



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 2012



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

MANAGEMENT LETTER

December 17, 2012

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

Dear Mr. Friedman:

We have audited the consolidated financial statements and special-purpose financial statements of the United States Department of Energy (Department or DOE) as of and for the year ended September 30, 2012, and have issued our reports thereon dated November 14, 2012. In planning and performing our audit of the consolidated financial statements and special-purpose financial statements, in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements*, as amended; we considered internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Department's internal control. Accordingly, we do not express an opinion on the effectiveness of the Department's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies or material weaknesses have been identified. However, as discussed below, and as more fully described in our *Independent Auditors' Report*, which is included in the financial results section of the Department's *Fiscal Year 2012 Agency Financial Report*, we identified certain deficiencies in internal control related to information technology (IT) that we consider to be a significant deficiency.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the following deficiency in the Department's internal control to be a significant deficiency:

- ***Unclassified network and information systems security*** - We noted network vulnerabilities and weaknesses in access and other security controls in the Department's unclassified computer



information systems. The identified weaknesses and vulnerabilities increase the risk that malicious destruction or alteration of data or unauthorized processing could occur. The Department should fully implement policies and procedures to improve its network and information systems security.

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

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

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

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

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

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

KPMG LLP

Management Letter
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Closing Package

Finding 1: Lack of Sufficient Review of Closing Package Submission (**12-HQ-CP-01**)

During the preparation and review of the Governmentwide Financial Report System (GFRS) footnotes as part of the Department's Fiscal Year (FY) 2011 Closing Package submission, the Department overlooked an amount entered in the wrong column of Line 31 (All Other Earmarked Funds) for Note 22 (Earmarked Funds). As a result of this oversight, the Department's FY 2011 Closing Package included a misclassification in Line 31 in the GFRS FR Notes Report for Note 22 (Earmarked Funds), Section E (Revenue, Financing, Expenses, and Other – Current Year). Specifically, the "Individual Income taxes and payroll tax withhold" column incorrectly included \$3.278 billion that should have appeared in the "Other taxes and receipts" column. The Department of the Treasury, Financial Management Service (FMS), brought this error to the Department of Energy's attention subsequent to the submission of the FY 2011 Closing Package.

Recommendation:

1. We recommend that the Director, Office of Financial Control and Reporting (OFCR), strengthen the internal controls over the Closing Package submission process to mitigate the risk of errors being made in preparing the GFRS footnotes and not being identified and corrected prior to submission to the Department of Treasury.

Management Reaction:

Management concurs with the recommendation. Management noted that it planned to perform a footnote balance change analysis for the FY 2012 GFRS footnotes prior to submission to Treasury. Management also plans to improve its written procedures for preparing the GFRS during FY 2013.

Credit Reform/Loan Program

Finding 2: Timely Recording of Disbursements (**12-HQ-L-01**)

The Loan Programs Office (LPO) authorized the 3rd party lender who is responsible for servicing certain loans to make two disbursements in February 2012 totaling \$186 million. In approving these disbursements, LPO did not follow the established process and notify OFCR when it approved the February 2012 disbursements. Additionally, the Department did not obtain 3rd Party Lender Reports from the 3rd party lender responsible for servicing the loans in March 2012 and, therefore, did not reconcile the loan activity reported by the 3rd party lender to the Department's accounting records in accordance with established procedure. As a result, OFCR did not record these disbursements until July 2012 after receiving notification of these disbursements via the 3rd Party Lender Report. Accordingly, the Department understated its Principal of Guaranteed Loans, Face Value balance by \$186 million as of June 30, 2012.

Recommendation:

2. We recommend that the Acting Executive Director, LPO, and Director, OFCR develop and implement policies and procedures to ensure that:
 - a. OFCR receives notification of Financial Institution Partnership Program (FIPP) disbursements timely; and
 - b. The Department obtains and reconciles its accounting records to 3rd Party Lender Reports timely.

Management Reaction:

Management concurs with the recommendations. Management noted that, during FY 2012, the LPO improved its procedures related to disbursements and the systems that support its operations. Management noted that these improvements and the corrective actions taken as a result of this finding serve as a system of checks and balances to ensure that the LPO and OFCR maintain the most accurate and current disbursement information for each FIPP transaction and that the OFCR is able to reconcile accounting records to 3rd Party Lender Reports. To specifically address Recommendation 2, above:

- a. Management has revised the disbursement process (Portfolio Management Division Policy 413.1, *Disbursement Request Evaluation Process*) to include automatic email notification to OFCR once the LPO approves an official Disbursement Request.
- b. Management has further enhanced the disbursement process to include OFCR notification once the Administrative Agent/lending institution processes a FIPP disbursement.
- c. Management noted that the LPO and OFCR will continue to receive and process Quarterly Accounting Reports from the respective Administrative Agents/lending institutions that outline the FIPP disbursements from the previous quarter.

