Office of Inspector General

OFFICE OF TECHNOLOGY, FINANCIAL, AND ANALYTICS

MANAGEMENT LETTER -

DEPARTMENT OF ENERGY'S FISCAL YEAR 2020 CONSOLIDATED FINANCIAL STATEMENTS

DOE-OIG-21-11
JANUARY 2021

Department of Energy
Washington, DC 20585

January 5, 2021

MEMORANDUM FOR THE DEPUTY CHIEF FINANCIAL OFFICER

FROM: Sarah B. Nelson
Assistant Inspector General
for Technology, Financial, and Analytics
Office of Inspector General

SUBJECT: INFORMATION: Management Letter on the "Department of Energy's Fiscal Year 2020 Consolidated Financial Statements"

Pursuant to requirements established by the *Government Management Reform Act of 1994*, the Office of Inspector General engaged the independent public accounting firm of KPMG LLP to perform the audit of the Department of Energy's Fiscal Year 2020 Consolidated Financial Statements. During the audit, KPMG LLP considered the Department's internal controls over financial reporting and tested for compliance with certain provisions of laws, regulations, contracts, and grant agreements that could have a direct and material effect on the consolidated financial statements.

During the course of the audit, KPMG LLP identified deficiencies in internal control that are included in the attached management letter. Specifically, the attached letter contains 10 new findings and a total of 14 recommendations that were issued during the Fiscal Year 2020 Audit of the Department of Energy's Consolidated Financial Statements. Management fully concurred with all but one recommendation included in the management letter and had taken or planned to take corrective actions. Management's responses are included with each finding. The audit did not identify any deficiencies in internal control over financial reporting that are considered material weaknesses.

I would like to thank all participating Department elements for their courtesy and cooperation during the review.

Attachment

cc: Deputy Secretary
Chief of Staff
Under Secretary for Science
Acting Under Secretary of Energy
Acting Administrator, National Nuclear Security Administration

Audit Report: DOE-OIG-21-11

INDEPENDENT AUDITORS' LETTER

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

December 11, 2020

Ms. Teri L. Donaldson
Inspector General
U.S. Department of Energy
1000 Independence Avenue SW
Washington, DC 20585

Dear Ms. Donaldson:

In planning and performing our audit of the financial statements of the United States Department of Energy (the Department) as of and for the year ended September 30, 2020, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and in accordance with Office of Management and Budget Bulletin No. 19-03, *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 opinion on the consolidated 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 was not designed to identify all deficiencies in internal control that might be material weaknesses and/or significant deficiencies and therefore, material weaknesses and/or significant deficiencies may exist that were not identified. In accordance with *Government Auditing Standards*, we issued our report dated November 16, 2020, on our consideration of the Department's internal control over financial reporting.

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. During our audit, we identified deficiencies in internal control that are included in Exhibit A. The Office of Inspector General will issue a separate management letter addressing information technology control deficiencies.

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

This purpose of this letter is solely to describe the deficiencies in internal control identified during our audit. Accordingly, this letter is not suitable for any other purpose.

Very truly yours,

KPMG LLP

MANAGEMENT LETTER

Index to Exhibits

OPEN FINDINGS – INTERNAL CONTROLS AND OTHER OPERATIONAL MATTERS *(with parenthetical references to findings and recommendations issued during the engagement)*

OPEN FINDINGS RELATED TO FISCAL YEAR 2020 NOTICES OF FINDINGSAND RECOMMENDATIONS

MANAGEMENT LETTER

EXHIBIT A

OPEN FINDINGS – INTERNAL CONTROLS AND OTHER OPERATIONAL MATTERS

Property, Plant and Equipment

20-LANL-F-01 – Untimely Recording of Transfers from Construction Work in Process to Property, Plant and Equipment

The National Nuclear Security Administration (NNSA) is a separately organized agency within the Department of Energy responsible for the management and security of the Nation's nuclear weapons. Los Alamos National Laboratory (LANL) is one of the sites that make up NNSA's national security enterprise.

