



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 2014

OAS-FS-15-07

January 2015



KPMG LLP
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1801 K Street, NW
Washington, DC 20006

MANAGEMENT LETTER

December 11, 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, 2014, 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 November 14, 2014. 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
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(with parenthetical references to findings and recommendations issued
during the engagement)*

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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: Legacy Management Estimates (14-HQ-LM-01)

There were several errors in the program direction and records management estimates related to double counting of annual costs and improper escalation/de-escalation calculations. Due to turnover, LM's personnel preparing the program direction and records management estimates did not receive the necessary training to understand the accounting literature to prepare the estimates. Furthermore, LM does not have policies and procedures in place to ensure that the program direction and records management estimates are complete and accurate. Prior to the amount being corrected, the liability was overstated by \$970 million.

Recommendation:

1. We recommend that the Director, Office of Legacy Management:
 - a. Ensure that personnel responsible for the preparation and review of the program direction and records management estimate calculations receive the necessary training to provide accurate and complete environmental liability estimates for inclusion in the Department's financial statements.
 - b. Establish policies and procedures to review the amounts recorded in the Department's financial statements.

Management Reaction:

We will implement the following to address the above recommendations:

- a. The personnel responsible for the preparation and review of the program direction and records management estimate calculations have received or are in the process of receiving the necessary training to provide accurate and complete liability estimates for inclusion in the Department's financial statements.
- b. Specific personnel have been designated within the Office of Legacy Management to be

responsible for the preparation of the Environmental Liabilities estimates as well as identifying appropriate backups to step in if needed.

We will have a policy and procedure in place prior to next year's review.

Finding 2: Misstatement in the Recorded Surplus Plutonium Liability (14-HQ-SP-01)

The spreadsheet used to summarize the components of the U.S. Plutonium Disposition Program contained a formula error. The Department applied the Waste Solidification Building operations contingency percentage to the wrong cell in the spreadsheet, and as the estimate for the additional metric tons of surplus plutonium is based on the output of that calculation, it also overstated the estimate for the additional metric tons. The combined effect of the mathematical errors was an overstatement of \$482 million or 2 percent of the estimate. The error was corrected for the September 30, 2014 financial statements.

Recommendation:

2. We recommend that the Director, Office of Finance and Accounting ensure that the formulas in the spreadsheet used to summarize the components of the U.S. Plutonium Disposition Program are double checked for errors.

Management Reaction:

Management concurs. OFA will double check the spreadsheet for math errors.

Finding 3: Misstatements in Richland's Environmental Liability Due to Escalation (14-RL-EL-01)

During FY 2014, Richland updated the environmental liability estimate but did not properly escalate certain cost estimates to FY 2014 dollars. Richland developed specific components of the environmental liability estimate in FY 2007 dollars, but did not escalate a specific portion of the liability from FY 2007 dollars to FY 2014 dollars. Richland's environmental liability was understated by approximately \$142 million, prior to an adjustment to correct the error.

Recommendation:

3. We recommend that the Manager, Richland Operations Office implement procedures to ensure cost estimates in the environmental liability are appropriately recorded in the correct year's dollars.

Management Reaction:

Richland Operations Office concurs with the recommendation to implement procedures to ensure cost estimates are appropriately recorded in the correct year dollars.

The current project estimate update process consists of entering a change into the Estimate Change Log database. To prevent future unintended changes, the Change Log software will be modified to require an entry for the specific estimate change amount. The software will automatically make a comparison of the specific estimate change and the file change. If the specific estimate change does not match the total file change, the software will not log the change and a message will flash on the screen with a warning that an unintentional error may have been made. This process change will be added to the RL Estimating Guide which describes the Change Log process. The test of this process is underway with an expected completion date of June 30, 2015.

The effected Project Baseline Summary, RL-0030, has been adjusted for FY 2014 for escalation correction.