Environmental Liabilities

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

Finding 3: Double Counting of Long-Term Stewardship Liabilities (12-HQ-EL-01)

During FY 2012, cognizance of LTS&M operations at the Mound Site in Miamisburg, Ohio transferred from EM to LM. LM recorded an LTS&M liability for Mound at the time of the transfer; however, EM did not remove the liability from its books. EM did not have controls to ensure that it removes a site from the long-term stewardship (LTS) liability once it has been transferred to LM in a timely manner. As a result, the Department overstated their liability by \$42 million. The Department corrected the error for its September 30, 2012 financial statements.

Recommendation:

3. We recommend that:
 - a. The Director, Office of Strategic Planning & Analysis, implement procedures to identify and remove sites from Integrated Planning, Accountability, and Budgeting System that have transferred to Legacy Management in a timely manner.
 - b. The Director, OFCR, implement procedures to perform a reconciliation of the LTS and LTS&M sites to ensure the liability is not misstated due to double counting.

Management Reaction:

Management concurs with the recommendations. Management plans to supplement its annual environmental liability guidance to define the specific triggers for closing LTS projects in the Integrated Planning, Accountability, and Budgeting System (IPABS) based on the official transfer of activities to LM and the availability of non-EM funding. Additionally, management plans to implement a review process to ensure that duplication does not exist in the environmental liability for sites transferred to LM.

Environmental Liabilities for Active Facilities

Background: The Department's liability for remediation of active facilities includes anticipated remediation costs for active and surplus facilities managed by the Department's ongoing program operations, which will ultimately require stabilization, deactivation, and decommissioning. The estimated costs are largely based on a cost-estimating model, which extrapolates stabilization, deactivation, and decommissioning costs from facilities included in EM's baseline estimates to those active and surplus facilities with similar characteristics owned by other (non-EM) programs. The Department's methodology for calculating an environmental liability estimate for active facilities relies on a web-based system managed by the Headquarters Office of the CFO and operated by a contractor. This system, known as the Active Facilities Data Collection System (AFDCS), relies on field site personnel to input an appropriate cost model code, square footage, and footprint for each building, from which the liability is calculated. Data collection for each facility includes the square footage or gallons and the assignment to one of 15 facility contamination model codes. In addition, AFDCS collects data regarding asbestos contamination in order to calculate a liability for affected facilities that would otherwise not require remediation. Field site personnel review and make necessary revisions to the facility data each year before certifying the data in AFDCS. A limited number of sites use other appropriate cost-modeled estimates or site-specific estimates.

Finding 4: Inaccuracies in the Active Facilities Liability (12-CHF-AF-01)

Our interim review of a statistically selected sample of 23 facilities and structures from the Fermi National Accelerator Laboratory's (Fermilab) FY 2012 Active Facilities Data Collection System (AFDCS) population disclosed that Fermilab incorrectly recorded the footprint for three facilities and assigned an incorrect model type to one facility. Additionally, we noted that Fermilab's active facilities liability included a liability for two facilities, even though the only contamination related to these facilities is contained in the soil underneath these facilities and already accounted for in the site's contaminated media liability estimate. As a result of these errors, Fermilab understated the interim active facilities liability by \$125.5 million as of June 30, 2012. Site personnel corrected the errors prior to the final liability calculation as of September 30, 2012.

Recommendation:

4. We recommend that the Manager, Fermi Site Office (FSO), direct Fermilab to implement policies and procedures to ensure employees and contractors are following active facility guidance, specifically relating to model code categories, facility size, and exclusion of contaminated soil from the active facilities liability estimate, and to ensure that site personnel perform an adequate review of the active facilities liability estimate.

Management Reaction:

Management concurs with this recommendation. Management noted that Fermilab is currently in the process of benchmarking best practices with the Argonne National Laboratory to better strengthen their internal processes and plans to complete revision to the site's policies and procedures in order to incorporate the recommendations above by December 31, 2012. Additionally, management noted that FSO will conduct a review of the revised policies, procedures, and activities being performed, in partnership with the Laboratory, to ensure effective implementation is achieved.

Finding 5: Incorrect AFDCS Model Code (**12-NS1-AF-01**)

Our interim review of 30 facilities and structures disclosed that the Los Alamos National Laboratory (LANL) assigned the incorrect model type to one facility. The miscoding of the facility resulted from a lack of sufficient review by the facility manager, or subject matter expert assigned to review the model coding. As a result of this error, LANL understated the interim active facilities liability estimate by \$1.4 million as of June 30, 2012. Site personnel corrected the error prior to the final liability calculation as of September 30, 2012.