The NNSA Field Chief Financial Officer, in conjunction with the Los Alamos Field Office, is responsible for ensuring that the Property, Plant, and Equipment (PP&E) process used by the LANL contractor, Triad National Security, LLC, is compliant with all applicable guidance and accounting standards. The recording of transfers of new assets in the general ledger from construction work in process (CWIP) to PP&E is handled by the Property Accounting Department based on information received from other departments. The other departments are expected to assess if the assets are capital or expense, as well as inform the Property Accounting Department on a timely basis regarding the existence, and date placed in service, of new capital assets.

During our test work over PP&E additions at LANL, we identified weaknesses in internal controls within LANL's processes to determine whether capital projects should be capitalized or expensed were not operating effectively to ensure those decisions were made using accurate information and communicated among the relevant departments. Specifically, there were conflicting funding determinations for one project in which an initial determination was approved in February 2018, identifying it as a capital project. However, a subsequent determination was approved in March 2018, identifying it as an expense project. Costs were accumulated within the expense project code through the project's completion in October 2018. In September 2019, it was determined that the project should have been capitalized; therefore, the costs were moved to a capital project within CWIP. Following discussion among multiple LANL departments, it was determined in February 2020, that the project was appropriate to capitalize, which was 18 months after the project's October 2018, completion date.

The weaknesses identified occurred because information necessary to determine whether the construction project should have been capitalized or expensed was not communicated appropriately throughout the organization to ensure the correct determination was made. Additionally, adjustments to the initial decision were not communicated to the relevant departments. As a result, PP&E was misclassified by $1.1 million as of September 30, 2019. Specifically, CWIP was overstated by $1.1 million while PP&E was understated by $1.1 million. In addition, depreciation expense was understated by $53,000 at September 30, 2019. Without proper controls in place and operating effectively, PP&E and CWIP can be misclassified and related depreciation misstated.

RECOMMENDATIONS:

1. We recommend that the NNSA Field Chief Financial Officer, in conjunction with the Los Alamos Field Office Manager, direct LANL to:

   A. Enhance existing internal controls to ensure timely assessment of capital assessment determination.

   B. Ensure timely communication of necessary information to record the transfer of assets placed in service from CWIP to PP&E.

MANAGEMENT LETTER

EXHIBIT A

C. Develop training of the revised and existing policies and procedures related to the capital assessment determination and timeframe for providing necessary information to allow for the timely transfer of assets from CWIP to General PP&E following an asset's in-service date.

MANAGEMENT RESPONSE:

Management concurs with the recommendations. NNSA's Field Chief Financial Officer, in conjunction with the Los Alamos Field Office Manager, will direct LANL to adequately enhance existing internal controls for timely assessment and communication for the recording and transferring of assets placed in service from CWIP to PP&E and provide training developed by LANL for adherence to the updated policies and procedures.

Procurement

20-INL-D-01 – Improper Accrual of Employee Expense Report

The Idaho National Laboratory (INL) is part of the Department's complex of national laboratories and is managed by Battelle Energy Alliance. Battelle Energy Alliance personnel are responsible for the daily operations of INL, including procurement functions.

During our test work over accrued expenses at INL, we identified weaknesses in internal controls within INL's processes to properly accrue travel expenses at the end of the fiscal year (FY) when employee expense reports are submitted on the same day as the yearend travel accrual report is generated. Specifically, in September 2019, an employee submitted an expense report for $4,552.19 (excluding airfare) on the same day as the yearend travel accrual report was generated. As a result, this expense was not included in the FY 2019 travel accrual.

The identified weaknesses occurred because INL's travel accrual process did not account for the risk that an employee could submit an expense report on the same day the accrual report was calculated and generated. As a result, travel expenses were understated by $4,552 in FY 2019 and overstated by the same amount in FY 2020. Additionally, without controls designed and operating effectively, there is a risk that travel expenses are not properly accrued, which could result in misstatements in the Department's consolidated financial statements.