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 Chief Financial Officer (CFO). 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 and the assignment to one of 9 facility contamination model codes. In addition, AFDCS collects data regarding asbestos contamination in order to calculate a liability for affected facilities that do not contain any other type of contamination. 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 4: Misstatement in Active Facilities Non-Modeled Estimate (14-ORO-AF-01)

There was a mathematical error in the spreadsheet calculation of the estimate which resulted in one project's estimate being excluded from the total liability. The error was not detected during the internal management review of the calculation. This resulted in an understatement of the liability by \$203 million as of September 30, 2014.

Recommendation:

4. We recommend that the Acting Manager, Oak Ridge Office of Environmental Management, implement policies and procedures to ensure that errors in the non-modeled estimate calculations are identified and corrected.

Management Reaction:

Concur. This finding was the result of a simple math error. Going forward, Oak Ridge Office of Environmental Management in conjunction with the Oak Ridge Financial Service Center will examine current spreadsheet practices and how they are reviewed to identify and implement additional measures to ensure mathematical accuracy in future spreadsheet submittals. Correction entries to address this error will be submitted in the Department of Energy accounting system, Standard Accounting and Reporting System, by ORFSC for the 1st quarter, FY 2015 (December 31, 2014) reporting.

Finding 5: Inaccuracies in the Active Facilities Liability (14-LLNL-AF-01)

Our review of a statistically selected sample of 20 facilities and structures from Lawrence Livermore National Laboratory's (LLNL) June 30, 2014, AFDCS population disclosed that LLNL incorrectly assigned a building code of asbestos for which no asbestos was present. The building was constructed in 1994, and as such, should not contain asbestos. The miscoding resulted from data entry errors that were not detected as part of the AFDCS review. To determine if any other buildings had similar errors, we reviewed all 41 buildings constructed after 1990 coded with asbestos and determined that 40 of the 41 buildings constructed after 1990 and coded with asbestos were errors. The estimate was overstated by \$4 million, prior to an adjustment to correct the error.

Recommendation:

5. We recommend that the National Nuclear Security Administration's (NNSA) Field Chief Financial Officer, in conjunction with the LLNL Site Office Manager, develop and implement policies and procedures to ensure that the employees responsible for assigning asbestos codes to facilities perform sufficient review of both the historical and current use of the facilities, as well as the results of all asbestos surveys, in order to assign the proper model codes.

Management Reaction:

Concur. The National Nuclear Security Administration (NNSA) will direct the Lawrence Livermore National Laboratory to develop and implement policies and procedures to ensure that their employees responsible for assigning asbestos codes to facilities perform sufficient reviews of both the historical and current use of the facilities, as well as the results of all asbestos surveys, in order to assign the proper model codes.

Finding 6: Inaccuracies in the Active Facilities Liability (14-NS1-AF-01)

Our review of a statistically selected sample of 36 facilities and structures from LANL's FY 2014 AFDCS population disclosed that LANL assigned the incorrect model code to one facility. LANL incorrectly assigned model code G-building with hazardous contamination, instead of model code N-no liability, to the facility. The building is a machining shop with no discernible history with contaminating materials. The miscoding resulted from a lack of sufficient review by the facility manager and subject matter expert assigned to review the model coding. The estimate was overstated by \$4 million, prior to an adjustment to correct the error.

Recommendation:

6. We recommend that the NNSA's Field Chief Financial Officer, in conjunction with the Los Alamos Site Office Manager, direct LANL to develop and implement policies and procedures to ensure that the employees responsible for assigning model types to facilities perform sufficient review of both the historical and current use of the facilities, as well as the results of all surveys, in order to assign the proper model codes.

Management Reaction:

Concur. The National Nuclear Security Administration will direct LANL to review its current policies and procedures to ensure that it clearly direct employees responsible for assigning model types to facilities perform sufficient review of both the historical and current use of the facilities, as well as the results of all surveys, in order to assign the proper model codes.