Recommendation:

5. We recommend that the National Nuclear Security Administration (NNSA) Field Chief Financial Officer (CFO), in conjunction with the Manager, Los Alamos Site Office (LASO), 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:

Management concurs with the recommendation.

Finding 6: Errors in the Active and Surplus Facilities Liability (**12-NRLFO-AF-01**)

Our interim review of 48 facilities and structures as of June 30, 2012 identified errors in 23 items. Specifically, our review disclosed that the Naval Reactors Laboratory Field Office (NRLFO) incorrectly recorded an active and surplus facilities liability for 13 facilities where no contamination is known or believed to exist; did not update the liability estimates related to two facilities based on current, available information; had not maintained supporting documentation for the disposal rates that served as the bases for components of an estimate; and did not have readily available supporting documentation for one other estimate. Additionally, the liability calculations for an additional six facilities and structures contained miscalculations including the use of incorrect facility square footages, estimates that were not reduced for actual costs incurred, the inclusion of unsupported adjustments, and estimates for which escalation had not been properly applied. As part of our follow-up procedures at year-end, we noted that NRLFO did

not record an active and surplus facilities liability for six solid waste management units and areas of concern that had been identified as requiring a liability by a FY 2012 internal audit by Bechtel Marine Propulsion Corporation (BMPC), NRLFO's prime contractor. These errors were the result of a number of items, including ambiguities in the Department's environmental liability guidance regarding the accrual of a liability for uncontaminated facilities and deficiencies in NRLFO's review of its active facilities liability. As a result of these errors, NRLFO recorded liability increases of \$81.3 million and liability decreases of \$74.2 million.

Recommendation:

6. We recommend that the Office of the Chief Financial Officer clarify its environmental liability guidance in accordance with Federal Accounting Standards Advisory Board Technical Release No. 2, *Determining Probably and Reasonably Estimable for Environmental Liabilities in the Federal Government*, to state that environmental liabilities are not probable and should not be recorded unless there is likely contamination.

Furthermore, we recommend that the Manager, NRLFO, direct BMPC personnel to:

- a. Implement policies and procedures requiring BMPC personnel to update liabilities based upon current available information and verify that the estimates are free of mathematical errors; and
- b. Implement policies and procedures to ensure that historical documentation supporting the calculation of liability estimates is maintained, readily available and sufficiently detailed.

Management Reaction:

Office of the Chief Financial Officer management concurs with the first recommendation. Management noted that it plans to clarify its environmental liability guidance to preclude uncontaminated facilities from inclusion in the Department's environmental liability by March 31, 2013.

NRLFO management generally concurs with the second recommendation and concurs with the third recommendation. Management noted that it has already begun to take action to address the issues that resulted in errors in NRLFO's active and surplus facilities liability in order to avoid repeating similar issues in the June 30, 2013 environmental liability estimate. Management further noted that, although it does not deem the lack of historical documentation supporting the calculation of liability estimates to be a systemic issue, it will consider this issue when implementing corrective actions related to this finding. Management also noted the size of the errors in relation to the total NRLFO active facilities liability of \$5.7 billion.

Finding 7: Errors in the Prior Period Asbestos Liability (**12-HQ-AF-01**)

During FY 2011, the Department implemented a separate cost model for estimating the cost to remediate asbestos containing material for "no liability" facilities listed in AFDCS (i.e., facilities not otherwise contaminated with hazardous or radioactive material). As part of the process for updating the Department's liability for asbestos remediation, OFCR is responsible for overseeing the field site updates to AFDCS and for calculating the asbestos liability. As part of its internal reviews during FY 2012, OFCR determined that, as a result of a programming error, the AFDCS cost model did not properly calculate the active facilities liability related to asbestos for certain facilities during FY 2011. As a result of this error, the Department understated the active facilities liability estimate by \$172.7 million as of

September 30, 2011. The Department corrected the error prior to FY 2012 liability update and properly calculated the active facilities liability related to asbestos as of June 30, 2012.

Recommendation:

7. We recommend that the Director, OFCR, perform internal reviews of the AFDCS asbestos cost model to ensure accurate calculation of the Department's asbestos liability.

Management Reaction:

Management concurs with the recommendation. Management plans to test all of the components of AFDCS, including the asbestos model, during FY 2013 to ensure that the model works as intended and generates accurate liability estimates.

Finding 8: Inaccuracies in the Active Facilities Data Collection System (**12-BNL-A-01** – *formerly 11-BNL-A-01*)

In FY 2011, we reported that BNL assigned incorrect model codes to a total of five facilities from our sample of 45 facilities. These errors resulted in overstatement of BNL's active facilities liability of \$132.9 million as of June 30, 2012.