RECOMMENDATION:

2. We recommend that the Manager, Idaho Field Office, direct INL personnel to evaluate the risks related to the accrual of travel expenses at fiscal yearend and develop internal control policies and procedures over the proper accrual of travel expenses in response to these risks.

MANAGEMENT RESPONSE:

Management concurs with the recommendation. The Idaho Field Office has directed INL personnel to evaluate the risks related to the accrual of travel expenses at fiscal yearend and to develop internal control policies and procedures over the proper accrual of travel expenses in response to these risks. INL will evaluate the risks related to the accrual of travel expenses at fiscal yearend and will enhance its internal control policies and procedures by analyzing and modifying the existing travel accrual report in Concur to mitigate the risks identified.

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EXHIBIT A

20-CSC-D-01 – Improper Accrual Process

The Integrated Support Center Chicago Office was restructured under the Office of Science to merge with the Integrated Support Center Oak Ridge Office effective October 27, 2019. This created the Office of Science Consolidated Service Center (CSC) who is responsible for the accounting/reporting for Allottees 30 and 61, including reviewing and adjusting monthly accruals for financial assistance awards.

During our search for Unrecorded Liabilities test work over Accounts Payable and Accrued Expense balances, we noted that the CSC did not properly account for expenses and liabilities for two invoices from a vendor, totaling $6,897,711, which were incurred prior to June 30, 2020.

The weakness identified occurred because the current policies in place do not adhere to the Department's *Financial Management Handbook*. Under these policies, the CSC is currently not required to perform an analysis of pending invoices when reviewing monthly accrual estimates for Financial Assistance Instruments. As a result, the Accounts Payable balance was understated by $6,987,711 as of June 30, 2020. Subsequently, an adjustment was recorded which corrected the error prior to September 30, 2020.

RECOMMENDATION:

3. We recommend that the Office of Science CSC Field Chief Financial Officer direct the Division Director to revise existing policies and procedures to ensure that pending invoices are taken into consideration when determining accrual balances.

MANAGEMENT RESPONSE:

Management concurs with the recommendation. The CSC Field Chief Financial Officer will direct the Data Integrity and Financial Division Director to revise existing local policies and procedures to ensure that pending invoices are taken into consideration when reviewing monthly accrual estimates for Financial Assistance Instruments.

Payroll

20-INL-H-01 – Incorrect Paycheck Data Entered into Payroll System

INL is part of the Department's complex of national laboratories and is managed Battelle Energy Alliance. Battelle Energy Alliance personnel are responsible for the daily operations of INL, including payroll and compensation functions.

In our test work over Payroll at INL, we identified weaknesses in INL's internal controls over off-cycle checks. Specifically, we received a payroll disbursement report generated from the PeopleSoft system with no end date. We found that the report included an off-cycle check dated May 30, 2104, recorded in FY 2014, that was not detected by existing internal controls.

The weaknesses identified occurred because INL officials did not perform reviews at the appropriate level to detect and correct the identified error. Specifically, reviews conducted by the payroll approver were not performed at a sufficient level of precision to detect and correct this error. As a result, while the off-cycle check was a net zero check that was never printed or presented to the bank for payment, without internal controls in place and operating effectively, there is a risk that other checks could be manually input incorrectly into the PeopleSoft system, causing a financial statement impact.

MANAGEMENT LETTER

EXHIBIT A

RECOMMENDATION:

4. We recommend that the Manager, Idaho Operations Office, direct INL personnel to enhance internal control policies and procedures over the input and review of off-cycle check information.

