



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

Audit Report

Management Letter on the
Department of Energy's Isotope
Development and Production for
Research and Applications
Program's Fiscal Year 2010 Balance
Sheet Audit



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

January 31, 2013

Mr. Gregory Friedman, Inspector General
Dr. Jehanne Gillo, Director, Facilities and Project Management Division, Office of Nuclear Physics
U.S. Department of Energy
Washington, DC 20585

Dear Mr. Friedman and Dr. Gillo:

We have audited the balance sheet of the United States Department of Energy's (Department or DOE) Isotope Development and Production for Research and Applications Program (the Program) (a component of the Department) as of September 30, 2010, and have issued our report thereon dated December 21, 2012. In planning and performing our audit of the balance sheet, in accordance with auditing standards generally accepted in the United States of America, we considered the Program'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 balance sheet, but not for the purpose of expressing an opinion on the effectiveness of the Program's internal control. Accordingly, we do not express an opinion on the effectiveness of the Program's internal control.

During our audit, 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 and have been communicated through the issued Findings and Recommendations, are intended to improve the Program's internal controls or result in other operating efficiencies. These comments are in addition to the material weaknesses and significant deficiencies presented in our *Independent Auditors' Report*, dated December 21, 2012, included in the Program's *Fiscal Year 2010 Annual Report and Balance Sheet*.

Our audit procedures are designed primarily to enable us to form an opinion on the balance sheet, 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 Program's organization gained during our work to make comments and suggestions that we hope will be useful to you.

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

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

This communication is intended solely for the information and use of the Program's management and the Department's Office of Inspector General, and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

KPMG LLP

Management Letter
Index to Exhibit A and Listing of Other Exhibit

Comments Related to Internal Controls and Other Operational Matters (with parenthetical references to findings and recommendations issued during the engagement) **Exhibit A**

Inventory

Finding 1: Inventory Documentation and Accounting Matters (**09-ISO-INV-05**) A.1

Property, Plant, & Equipment

Finding 2: Incorrect System Ion Beam Accumulated Depreciation
(**10-ISO-PPE-01**) A.1

Acronyms

Exhibit B

COMMENTS

Inventory

Finding 1: Inventory Documentation and Accounting Matters (09-ISO-INV-05)

During FY 2010, our testwork over the Program's inventory activity and balances found that a number of the FY 2009 inconsistencies, including those relating to decay analyses at ORNL and EIQ and LOCM analyses at PNNL, could be closed. However, our FY 2010 testwork found that the FY 2009 recommendation related to cost of goods sold at BNL remained open. Specifically, we noted that, while the Program has developed draft guidance related to the recording of cost of goods sold, the Program has not finalized and distributed this guidance to the sites.

Recommendations:

We recommend that the Director, Facilities and Project Management Division, Office of Nuclear Physics, ensure the annual distribution to all sites of current Program-wide guidance related to recording of cost of goods sold.

Management Reaction:

"Concur. The Director, Facilities and Project Management Division, Office of Nuclear Physics, will ensure the annual distribution to all sites of current Program-wide guidance related to recording of Isotope Program costs, including cost of goods sold."

Auditor's Comment:

We note that the Isotope Program finalized Program-wide guidance relating to the recording of Isotope Program costs, including cost of goods sold, and distributed this revised guidance to all sites on October 3, 2012. However, since issuance occurred after the end of fieldwork, the revised guidance could not be verified or tested under this engagement.

Property, Plant, and Equipment

Finding 2: Incorrect System Ion Beam Accumulated Depreciation (10-ISO-PPE-01)

While performing testwork over the Program's property, plant, and equipment balances during FY 2010, we noted that LANL incorrectly recorded accumulated depreciation for one fixed asset. Specifically, we found that, based upon the site's interpretation of the term "beneficial occupancy" as described in the DOE Accounting Handbook and DOE Guide 413-3-16A, LANL used the acceptance date, September 27, 2003, for the System Ion Beam (Bar Code #1206218) as the date placed in service to begin depreciation. However, the IPF, where the System Ion Beam was installed, was not completed and placed in service until January 27, 2005 when production operations officially commenced and, consequently, the use of the System Ion Beam for production could begin.

Recommendations:

1. We recommend that the Office of the Chief Financial Officer (OCFO) at DOE Headquarters clarify language defining "placed-in-service" in the DOE Accounting Handbook to consider factors other than just "beneficial occupancy" when determining a placed-in-service date for PP&E assets.
2. We recommend the OCFO direct the National Nuclear Security Administration's Field Chief Financial Officer, in conjunction with the Manager, Los Alamos Site Office, to instruct LANL to correct the System Ion Beam placed-in-service date to January 27, 2005 in Sunflower and ensure that Sunflower and the general ledger reflect the proper amount of accumulated depreciation after correcting this placed-in-service date.

Management Reactions:

1. **DOE-OCFO** - "The OCFO appreciates the opportunity to respond to the finding. The OCFO concurs in principle and will review the Handbook language defining "placed in service" and clarify the language if needed. OCFO will ensure that the Handbook definition complies with the requirements of SFFAS 6, *Accounting for Property, Plant, and Equipment*. Regarding recommendation number 2, CFO will assist the NNSA CFO in assessing whether a change in the capitalization date is appropriate in accordance with the policy clarification requested in the first recommendation."
2. **NNSA-CFO** - "LANL will update the placed-in-service date for the System Ion Beam once direction is received as detailed in the "Recommendations" section, item 2. The Sunflower system has been updated to ensure that depreciation calculations are correct and updated with the general ledger when the placed-in-service date is updated."

Auditor's Comment:

Regarding management's response to recommendation 2, we suggest that the CFO's joint evaluation of whether a change to the placed-in-service date is appropriate be formally documented so that it can be referenced in the future should the matter be re-visited.

ACRONYMS

BNL	Brookhaven National Laboratory
Department or DOE	Department of Energy
EIQ	Excess Inventory Quantity
FY	Fiscal Year
IPF	Isotope Production Facility
LANL	Los Alamos National Laboratory
LOCM	Lower of Cost or Market
ORNL	Oak Ridge National Laboratory
PNNL	Pacific Northwest National Laboratory

CUSTOMER RESPONSE FORM

The Office of Inspector General has a continuing interest in improving the usefulness of its products. We wish to make our reports as responsive as possible to our customers' requirements, and, therefore, ask that you consider sharing your thoughts with us. On the back of this form, you may suggest improvements to enhance the effectiveness of future reports. Please include answers to the following questions if applicable to you:

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 that 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.

Name _____ Date _____

Telephone _____ Organization _____

When you have completed this form, you may telefax it to the Office of Inspector General at (202) 586-0948, or you may mail it to:

Office of Inspector General (IG-1)
Department of Energy
Washington, DC 20585

ATTN: Customer Relations

If you wish to discuss this report or your comments with a staff member of the Office of Inspector General, please contact our office at (202) 253-2162.

This page intentionally left blank.

The Office of Inspector General wants to make the distribution of its reports as customer friendly and cost effective as possible. Therefore, this report will be available electronically through the Internet at the following address:

U.S. Department of Energy Office of Inspector General Home Page
<http://energy.gov/ig>

Your comments would be appreciated and can be provided on the Customer Response Form.