In FY 2012, our review of a sample of 45 facilities and structures at BNL identified errors in three facilities, including the assignment of an incorrect model code to Facility 941 (i.e., the Power Supply and Support Building), the inaccurate measurement of the square footage of Facility 820B (i.e., the Accelerator Test Facility Storage Facility), and the inclusion as a stand-alone structure of a heating system that should have been accounted for as an improvement to another structure. These errors resulted in an overstatement of BNL's active facilities liability of \$1.2 million as of June 30, 2012. Therefore, this finding remains open.

Recommendation:

8. We continue to recommend that the Manager, Brookhaven Site Office, direct BNL to ensure that employees and contractors are appropriately following active facilities guidance, specifically as it relates to model code categories and the measurement of facility square footages, and performing appropriate internal reviews of the contractor-prepared active facilities liability estimates.

Management Reaction:

Management concurs with the recommendations. Management noted that, while the Brookhaven Site Office has noted an improvement with the reporting of the active facilities liability, it is evident that additional corrective actions are required. Management will direct Brookhaven Science Associates to implement additional policies and procedures to ensure that employees and contractors are appropriately following active facilities liability guidance and performing appropriate internal reviews of the contractor-prepared active facilities liability estimates.

Financial Reporting

Finding 9: Misclassification of Debt Related to the Credit Reform Program (**12-HQ-FR-01**)

OFCR did not perform an adequate review of the Agency Financial Report (AFR) footnotes related to the Department's credit reform program as of September 30, 2011 and 2010, in order to ensure the proper

presentation of financial information related to the Department's credit reform program in accordance with Office of Management and Budget (OMB) Circular No. A-136, *Financial Reporting Requirements*. The Department misclassified the portion of its debt related to its direct loan and 100 percent loan guarantee programs as not covered by budgetary resources as of September 30, 2011 and 2010. This misclassification of debt related to the Department's direct loan and loan guarantee programs resulted in the overstatement of the Department's total liabilities not covered by budgetary resources by \$6.921 million and \$2.931 million as of September 30, 2011 and 2010, respectively. The Department identified and corrected the misclassification for FY 2012 reporting.

Recommendation:

9. We recommend that the Director, OFCR, develop and implement policies and procedures to ensure that OFCR personnel perform a thorough review of the Department's annual AFR in order to ensure that the Department's financial position and results are properly presented in accordance with OMB Circular No. A-136.

Management Reaction:

Management generally concurs with the recommendation. Management noted that the misclassification of debt related to direct loan and loan guarantees as not covered by budgetary resources was an error identified by the DOE loan accountant during FY 2012 and that corrective action has already been taken to classify and report this debt correctly. Management stated that OFCR will evaluate the need for additional controls/procedures regarding classification of funded and unfunded liabilities as part of its FY 2013 OMB Circular No. A-123, *Management's Responsibility for Internal Control*, evaluations.

Human Resources

Finding 10: Pension Asset Classification Levels (**12-INL-P-01**)

INL's management and operating (M&O) contractor, Battelle Energy Alliance, LLC (BEA), relies on third parties to determine the classification of pension plan assets within the fair value hierarchy for its pension plan disclosures and then performs a review over these classifications. However, our FY 2012 review determined that BEA was unable to provide documentation of such review and, therefore, was unable to demonstrate that the financial reporting process for determining the fair value measurements and disclosures is performed at an appropriate level of precision to detect and correct errors, if any. As such, there is a higher risk that the fair value measurement of the Department's pension assets within the different levels of the fair value hierarchy might be misclassified in the Department's financial statement footnote disclosures.

Recommendation:

10. We recommend that the Manager, Idaho Operations Office, direct INL BEA personnel to document their review to demonstrate that financial reporting processes are in place to evaluate the accuracy of the pension plan asset classification level of the fair value hierarchy provided by the trustee.

Management Reaction:

Management concurs with the recommendation. Management noted that it has implemented procedures to document future management reviews.

Finding 11: Census Data Review (12-LBNL-P-01)

Lawrence Berkeley National Laboratory (LBNL) has one pension and one post-retirement benefit (PRB) plan that is managed by the University of California Retirement Plan/University of California Office of the President (UCOP). As part of the process for calculating the pension and PRB liability, UCOP provides a census data file to their actuary. In performing this process, UCOP did not follow the guidance established by the Office of Finance and Accounting (OFA) regarding having an internal control structure in place to ensure that management reviews the census data before submission to the actuary for accuracy and completeness. UCOP relied on the actuary to perform periodic reviews of the census data file to ensure all requested data from UCOP was complete. As a result, there is a higher risk that the census data provided to the actuary could be incomplete or inaccurate data, which could cause the actuarially determined pension and PRB estimates to be misstated.