MANAGEMENT RESPONSE:

Management concurs with the recommendation. The Idaho Field Office has directed INL to enhance its reasonable assurance that the error rate associated with the input and review of off-cycle check information is maintained at an acceptable level. Since the referenced off-cycle check occurred in 2014, and a full extent of condition review was performed which found no evidence of reoccurrence for the review period, we do not see this as a systemic issue. Furthermore, the risk of impact to the financial statements due to this type of error is extremely low. Maintaining an effective internal control is of the utmost importance to INL and INL will enhance its internal control policy by developing an exception report that identified discrepancies between the current year and the printed year of all checks generated on a quarterly basis. INL will also modify the incorrect date of May 30, 2104 to May 30, 2014 in the PeopleSoft system.

Pension and Other Post-Retirement Benefits

BACKGROUND:

The Department has one of the largest civilian contractor workforces in the Federal government. The Department enters into large contracts with civilian commercial entities to operate the laboratories and other Department facilities. Most of these contractors sponsor defined benefit pension and post-retirement benefits (PRB) plans. The Department approves these contractors' pension and PRB plans and is ultimately responsible for the allowable costs of funding the plans based on the contracts with the commercial entities that are operating the Department's facilities. As the Department is contractually obligated for reimbursing the allowable costs of the contractor contributions to the defined benefit pension and PRB plans, the Department's financial statements reflect the assets, liabilities, and related costs relating to these plans. The contractors invest in a variety of securities and financial instruments to fund these plans.

The Department's Y-12 National Security Complex (Y-12) contracts with Consolidated Nuclear Security, LLC (CNS) to perform day-to-day operations in support of Y-12's mission. CNS operates Y-12 as an integrated contractor whose financial information is included in the Department's consolidated financial statements. CNS subcontracts with the actuarial firm Aon to assist Y-12 in the preparation of the actuarial valuation report that ultimately supports Y-12's projected benefit obligation at the Department.

20-Y12-P-01 – Census Data Reconciliation

During our test work over pensions census data at Y-12, we identified weaknesses in Y-12's internal controls over pensions census data to review the actuarial data at a level precise enough to prevent or detect Aon's incorrect assumptions regarding participants' eligibility status. As a result, Aon's actuarial valuation report for Y-12 had incorrectly omitted 57 eligible active participants that should have been included in the actual valuation report which resulted in an understatement of the contributions, normal costs, and the funding liability.

The weakness identified occurred because Y-12 personnel did not perform reviews at the appropriate level to detect and correct the identified error. Specifically, reviews conducted by the Pensions team were not performed at a sufficient level of precision to detect and correct this error. Without the correct internal controls in place and operating effectively, Y-12 has not addressed the risk that the actuarial estimate of the projected benefit obligation for pensions could be misstated due to participants being incorrectly excluded from the actuarial valuation report. As a result, the funding liability was understated by $549,000, normal costs were understated by $131,000, and contributions were understated by $220,000 at Y-12 for 57 participants as they were not factored into the projected benefit obligation calculation for pensions.

RECOMMENDATION:

5. We recommend that the NNSA Field Chief Financial Officer, in conjunction with the Y-12 Field Office Manager, direct Y-12 personnel to implement internal control procedures performed at a sufficient level of precision to identify any discrepancies between the census data exchanged between Y-12 and the actuary.

MANAGEMENT RESPONSE:

Management concurs with the recommendation. The NNSA Field Chief Financial Officer, in conjunction with the NNSA Production Office Manager, will direct Y-12 personnel to implement internal control procedures performed at a sufficient level of precision to identify any discrepancies between census data exchanged between CNS Y-12 and the actuary.

20-Y-12-P-02 – Sufficient Documentation of Compensating Pension Asset Review Control

During our test work over pension assets at Y-12, we identified weaknesses in Y-12's internal controls over the valuation of hard-to-value investments before the financial statements are issued. Specifically, we noted that Y-12 was not able to perform a full quarterly reconciliation at year-end, prior to the issuance of the financial statements, due to timing constraints. Y-12 officials stated that a compensating control was in place where personnel perform a reasonableness check over the information before submission of the site's plan asset information to Department Headquarters. However, this compensating control was not appropriately documented to evidence it being performed at an adequate level of precision to be a compensating control.

