaction:

Management concurs with the recommendation. Management stated all actions have been completed and implemented to address the weakness identified in FY 2011. Management anticipates that the recommendation will be closed upon the auditor's FY 2012 review of the actions taken.

Grants

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

In FY 2009, during our review of a randomly selected sample of 25 grants, we identified one grant (ER45862) with a project period that ended October 31, 2004. At the time of our testwork, Chicago had not yet closed out this grant. During our FY 2010 testwork, we noted that the Chicago Office closed this grant on September 15, 2010.

In FY 2010, during our review of a randomly selected sample of 25 non-ARRA grants, we identified four instances where the grant had expired over three years prior (ER15265, ER45963, ER45835 and ER84205). These grants were not closed out at the time of our FY 2011 testwork.

In addition, during our FY 2010 review of a randomly selected sample of 12 uncosted obligations (undelivered orders), we identified one grant (ER15418) that had a $228 uncosted obligation and was stale as of June 30, 2010. This balance was corrected at the time of our FY 2011 testwork.

In our FY 2011 review of a randomly selected sample of non-ARRA grants, we identified two additional instances where the grant expired over 3 years ago, but were not yet closed out:

- ER41044 – The grant project period ended June 30, 2005, and the grantee submitted a final expenditure report that was not dated.
- ER46185 – The project period ended June 1, 2008, and the grantee submitted a final expenditure report dated October 6, 2008.

Therefore, this finding remains open.

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. Management stated that a corrective action plan was developed and implemented in response to the prior year's finding 09-CH9-GL-01 dated October 7, 2009, which began addressing the subject of the finding. The policy and procedure for close-out procedures was revised in March 2010 to address the issue of closing out expired grants within the required time period after receipt of the final expenditure reports. The utilization of a support services contractor for closeout services was a critical component of the corrective action plan. Due to a lack of financial resources, management stated that they have not been able to award a follow-on support services contract for closeout support. Currently, various options are being considered; however, it is expected that the finding will remain open until sufficient resources are obtained. When adequate resources are obtained, a realistic completion/resolution date can be established. Management's current estimate is that they will be able to resolve this finding on or around September 30, 2013. Once adequate resources become available, management will revise the estimated completion date accordingly.

Exhibit C

ACRONYMS

ADS	Activity Data Sheet
AFDCS	Active Facilities Data Collection System
ARRA	American Reinvestment and Recovery Act
BEA	Battelle Energy Alliance, LLC
BEARS	Budget Execution and Reporting System
BHSO	Brookhaven Site Office
BNL	Brookhaven National Laboratory
BOM	Bill of Materials
BSA	Brookhaven Science Associates
CFO	Chief Financial Officer
CID	Contract Identifier
CSC2	Credit Subsidy Calculator 2
Department or DOE	Department of Energy
EIS	Environmental Impact Statement
EM	Office of Environmental Management
EMCBC	Environmental Management Consolidated Business Center
ES&H	Environment, Safety and Health
F&PD	Facilities and Projects Division
FIMS	Facility Information Management System
FY	Fiscal Year
HQ	Headquarters
HR	Human Resources
INL	Idaho National Laboratory
IPABS	Integrated Planning and Budgeting System
IPT	Integrated Project Team
IT	Information Technology
KCP	Kansas City Plant
KCSO	Kansas City Site Office
LPC	Loan Policy Committee
LPO	Loan Program Office
M&O	Management and Operating
NMIA	Nuclear Materials Inventory Assessment
NNSA	National Nuclear Security Administration
NDA	NRC-Licensed Disposal Area
NRC	Nuclear Regulatory Commission
OFCR	Office of Financial Control and Reporting
OMB	Office of Management and Budget
ORO	Oak Ridge Operations Office
PMD	Portfolio Management Division
PRB	Post-Retirement Benefits other than Pensions
Richland	Richland Operations Office
ROD	Record of Decision
SDA	State-Licensed Disposal Area

SOPP	Standard Operating Policies and Procedures
SNL	Sandia National Laboratory
SRO	Savannah River Operations Office
SSO	Sandia Site Office
STARS	Standard Accounting and Reporting System
STRIPES	Strategic Integrated Procurement Enterprise System
UDO	Undelivered Order
WNYNSC	Western New York Nuclear Service Center
WVDP	West Valley Demonstration Project
Y-12	Y-12 National Security Complex
YSO	Y-12 Site Office

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1. What additional background information about the selection, scheduling, scope, or procedures of the inspection would have been helpful to the reader in understanding this report?

2. What additional information related to findings and recommendations could have been included in the report to assist management in implementing corrective actions?

3. What format, stylistic, or organizational changes might have made this report's overall message more clear to the reader?

4. What additional actions could the Office of Inspector General have taken on the issues discussed in this report which would have been helpful?

5. Please include your name and telephone number so that we may contact you should we have any questions about your comments.

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