Recommendation:

11. We recommend that Manager, Berkeley Site Office, direct UCOP personnel to ensure guidance issued by OFA is followed regarding having an internal control structure in place to ensure the census data used to perform the pension and PRB accounting calculation ties back to the payroll census data.

Management Reaction:

Management concurs with the recommendation. Management noted that it will direct LBNL UCOP to develop a Corrective Action Plan (CAP) by October 31, 2012 to ensure that guidance issued by OFA regarding having an internal control structure to ensure the census data used to perform the pension and PRB accounting calculations ties back to the payroll census data is followed.

Inventory

Finding 12: Incorrectly Writing Off Component Parts Inventory (12-Y12-NM-01)

In prior years, the Y-12 National Security Complex (Y-12) has misinterpreted the quantities of inventory set forth in annual programmatic guidance, which can vary from year-to-year and does not necessarily indicate a permanent decline in the value of inventory, to be instruction for accounting entries that must be recorded during a given fiscal year. As a result of these misinterpretations, Y-12 wrote off and wrote on component part nuclear materials inventory from the Departmental Inventory Management System (DIMS) based on annual programmatic guidance that was distributed to the sites by NNSA Headquarters. As a result, inventory was understated by \$680 million as of September 30, 2011. An adjustment of \$680 million related to the prior period error was recorded in DIMS for the fiscal year ending September 30, 2012 to correct the accounting error.

Recommendation:

12. We recommend that the NNSA CFO, distribute updated accounting guidance to the field sites instructing them to reduce the carrying value of inventory for only component part inventory units identified as having a permanent decline in value.

Management Reaction:

Management concurs with the recommendation. Management plans to issue guidance to the field sites by December 2012.

Finding 13: Incorrect Nuclear Materials Allowance (12-NNSA-NM-01)

By way of multiple Secretarial declarations, the last of which was made in September 2007 for 9 metric tons (MT), 47.2 MT of weapons-grade plutonium has been declared excess to national security needs. As of September 30, 2011, only 33.4 MT had been reserved for in the classified allowance account. In FY 2012, Pantex Plant recorded an allowance for the majority of the 9 MT declared in September 2007, the sources of which were specifically identified at that site. As a result of this delay in recording an allowance, the Department overstated inventory by an amount, which is classified, but that is not material to the Department's financial statements as of September 30, 2012. The Department corrected the amount as of September 30, 2012.

Recommendation:

13. We recommend that the NNSA CFO:

- a. Ensure that Secretarial declarations and other Departmental guidance impacting the nuclear materials area are effectively communicated to accounting personnel who will need this information; and
- b. Require accounting personnel to ensure that programmatic documents are not used as the sole basis for making accounting entries for nuclear materials. Current guidance that instructs otherwise should be revised.

Management Reaction:

Management concurs with the recommendations. Management noted that NNSA accounting personnel will communicate quarterly with the Office of Nuclear Material Integration to identify any changes in the quantities of nuclear materials declared excess to national security needs.

Procurement

Finding 14: Accounts Payable – Invalid Accounts Payable Balances (12-XN9-PRO-01)

Our tests of 105 accounts payable balances indicated that the Energy Finance and Accounting Service Center (EFASC) did not correctly cancel two balances as of June 30, 2012. Specifically, we noted:

- a. One purchase order (PO) with a credit balance of \$3,500 related to an advance for an employee's travel cost for a permanent change of station (PCS). In recording this advance, the Department incorrectly entered the transaction codes in the Standard Accounting and Reporting System (STARS) and, as a result, STARS did not apply the prepaid amounts to offset the voucher claim amounts when paid, leaving a balance in standard general ledger (SGL) account 2110, accounts payable.
- b. One PO with a credit balance of \$229.07 related to an invoice for an employee's PCS. Taxes were withheld on the invoice and later reimbursed to the employee on a separate invoice. However, the unpaid amount on the original invoice was never fully cancelled, leaving a balance in SGL 2110, accounts payable.

As a result these errors, EFASC overstated the accounts payable balance by \$3,729.07 at June 30, 2012.

Recommendation:

14. We recommend that the Director, OFA, direct EFASC to implement policies and procedures to ensure that errors in transaction codes and payment posting entries are identified and corrected.

Management Reaction:

Management concurs with the recommendation. Management noted that CAPs will be developed to ensure errors in transaction codes and payment posting entries are identified and corrected as they occur or at the end of each month. Additionally, management noted that a reconciliation report will be completed on a monthly basis to ensure the Department's liabilities for PCS relocation are accurate and liquidated in a timely manner.