The weaknesses identified occurred because Y-12 officials had not established policies and procedures to require sufficient and appropriate documentation of the site's year-end controls. As a result, without controls appropriately designed and operating effectively at the contractor level, there is a risk that errors or misstatements in the valuation of plan assets will not be prevented or detected and corrected prior to the issuance of the Department's financial statements.

RECOMMENDATION:

6. We recommend the NNSA Field Chief Financial Officer, in conjunction with the Y-12 Field Office Manager, direct Y-12 personnel to develop policies and procedures to maintain sufficient and appropriate evidence of the compensating control(s) performed.

MANAGEMENT RESPONSE:

Management concurs with the recommendation. The NNSA Field Chief Financial Officer, in conjunction with the NNSA Production Office Manager, will direct CNS to develop written policies and procedures to maintain sufficient and appropriate evidence of compensating controls. These controls are performed over the valuation of hard-to-value investments before the financial statements are issued at each fiscal year-end.

20-LANL-P-01 – Inaccurate Population of Active Pension and Post-Retirement Benefits Participants

NNSA is a separately organized agency within the Department responsible for the management and security of the Nation's nuclear weapons. LANL is one of the sites that make up NNSA's national security enterprise. The NNSA Field Chief Financial Officer, in conjunction with the Los Alamos Field Office, is responsible for ensuring that the pension and PRB process used by the LANL contractor, Triad National Security LLC, is compliant with all applicable guidance and accounting standards. LANL contracts with Aon Hewitt to assist in the preparation of the actuarial valuation reports that ultimately support LANL's accumulated benefit obligation for the pension plan and accumulated PRB obligation. The reconciliation of census data to the annual actuarial reports is overseen by the Human Resources Benefits and the Retirement Accounting departments at LANL.

During our test work over pensions census data at LANL, we identified weaknesses in LANL's internal controls that did not allow for the proper inclusion or exclusion of participants in the annual actuarial reports. Specifically, as part of substantive test work performed over a sample of 20 employees in the active PRB population, 1 employee was incorrectly identified as active even though the employee terminated employment in 2011. Additionally, that employee was also incorrectly included in the active pension population. As a result, LANL identified six additional participants included in the active pension and active PRB populations that were also incorrectly reflected as active participants.

The weaknesses identified occurred because LANL's internal controls to ensure the accurate reconciliation of Human Resources Benefits data to the census data used in the annual actuarial reports were not operating effectively. Specifically, the Human Resources Service Center changed the employment status of former terminated employees who returned to LANL under a different employment status which, because of the timing of the status changes, did not properly update the census data with the respective custodian for participation in the post-retirement plans.

LANL's accumulated benefit obligation and accumulated PRB obligation liabilities were overstated by $1.3 million and $1.6 million, respectively, of which $100,000 and $300,000, respectively, was associated with the error identified in our substantive test work. Without proper controls in place and operating effectively over the accuracy of census data, pension and post-retirement liabilities could be misstated.

RECOMMENDATION:

7. We recommend that the NNSA Field Chief Financial Officer, in conjunction with the Los Alamos Field Office Manager, direct LANL to redesign and/or implement controls to ensure census data information is accurate and properly reconciled to Human Resources Benefits information.

MANAGEMENT RESPONSE:

Management concurs with the recommendation. The NNSA Field Chief Financial Officer, in conjunction with the Los Alamos Field Office Manager, will direct LANL to redesign and/or implement controls to ensure census data information is accurate and properly reconciled to Human Resources Benefits information. LANL prepared and completed a corrective action plan on September 28, 2020 in which a system edit was coded into the Aon information management system to generate an error report that shows active participants that cease to appear on the weekly update file. This error report will be provided to LANL to validate if the participant was recently terminated but failed to successfully pass on the weekly participant status update file sent to Aon. This will allow LANL to correct the record and reprocess the termination action in a timely manner.