Finding 7: Improper Recognition of Leased Facilities within the Active Facilities Data Collection System (14-NS1-AF-02)

Our review of a statistically selected sample of 36 facilities and structures disclosed that LANL's active facilities population improperly included a liability for a leased facility. The lease does not provide for the transfer of the facility liability to LANL; therefore, the liability is the responsibility of the lessor and should not have been included in LANL's liability. The miscoding resulted from insufficient review by the facility manager and subject matter expert assigned to review the model coding. The estimate was overstated by \$2.6 million, prior to an adjustment to correct the error.

Recommendation:

7. We recommend that the NNSA's Field Chief Financial Officer, in conjunction with the Los Alamos Site Office Manager, direct LANL to develop and implement policies and procedures to ensure that the employees responsible for assigning model types to facilities perform sufficient review of both the historical and current use of the facilities, as well as the results of all surveys, in order to assign the proper model codes.

Management Reaction:

Concur. The National Nuclear Security Administration will direct Los Alamos National Laboratory to develop and implement policies and procedures to ensure that the employees responsible for assigning model types to facilities perform sufficient review of both the historical and current use of the facilities, as well as the results of all surveys, in order to assign the proper model codes.

Corrective actions have already been implemented and status updates will be provided in the Departmental Audit Report Tracking System.

Human Resources

Finding 8: Lack of Documentation for Payroll Records (14-HQ-H-01)

During our test work over Federal payroll expenses, we selected a payroll transaction for an individual formerly employed by the Department who is currently employed by the International Atomic Energy Agency (IAEA). The transaction was based on a contract between the Department and the former Department employee that provided the Department would bill the employee quarterly for certain benefits the employee chose to retain during their employment at IAEA. The servicing Human Resources (HR) office within the NNSA was unable to provide appropriate documentation supporting the benefits elected.

In a separate instance, during our test work over Federal payroll expenses, we selected a payroll transaction in Fiscal Year 2014 related to an employee who subsequently retired from the Department. The servicing HR office within the Office of the Chief Human Capital Officer (OCHCO) was unable to provide appropriate documentation to support the benefits elected.

The lack documentation was a result of the servicing HR offices not adequately monitoring the maintenance of the document repository system. A lack of supporting documentation may result in inaccurate financial reporting and non-compliance with OMB Circular A-123 and Department directives.

Recommendation:

8. We recommend that the Director, Office of Human Capital Management, in conjunction with the Director, Office of Human Capital Policy, Accountability and Technology, provide training to their employees that emphasizes the policies and procedures requiring supporting documentation and that it be readily available.

Management Reaction:

The Office of the Chief Human Capital Officer accepts the recommendations outlined herein and will be taking several steps to ensure that staff throughout the Department with responsibility for benefits administration will be informed and kept apprised of new policies/regulations, procedures, and required documentation to accurately reflect an employee's benefits portfolio. First, a benefits summit is being planned for calendar year 2015 to bring the Department's

benefits specialists together to provide guidance on overarching benefits issues and provide training briefings. Second, benefits points-of-contacts will be reminded of the Corporate Human Resources Information System (CHRIS) web portal that has a wealth of benefits-related information to include but not limited to benefits processing user guides, Benefits Administration Letters issued by OPM, applicable resources and forms, etc. Finally, OCHCO is working toward incorporating benefits component into its Human Capital Management Accountability Program which will require audits of benefits processing/documentation to be conducted at every servicing HR office throughout the Department. The benefits audit component is expected to be completed by the end of FY 15 and implement early in FY 16.

Finding 9: Pension Assets Valuation Review (14-Y12-P-01)

Y-12 is not able to provide documentation that controls are in place to verify that the pension assets are properly valued. Y-12's management relies on third parties to determine the value and classifications of the pension plan assets and then perform a review over the values and classifications. The plans' trustee prepares a report on the values and classification levels within the fair value hierarchy. Y-12 personnel review the values and classification of the levels within the fair value hierarchy electronically prior to the submittal to the Department; however, no specific documentation of the review for the pension asset values was noted during our testing. As such, Y-12 is unable to demonstrate that the financial reporting process for determining the pension asset valuations and disclosures is performed at an appropriate level of precision to detect errors, if any.