Finding 15: Disbursements (12-NS1-PRO-01)

Our review of 25 disbursements disclosed that LANL did not remit timely payment for one of the disbursements. LANL misplaced the invoice for this disbursement and did not discover the lost invoice until the supplier followed up with LANL regarding payment. As a result of this delay, the associated expense and liability accounts were misstated as of the financial statement date. Additionally, there is a risk that penalty for late payments might be incurred.

Recommendation:

15. We recommend that the NNSA Field CFO, in conjunction with the Manager, LASO, direct LANL to implement policies and procedures and/or ensure that existing policies and procedures are followed to ensure invoices are collected timely and paid within the stated contract terms and in the proper fiscal year.

Management Reaction:

Management concurs with the recommendation. Management noted that the NNSA Field CFO and LASO Manager will direct LANL to update and follow policies and procedures for timely collection and payment of invoices within stated contract terms.

Property, Plant, and Equipment

Finding 16: Property, Plant, and Equipment Capitalization and Depreciation (12-NS1-F-01)

Our review of a sample of 43 Property, Plant, and Equipment (PP&E) asset additions for the fiscal year ending September 30, 2012, identified the following conditions:

- a. LANL used the placed in-service date of the original building as the basis for calculating depreciation of a capitalized refurbishment to the building, rather than calculating depreciation over the estimated three-year useful life of the addition. The building was fully depreciated, which resulted in the full depreciation of the addition in the current year.
- b. LANL capitalized a security system upgrade to a building and used the original placed in-service date of the building as the basis for calculating depreciation, rather than calculating depreciation over the remaining useful life of the building.

These errors resulted from policies and procedures that currently do not clearly address the proper capitalization of betterments added to fully depreciated capital assets, as well as departures from current policies and procedures regarding the use of proper placed in-service dates. As a result of these errors, the net book value of LANL's PP&E was understated by \$6,278,886 as of September 30, 2012.

Recommendation:

16. We recommend that the Director, Office of Financial Risk, Policy and Controls, enhance existing policies and procedures to determine the appropriate useful life for betterments associated with, or attached to, fully or near fully depreciated assets that will provide future utility to the Department.

Additionally, we recommend that the NNSA Field CFO, in conjunction with the Manager, LASO, train and remind employees of the existing policies and procedures related to recording the actual in-service date for capitalized assets and recording the appropriate useful life for additions to currently existing assets.

Management Reaction:

Office of Financial Risk, Policy, and Controls management generally concurs with the first recommendation. Management noted that it will take the recommendation into consideration as part of the Office of Financial Risk, Policy, and Controls ongoing project to revise Chapter 10 of the Financial Management Handbook, *Property, Plant, and Equipment*.

NNSA management concurs with the second recommendation. Management noted that it will issue the Office of Financial Risk, Policy, and Controls' enhanced policy to NNSA's integrated contractors when received and provide training to integrated contractors regarding the enhanced policy.

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, 2012**

Budget

- | | |
|--------------------------------------------------------------------------------|-------------------|
| 1. Timely Recording of Obligations (11-SR-B-01) | Closed in FY 2012 |
| 2. Incorrect Costed Obligations and UDO Balances (11-EMCBC-B-01) | Closed in FY 2012 |
| 3. Untimely De-Obligation of Stale Undelivered Orders (11-ORO-BUD-01) | Closed in FY 2012 |

Credit Reform/Loan Programs

- | | |
|------------------------------------------------------------------|-------------------|
| 4. Policy Approval and Document Management (11-HQ-L-01) | Closed in FY 2012 |
| 5. Credit Subsidy Model Errors (11-HQ-L-02) | Closed in FY 2012 |

Environment, Safety, & Health Compliance

- | | |
|----------------------------------------------------------------|----------------------------------------------------|
| 6. Inaccuracies in the ES&H Liability (11-BNL-ESH-01) | Reissued in FY 2012 – see repeat finding number 1. |
|----------------------------------------------------------------|----------------------------------------------------|

Environmental Liabilities

- | | |
|------------------------------------------------------------------------------------------------|----------------------------------------------------|
| 7. Errors in the Prior Period Environmental Liabilities for NNSA Sites (10-NS9-EL-01) | Reissued in FY 2012 – see repeat finding number 2. |
| 8. Omission of Prior Year Actual Costs (11-RL-EL-01) | Closed in FY 2012 |
| 9. Risk Register Documentation (11-HQ-EL-01) | Reissued in FY 2012 – see repeat finding number 3. |
| 10. Error in the Prior Period West Valley Environmental Liability (11-HQ-EL-02) | Closed in FY 2012 |
| 11. Miscalculation of the EM Program Direction Estimate (11-HQ-EL-03) | Closed in FY 2012 |