Financial Reporting

20-HQ-FR-01 – Errors in Interim Financial Statements – Footnote 23

The Department's Office of Finance and Accounting (OFA) prepares the financial statements and accompanying footnotes and disclosures for the periods ending June 30th (interim) and September 30th (final). These statements are prepared using financial data from the Standard Accounting and Reporting System, which serves as the Department's General Ledger system. The Department incorporates the raw General Ledger data into pre-configured Excel Macro files to populate amounts for the applicable financial statements and footnotes for interim and final.

During our test work over the presentation of the interim financial statements and accompanying footnotes, we identified that review controls did not operate effectively with respect to the interim quarterly financial statements and footnote disclosures pertaining to Footnote 23 - Combined Statements of Budgetary Resources. During the review of Footnote 23 - Combined Statements of Budgetary Resources in the interim financial statements, two misstatements totaling $7.5 billion were identified.

The identified weaknesses occurred because the Department incorporated the Statements of Budgetary Resources (SBR) and the related footnotes into an existing Excel-based macro used to translate the raw General Ledger data to financial statement and footnote line items. This macro did not operate as designed to update the Undelivered Orders (UDO) balances at the end of the period appropriately for Footnote 23 in the interim financial statements. In addition, the Net Outlay amounts manually entered within the Explanation of Differences between the SBR and the Budget of the U.S. Government utilizing prior information incorrectly included and double counted amounts already broken out as part of Office of Management and Budget adjustments. Due to insufficient review controls over the UDO balances presented in Footnote 23, incorrect balances were reported in the interim financial statements footnote disclosures. The insufficient review was caused, in part, due to the turnover of key budgetary accountants within OFA and a limited workforce as a result of that turnover. Without adequate review controls or tie points, the Department presented interim financial statements with a $6 billion understatement and a $1.5 billion overstatement in Footnote 23 relating to UDOs at the end of the period and Net Outlays from the Explanation of Differences between the SBR and the Budget of the U.S. Government for 2019, respectively. The UDO balance for the period ending June 30, 2020, as detailed in Footnote 23, was understated by $6 billion. This represents a combination of the understatement in the line item UDO – Unpaid (federal) in the amount of $817 million and an understatement of the non-federal balance for the same line item of $5.25 billion. In Footnote 23 to the interim financial statements, the "Undelivered Orders at the End of the Period" table presented the line "Undelivered Orders – Unpaid" with a federal balance of $892 million instead of the correct balance of $1.71 billion and the non-federal balance of $29.4 billion instead of the correct balance of $34.6 billion.

In addition, the amount for the line item "Combined Statements of Budgetary Resources as Published" for the table "Explanation of Differences between the SBR and the Budget of U.S. Government" was overstated in the "Net Outlays" Column by $1.5 billion.

MANAGEMENT LETTER

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RECOMMENDATIONS:

8. We recommend that the Director, OFA:

   A. Implement tie-points between the footnotes and corresponding underlying data including the trial balance detail to verify balances are accurately presented.

   B. Review changes to existing and future macros prior to use in the creation of financial statements.

   C. Implement a documented review process of the statements and the accompanying footnotes.

MANAGEMENT RESPONSE:

Management partially concurs with the recommendations. The Office of the Chief Financial Officer concurs with recommendations A and B. The Office of the Chief Financial Officer does not concur with recommendation C. The Office of the Chief Financial Officer has previously implemented a documented review process for the statements and notes that includes various reviewers providing comments/edits/corrections and questions related to the statements and notes to the Agency Financial Report mailbox each time there is an updated version of the statements and notes.