Recommendation:

9. We recommend that the NNSA's Field Chief Financial Officer, in conjunction with the Y-12 Site Office Manager, direct Y-12 personnel to document their review to demonstrate that the financial reporting processes are in place to evaluate the accuracy of the pension plan asset values provide by the trustee.

Management Reaction:

Concur. The National Nuclear Security Administration will direct CNS personnel to review the values and classification of the levels within the fair value hierarchy electronically prior to the submittal to the Department and prepare documentation to support the review.

Finding 10: Census Data Error (14-SNL-P-01)

Sandia National Laboratories' (SNL) census data initially submitted to the actuary incorrectly included prior year bonuses as part of the current yearly salary. The pension administrator created a query of the census data from the system that improperly included bonuses received in a prior year. The error was not identified prior to the data being submitted to the actuary, which could cause the actuarially determined pension estimates to be misstated. The census data was corrected and resubmitted prior to the final pension liability calculation as of September 30, 2014.

Recommendation:

10. We recommend the NNSA's Field Chief Financial Officer, in conjunction with the Manager of the Sandia Site Office, implement policies and procedures to ensure the census data provided to the actuary is complete and accurate.

Management Reaction:

Concur. The National Nuclear Security Administration will direct Sandia to implement policies and procedures to ensure the census data provided to the actuary is complete and accurate. During the audit, KPMG was provided with updated and corrected data for Fiscal Year 2014. Corrective actions have already been implemented and status updates will be provided in the Departmental Audit Report Tracking System.

Finding 11: Pension Assets Valuation Review (14-SNL-P-02)

SNL was not able to provide documented evidence of an independent control at an appropriate level of precision to verify that the pension assets are properly valued. SNL's management relies on Northern Trust to determine the value of the pension plan assets and then perform a review over the classification levels. Northern Trust prepares a report on the values and classification levels within the fair value hierarchy. SNL personnel review the classification of the levels within the fair value hierarchy electronically prior to submittal to the Department.

For the verification of the valuation of pension assets, SNL personnel noted that they review Northern Trust's Custody and Investment Management Pricing Guidelines, Northern Trust's Custody and Fund Services Service Organization Control Report, and the fund manager's account reconciliation procedure with Northern Trust. In addition, SNL personnel indicated that they conduct initial due diligence, ongoing monitoring, and financial reporting for each fund in which the plan invests to understand the investment strategy and nature of the underlying investments.

Recommendation:

11. We recommend the NNSA's Field Chief Financial Officer, in conjunction with the manager of the Sandia Site Office, direct SNL personnel to document their review to demonstrate that the financial reporting processes are in place to evaluate the accuracy of the pension plan asset values provided by the trustee.

Management Reaction:

Management concurs with the recommendation. The National Nuclear Security Administration will direct Sandia National Laboratories to document their review of the pension plan asset values and disclosures to demonstrate that the financial reporting processes are in place to evaluate the accuracy of the pension plan asset values provided by the trustee.

Procurement

Finding 12: Inaccurate Fiscal Year End Accrued Liability (14-SNL-PRO-01)

The accounting system at the SNL was closed on September 19, 2014. Manual adjustments to the Accounts Payable and Accrued Expense balances were recorded for subsequent activity. For one sample item, we noted that shipping terms and dates were incorrectly identified by project accounting staff resulting in inaccurate information being considered for the accrual. As a result, accounts payable was understated by \$298 thousand as of September 30, 2014.

Recommendation:

12. We recommend the National Nuclear Security Administration's Field Chief Financial Officer, in conjunction with the Manager of the Sandia Site Office, direct Sandia National Laboratories to train and remind employees on the proper accrual of costs dependent on shipping terms.

Management Reaction:

Concur. The National Nuclear Security Administration will direct Sandia National Laboratories to train and remind employees on the proper accrual of costs dependent on shipping terms.