Environmental Liabilities for Active Facilities

- | | |
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| 12. Inaccuracies in the Active Facilities Data Collection System (11-Y12-AF-01) | Closed in FY 2012 |
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Grants

- | | |
|--------------------------------------------|----------------------------------------------------|
| 13. Grant Closeout (09-CH9-GL-01) | Reissued in FY 2012 – see repeat finding number 4. |
|--------------------------------------------|----------------------------------------------------|

Human Resources

- | | |
|-------------------------------------------------------------------------------|----------------------------------------------------|
| 14. Missing Personnel File (11-SNL-P-1) | Closed in FY 2012 |
| 15. Estimated Pension and Post-Retirement Asset Values (11-KCP-P-01) | Closed in FY 2012 |
| 16. Leave Approval Forms (11-HQ-H-01) | Reissued in FY 2012 – see repeat finding number 5. |

Inventory

- | | |
|-------------------------------------------------------------------------------------|-------------------|
| 17. Error in the Prior Period Stockpile Materials Inventory (11-INL-NM-01) | Closed in FY 2012 |
| 18. Inaccuracies in Standard Weapons Costs (11-Y12-NM-01) | Closed in FY 2012 |

Procurement

- | | |
|----------------------------------------------------------------------------------|----------------------------------------------------|
| 19. Incorrect Trading Partner Code (11-XN9-PRO-01) | Reissued in FY 2012 – see repeat finding number 6. |
| 20. Inaccuracies in the Capitalization of Disbursements (11-INL-PRO-01) | Closed in FY 2012 |

Property, Plant, & Equipment

- | | |
|-------------------------------------------------------------------------------------------|----------------------------------------------------|
| 21. Property, Plant, and Equipment Capitalization and Depreciation (11-SNL-F-01) | Reissued in FY 2012 – see repeat finding number 7. |
| 22. Existence of PP&E (11-NNSA-F-01) | Closed in FY 2012 |

Reissued Findings in FY 2012:

Environment, Safety & Health Compliance

Repeat Finding 1: Inaccuracies in the ES&H Liability (11-BNL-ESH-01)

In FY 2011, we noted four errors in the Brookhaven National Laboratory (BNL) Environment, Safety, & Health (ES&H) liability. As a result of these errors, BNL's ES&H liability was understated by \$8.6 million as of September 30, 2010 and \$2.3 million as of September 30, 2011. We recommended that the Manager, Brookhaven Site Office, direct BNL to develop and implement internal controls to ensure that transactions and adjustments affecting BNL's ES&H liability are accurately recorded and that estimates included in the liability are valid and adequately supported.

Our follow-up in FY 2012 found that BNL had not fully implemented all corrective actions. Specifically, we found that BNL had implemented a management review of supporting detail for the June 30, 2012 and September 30, 2012 BNL ES&H liability and implemented a reconciliation between the supporting detail and total reported liability. However, we noted that BNL had not yet completed its review of the ES&H project estimates. BNL plans to complete this review to ensure that accurate liability estimates are recorded and appropriate supporting documentation exists by February 2013. Therefore, this finding remains open.

Recommendation:

1. We continue to recommend that the Manager, Brookhaven Site Office, direct BNL to develop a procedure for the third and fourth quarter to review and affirm that the site's ES&H estimates are an accurate reflection of costs for planned corrective actions and are supported by adequate documentation.

Management Reaction:

Management concurs with the recommendation. Management will request that Brookhaven Science Associates, the M&O contractor at BNL, develop and implement a procedure for the third and fourth quarter to review and affirm that the estimates are an accurate reflection of costs for planned corrective actions and are supported by adequate documentation.

Environmental Liabilities

Repeat Finding 2: Errors in the Prior Period Environmental Liabilities for NNSA Sites (10-NS9-EL-01)

During the FY 2010 audit, we reported that NNSA recorded adjustments to its environmental liability estimates totaling approximately \$2.34 billion (absolute value) as a result of significant changes that occurred during FY 2009. During the FY 2011 audit, we reported that NNSA recorded adjustments to its environmental liability estimates totaling approximately \$91.8 million (absolute value) as a result of significant changes that occurred during FY 2010. We recommended that the NNSA Field CFO, in conjunction with all NNSA Site Offices, distribute OFCR's annual guidance and EM's Standard Operating Policies and Procedures (SOPP) to appropriate personnel within the NNSA organization in a timely manner and to ensure that NNSA contractors are appropriately following environmental liability guidance and applicable accounting standards. Additionally, we recommended that the NNSA Field CFO, in conjunction with all NNSA Site Offices, develop and implement policies and procedures that clearly

define the roles and responsibilities at all levels of environmental liabilities estimating and reporting to provide for appropriate review and monitoring of the various environmental liability estimates.