AUDITOR RESPONSE:

We thank management for its response and understand that management performs certain documented review activities throughout the financial statement compilation process. During our walkthrough of creating and reviewing the financial statements process, we noted that these review activities include emailing the updated financials to key members of management, requesting their review, and a response to the Agency Financial Report Mailbox for tracking purposes. However, the Agency Financial Report Mailbox process was not included in the documented standard operating procedures, nor were the requirements for reviewers' responses. In addition, only certain members of management are required provide a positive response indicating their review is complete. Further, the point of contact's list identifying the reviewer of each section of the Agency Financial Report was not updated for the current year, despite turnover within OFA and the Department. Without an accurate list of reviewer assignments, as well as clearly defined requirements for those reviewers, the Department continues to risk the inability to either prevent or detect and correct misstatements in the financial statements and accompanying footnotes. We continue to recommend that OFA incorporates a more detailed documentation of the review process of the financial statements and accompanying footnotes.

Environmental Liabilities

20-PPPO-EL-01 – Documentation of Federal Risk Register Review Controls

The Department's Office of Environmental Management (EM) is responsible for completing the safe cleanup of the environmental legacy resulting from five decades of nuclear weapons development and government-sponsored nuclear energy research. EM is responsible for developing the cost estimates for environmental cleanup that are recorded in the Department's consolidated financial statements and reviewing all calculations of the environmental liability to ensure that the liability is as accurate and complete as reasonably possible. EM recognizes the risks and uncertainties in its project cost and schedule estimates by recording contingency as part of the environmental liability.

MANAGEMENT LETTER

EXHIBIT A

The EM field sites, including the Paducah Site (Paducah) and the Depleted Uranium Hexafluoride (DUF-6) project, establishes the processes and procedures pertaining to risk management in the site risk management plan and contingency is calculated based on risks contained in the site risk registers. Site Managers review and approve the risk management plans, including the risk registers. Risk management plans are based on the current baseline of the site/project, as well as any significant changes to the baseline. Regarding risk monitoring and updates, the triggering event for a change in the risk register would be a material change in the baseline. Risk monitoring and update procedures is set forth in the risk management plans.

During our test work over the risk registers at the Portsmouth/Paducah Project Office (PPPO), we were unable to obtain sufficient supporting documentation that showed risks were reviewed. Paducah and DUF-6 officials indicated that they perform several levels of review throughout the year. New risks are developed and approved by subject matter experts and are documented in a Risk and Opportunity Form. Based on discussions with Paducah and DUF-6 officials, it was understood that after risks are developed, they are continuously monitored through Integrated Project Team and project status meetings. Although we were able to hold discussions with Paducah and DUF-6 personnel to understand the review process, we were unable to obtain documentation to evidence the reviews that occurred during the year. Paducah and DUF-6 officials provided examples of support; however, this support was not sufficient. Specifically, we noted the following:

- Paducah: We received an example for an Integrated Project Team meeting invite, an email notification requesting a risk be created, and a new risk form. However, it was not evident that the email and new risk form were the outcome of decisions made during the Integrated Project Team meeting. Based on our review of this example documentation, we were unable to gain insight into the objectives of the meeting, decisions made during the meeting, and if those decisions were acted upon. Additionally, we received a Concurrence Report for the Risk Management Plan; however, the comments noted did not provide any documentation of risks reviewed.
- DUF-6: A new risk register was implemented in FY 2020. Based on discussions with DUF-6, we obtained an understanding of the reviews that took place at the beginning of the fiscal year; however, these reviews were not documented. While DUF-6 provided minutes from a meeting in August 2020, the objective of that meeting was to update the risks registers for FY 2021, not FY 2020 (the year currently under audit).

The identified weaknesses occurred because PPPO-EM did not establish processes and procedures to maintain adequate documentation of its review of the risk registers, and any updates that may need to be made to the Paducah Site or DUF-6 FY 2020 contingency. As a result, without adequate documentation of its routine reviews to determine the accuracy of the risk registers, there is a risk that that the risk registers have not been assessed for any changes that need to be captured in the contingency for the Paducah Site and DUF-6 FY 2020 EM environmental liability.

RECOMMENDATION:

9. We recommend that the Manager, PPPO, direct the PPPO-EM Manager to establish procedures to routinely (at least annually) review the risk registers (e.g. convening meetings specifically pertaining to review of the risk registers), to document decisions pertaining to each risk discussed and to provide documentation of the approval of the risk update decisions by the field manager or designee.