Property, Plant and Equipment (PP&E)

Finding 13: PP&E Inaccurate Capitalization (14-NS1-F-01)

LANL did not follow current operating procedures to timely or accurately capitalized assets in the proper fiscal year or with the proper in-service date for three sampled items. Instead, LANL capitalized these assets in the following fiscal year and with the incorrect in-service date. The net book value of LANL's PP&E was understated by \$101 thousand, prior to an adjustment to correct the amount.

Recommendation:

13. We recommend that the NNSA's Field Chief Financial Officer, in conjunction with the Los Alamos Site Office Manager, direct LANL to train and remind employees of the existing policies and procedures to timely and accurately record purchased or constructed assets.

Management Reaction:

Concur. The National Nuclear Security Administration will direct Los Alamos National Laboratory to train and remind their employees of the existing policies and procedures to timely and accurately record purchased or constructed assets.

Finding 14: PP&E Asset Additions (14-SNL-F-01)

During our test work of PP&E additions, we noted weaknesses in SNL's procedures and internal controls related to accurately recording asset addition transactions for seven sample items.

These errors generally resulted from recording incorrect amounts and/or in-service dates. One of the seven items did not have supporting documentation. Management had not developed and implemented procedures to ensure accuracy of the information entered into the Oracle system. As a result, the net book value of SNL's PP&E was overstated by \$136 thousand.

Recommendation:

14. We recommend the NNSA's Field Chief Financial Officer, in conjunction with the Manager of the Sandia Site Office, direct SNL to train and remind employees of the existing policies and procedures to record the correct information for capitalized assets. Additionally, we recommend that policies and procedures be improved and implemented to ensure the accuracy of the information recorded into the Fixed Asset accounting system.

Management Reaction:

Concur. The National Nuclear Security Administration will direct Sandia National Laboratories to train their employees on the existing policies and procedures for recording the correct information for capitalized assets. Additionally, NNSA will direct SNL to update and implement policies and procedures to ensure the accuracy of the information recorded into the Fixed Asset accounting system.

Finding 15: PP&E Accuracy of Transfers (14-SNL-F-02)

We noted four sample items in which SNL capitalized assets as a transfer-in from NNSA using an incorrect in-service date NNSA had recorded. The correct in-service date should have been 9 months earlier for two of the assets and 6 months earlier for the other two assets. As a result of not following current policies and procedures for the proper capitalization of assets acquired via transfer, the net book value of SNL's PP&E was understated by \$117 thousand.

Recommendation:

15. We recommend the NNSA's Field Chief Financial Officer, in conjunction with the Manager of the Sandia Site Office direct SNL to train and remind employees of the existing policies and procedures to research and record the correct information for assets that are transferred between the NNSA and SNL.

Management Reaction:

Concur. The National Nuclear Security Administration will direct Sandia National Laboratories to train their employees on the existing policies and procedures for researching and recording the correct information for assets that are transferred between the NNSA and SNL.

Finding 16: PP&E Useful Life Changes (14-SNL-F-03)

During our test work on a sample of 25 asset additions at the Sandia National Laboratories, we identified that SNL determined in FY 2014 that a change in the remaining useful lives of two assets was required. SNL uses the Oracle Fixed Asset Module to account for their property

which does not allow the user to modify the useful lives prospectively. Consequently, SNL removed the assets and respective accumulated depreciation from the Oracle Fixed Asset Module and then reentered the assets in the Oracle Fixed Asset Module using the revised useful lives. The Oracle Fixed Asset Module recomputed accumulated depreciation from the original placed in service date using the revised useful life. The net effect of the changes overstated PP&E by \$203 thousand.

Recommendation:

16. We recommend the NNSA's Field Chief Financial Officer, in conjunction with the Manager of the Sandia Site Office direct SNL to perform an analysis of the Oracle Fixed Asset Module system limitation to include a cost benefit analysis. Until the Oracle Fixed Asset Module issue is resolved, we recommend that management at SNL develop an internal policy where if a work around is utilized to change the useful of an asset follow-up procedures are put in place to adjust depreciation and ensure the proper balances are recorded in order to comply with the Department of Energy's Financial Management Handbook.

Management Reaction:

Concur. The National Nuclear Security Administration will direct Sandia National Laboratories to perform an analysis of the Oracle Fixed Asset Module system limitation to include a cost benefit analysis. Additionally, until the Oracle Fixed Asset Module issue is resolved, NNSA will direct SNL to develop an internal policy, where if a work around is utilized to change the useful life of an asset, follow-up procedures are put in place to adjust depreciation and ensure the proper balances are recorded in order to comply with the Department of Energy's Financial Management Handbook.

Finding 17: Lease Capitalization (14-CH2-PPE-01)

Argonne National Laboratory (ANL) entered into a lease in FY 2013 for computer and telecommunications equipment that should have been recorded as a capital lease because it included a \$1 bargain purchase option. ANL corrected the lease classification in the general ledger as of September 30, 2014. During our test work over capital leases, we were unable to obtain documentation supporting how ANL determined if a lease should be recorded as a capital lease or an operating lease.

Recommendation:

17. We recommend that the Manager, Argonne Site Office, direct ANL to develop and implement policies and procedures that determine and document the proper classification of all leases as operating or capital at the inception of the lease in accordance with SFFAS 6.

Management Reaction:

The Argonne Site Office concurs with the Finding and Recommendation and will direct the Laboratory to undertake the following corrective action:

PARIS (Procurement and Requisition Integrated System) is Argonne's automated procurement system, used to order products and supplies from outside contractors and vendors. Currently, the review and approval process for lease-type subcontracts does not require input from the General Accounting Office. Effective immediately, the requisition process will be modified to require General Accounting to review and approve all subcontract lease awards to ensure proper identification of capital and operating leases.

PARIS currently requires the contract specialist to flag all leases. As a corrective action, PARIS will be modified to include General Accounting as a reviewer and approver when the subcontract award is flagged as a lease. The procurement package delivered to General Accounting will include the final contract documents and the lease/purchase analysis completed by the cost/price analyst, which also includes the capital vs. operating lease determination. This package will be delivered to General Accounting prior to subcontract lease award.

To codify this change, existing section 9.3.2 *Lease/Buy Analysis*, of ANL's Procurement Operations Manual (POM) will be updated to include the review and approval by General Accounting for all subcontract lease determinations. The modifications to PARIS and the POM will be completed on or before December 5, 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, 2014*

Environmental Liabilities

- | | |
|---|-------------------|
| 1. Paducah Contingency Amount (13-PPPO-EM-01) | Closed in FY 2014 |
| 2. Misstatements in Savannah River's FY 2012 Environmental Liabilities Balance (13-SR-EL-01) | Closed in FY 2014 |
| 3. Misstatement in Richland's Long-Term Stewardship Liability (13-RL-EL-01) | Closed in FY 2014 |
| 4. Misstatement of Prior Years' Environmental Liabilities Balance (13-ID-EL-01) | Closed in FY 2014 |
| 5. Double Counting of the Long-Term Stewardship Liabilities (12-HQ-EL-01) | Closed in FY 2014 |
| 6. Duplication of Costs in Liabilities Estimate (13-HQ-SP-01) | Closed in FY 2014 |

Environmental Liabilities for Active Facilities

- | | |
|--|-------------------|
| 7. Inaccuracies in the Active Facilities Liability Facilities Data Collection System (13-Y12-AF-01) | Closed in FY 2014 |
| 8. Revision of AFDCS Cost Models (13-HQ-AF-01) | Closed in FY 2014 |

Financial Reporting

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| 9. Incomplete and Untimely Review of Manual Journal Entries Prepared and Posted by the Same User (13-HQ-FR-01) | Closed in FY 2014 |
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Grants

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| 10. Grant Closeout (09-CH9-GL-01) | Closed in FY 2014 |
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Human Resources

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| 11. Leave Approval Forms (11-HQ-H-01) | Reissued in FY 2014-
See repeat Finding 1 |
| 12. Calculation of Federal Employees Benefit Cost Factors (13-HQ-HR-01) | Closed in FY 2014 |