MANAGEMENT RESPONSE:

Management concurs with the recommendation. PPPO-EM is confident that sufficient contingency has been established to accommodate the risks associated with all of the cleanup activities at the Paducah site including deactivation, demolition, environmental remediation, as well as operation of the DUF6 plants at Paducah and Portsmouth. No control deficiencies have been found. The projects provided extensive documentation and evidence to support the risks and contingency calculations. An in-depth review of each DUF6 risk represented in the Federal Risk Management Plan has been completed for FY 2021. The same level of rigor employed for the DUF6 comprehensive review will be applied by PPPO in reviewing the Federal Risk Management Plan associated with the cleanup activities at Paducah. The PPPO Manager agrees to hold a meeting (at least annually) to review risk registers, discuss any updates to risk registers, document decisions to change risk registers, and provide documentation of approval of risk update decisions by the field manager or designee.

Nuclear Materials

20-HQ-N-01 – Ineffective Review of Bill of Material: The contents of this finding are for Official Use Only. However, the status of corrective actions taken should be tracked in the Department's Audit Report Tracking System.

MANAGEMENT LETTER

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, 2020
Pension and Other Post-Retirement Benefits	
A. Pension Asset Valuation Review (19-Y12-P-01)	Closed in FY 2020
B. Errors Identified in Census Data Attributes (19-LBNL-P-01)	Closed in FY 2020
C. Inaccurate Pension Census Data (19-LANL-P-01)	Closed in FY 2020
D. Internal Controls and Documentation over LBNL Census Data (19-LBNL-P-02)	Closed in FY 2020
Grants	
E. Inadequate Monitoring of Financial Assistance Awards (19-CH-G-01)	Closed in FY 2020
F. Failure to Implement Post-Award Monitoring Policies and Procedures for a Financial Assistance Award (19-NETL-G-01)	Closed in FY 2020
Nuclear Materials	
G. Capitalization and Overcapitalization of Stockpile Life Extension Program (SLEP) Costs in the Incorrect Accounting Period (19-NNSA-N-01)	Closed in FY 2020
Financial Reporting	
H. Documentation of Non-GAAP Practices and Their Impact on Recording Accounting Transactions (19-HQ-FR-01)	Closed in FY 2020
Property, Plant, and Equipment	
I. Untimely Recording of Transfers from Construction Work in Progress to Property, Plant & Equipment (19-SNL-F-01)	Closed in FY 2020
Environmental Liabilities	
J. Inappropriate Review Permissions (19-HQ-EL-01)	Closed in FY 2020
K. Insufficient Review of Surplus Plutonium Liability (19-HQ-EL-02)	Closed in FY 2020
L. Insufficient Review of Baseline Changes (19-ORP-EL-01)	Closed in FY 2020
M. Insufficient Review of the Long-Term Stewardship Contingency (19-OR-EL-01)	Closed in FY 2020

MANAGEMENT LETTER

EXHIBIT C

ACRONYMS

CNS	Consolidated Nuclear Security
CSC	Consolidated Service Center
CWIP	Construction Work in Process
Department/DOE	Department of Energy
FY	Fiscal Year
GAAP	Generally Accepted Accounting Principles
HQ	Headquarters
INL	Idaho National Laboratory
LANL	Los Alamos National Laboratory
LBNL	Lawrence Berkeley National Laboratory
NETL	National Energy Technology Laboratory
NNSA	National Nuclear Security Administration
OFA	Office of Finance and Accounting
OR	Oak Ridge
ORP	Office of River Protection
PBO	Projected Benefit Obligation
PP&E	Property, Plant & Equipment
PPPO	Portsmouth/Paducah Project Office
PRB	Postretirement Benefits Other Than Pensions
SBR	Statement of Budgetary Resources
SNL	Sandia National Laboratories
Y-12	Y-12 National Security Complex

FEEDBACK

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