13. Census Data Review (**12-LBNL-P-01**) Closed in FY 2014

Property, Plant, & Equipment

14. Construction Work in Process (**13-CHF-F-01**) Closed in FY 2014

15. Timely Transfers of Construction Work in Process
(**13-LBNL-F-01**) Closed in FY 2014

16. Property, Plant, and Equipment Capitalization and
Depreciation (**12-NS1-F-01**) Closed in FY 2014

Procurement

17. Accounts Payable – Invalid Accounts Payable Balances
(**13-NS1-PRO-01**) Reissued in FY 2014-
See repeat Finding 2

Reissued Findings in FY 2014:**Human Resources****Repeat Finding 1: 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, 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, 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

In FY 2014, during our review of 25 payroll disbursement samples, the Department was unable to provide evidence of a completed "Request for Leave or Approved Absence," OPM Form 71, or other acceptable method of approval, for two sample items.

Recommendation:

1. 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 will adopt the recommendation(s) identified in the Financial Statement Audit. When DOE Order 322.1C is revised, we will 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. 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. HC will ensure this module is continued in any future updates to the training program.

Procurement**Repeat Finding 2: Accounts Payable – Invalid Accounts Payable Balances
(13-NS1-PRO-01)**

During the FY 2013 audit, our review of Accounts Payable (AP) as of June 30, 2013, identified five balances for contracts that had previously been closed and settled with the subcontractor erroneously remaining in AP and overstating the balance. During 2013, Los Alamos National Laboratory (LANL) did not correctly cancel 5 out of the 25 accounts payable balances tested.

LANL management implemented a corrective action plan during FY 2013 which outlined three milestones for the finding. However, LANL only completed milestone No. 1 (completing the closeout/deobligation of the 5 accounts payable balances) during FY 2014. Milestones No. 2 (reviewing the remaining AP balances to ensure there are no other AP balances that should be reversed) and No. 3 (reviewing and enhancing internal procedures to ensure this problem does not arise again) had not been completed as of the end of FY 2014. LANL plans to complete milestone No. 2 and No. 3 during FY 2015. Consequently, this finding remains open.

Recommendation:

2. We continued to recommend that the National Nuclear Security Administration's Field Chief Financial Officer, in conjunction with the Manager of the LANL Site Office, follow existing policies and procedures to ensure that the close out process is followed through to completion, clearing out any remaining payables on existing items.

Management Reaction:

Management concurs with the recommendation. The National Nuclear Security Administration will direct Los Alamos National Laboratory to follow existing policies and procedures to ensure that the close out process is followed through to completion, clearing out any remaining payables on existing items. NNSA will monitor corrective action procedures implemented by LANL to ensure compliance with applicable policies and procedures.

ACRONYMS

AFDCS	Active Facilities Data Collection System
ANL	Argonne National Laboratory
AP	Accounts Payable
CFO	Chief Financial Officer
CHRIS	Corporate Human Resources Information System
CNS	Consolidated Nuclear Security
Department or DOE	Department of Energy
EM	Office of Environmental Management
FY	Fiscal Year
HCM or HC	Office of Human Capital Management
HR	Human Resources
IAEA	International Atomic Energy Agency
LANL	Los Alamos National Laboratory
LBNL	Lawrence Berkeley National Laboratory
LLNL	Lawrence Livermore National Laboratory
LM	Office of Legacy Management
LTS&M	Long-Term Surveillance and Maintenance
NNSA	National Nuclear Security Administration
OCHCO	Office of the Chief Human Capital Officer
OFA	Office of Finance and Accounting
OPM	Office of Personnel Management
ORFSC	Oak Ridge Financial Service Center
PARIS	Procurement and Requisition Integrated System
POM	Procurement Operations Manual
PP&E	Property, Plant, and Equipment
PPPO	Portsmouth Paducah Project Office
RL	Richland
SNL	Sandia National Laboratories
SP	Surplus Plutonium
Y-12	Y-12 National Security Complex

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