Our follow-up in FY 2012 indicated that NNSA has implemented corrective actions, including the distribution of environmental liability guidance to appropriate personnel, and completed its review of the various environmental liability estimates. However, during the FY 2012 reviews of the various environmental liability estimates, NNSA identified approximately \$280 million (absolute value) of adjustments that were not recorded in FY 2011. Therefore, this finding remains open.

Recommendation:

2. We continue to recommend that the NNSA Field CFO, in conjunction with all NNSA Site Offices, ensure that NNSA contractors are appropriately following environmental liability guidance, specifically OFCR's annual guidance and EM's SOPP, and applicable accounting standards and develop and implement policies and procedures that clearly define the roles and responsibilities at all levels of the environmental liabilities estimating and reporting to provide for appropriate review and monitoring of the various environmental liability estimates.

Management Reaction:

Management concurs with the recommendations. Management noted that the NNSA Office of Field Financial Management (OFFM) does not have oversight responsibilities to carry out environmental liability policies and procedures that define the roles and responsibilities for the NNSA Site Offices and M&O contractors. Instead, NNSA OFFM developed and follows its standard operating procedure that defines its role and responsibility for reviewing, reporting, and monitoring the various environmental liability estimates. Management noted that the Associate Administrator for Infrastructure and Operations (NA-00) and the NNSA Site Offices have oversight responsibility to carry out policies and procedures for estimating, reviewing, reporting, and monitoring the environmental liability estimates. OFFM will support NA-00, the NNSA Site Office, and M&O contractors in this effort.

Repeat Finding 3: Risk Register Documentation (11-HQ-EL-01)

During the FY 2011 audit, we reported that the assessed cost and schedule impacts for a number of risks tested during the audit were based on subject matter expert (SME) analyses. In certain instances, sites did not maintain supporting documentation for the SME analyses. While the assessment of certain risks requires significant judgment from SMEs, the basis for the judgments, in some cases, was not clearly documented or correlated with the estimates for the corresponding activities in the cost and schedule baselines.

In addition, in FY 2011, EM assigned teams of knowledgeable personnel from Headquarters to review and provide comments on the risk registers at each site, to help ensure the appropriateness and reasonableness of risk identification and assessment processes employee. We reported that although the EM review teams evaluated the sufficiency of the assessments for individual risks, EM did not evaluate the sufficiency of the contingency provisions calculated based on the project risk registers for projects and field sites taken as a whole.

Our follow-up in FY 2012 indicated that EM had implemented corrective actions, including the distribution of the updated environmental liability guidance, which discussed the need to have documentation to adequately support the basis and assumptions for the risks included in the risk registers. Additionally, we noted improvements in the documentation provided for most risks that were based on subject matter expert judgment in the FY 2011. In addition, EM's FY 2012 review of the risk registers at

the sites evaluated the consistency of similar risks across sites to determine whether the probability of likelihood and the cost and/or schedule impacts were comparable. However, EM's FY 2012 review of the risk registers at the sites did not evaluate the sufficiency of the contingency provision for the projects and field sites taken as a whole. Therefore, this finding remains open.

Recommendation:

3. We continue to recommend that the Director, Office of Strategic Planning & Analysis, implement policies and procedures to enhance the quality and consistency of project risk identification and assessment, including evaluating the sufficiency of the contingency provisions for field sites as a whole and the consistency of the calculated contingency provisions based on the project risk registers across the sites.

Management Reaction:

Management concurs with the recommendation. Management noted that it plans to continue its efforts to improve risk register documentation, including improving guidance and direction on the sites' risk identification and quantification processes with an emphasis on increased consistency, improving the EM independent project teams' (IPT) risk register reviews by using more specific review criteria focused on consistency by mission area, and identifying ways to make risk documentation from sites more readily available between risk managers and IPTs across the EM program. In addition, management plans to conduct a quantitative analysis of the probabilities and impacts of similar risks across the sites and on the amounts of contingency recorded by the sites. Finally, management plans to expand the annual environmental liability training provided by OFCR to include risk based contingencies support and documentation.

Grants

Repeat Finding 4: Grant Closeout (09-CH9-GL-01)

In each of the FY 2009, 2010, and 2011 audits, we identified one or more grants that had not been closed out timely by the Chicago Office. The Chicago Office has since closed out those grants.

In FY 2012, our review of a randomly selected sample of 13 American Recovery and Reinvestment Act (ARRA) and 12 non-ARRA grants did not identify any additional instances where grants had expired over 3 years ago. However, the Chicago Office has confirmed that the issue still exists and that there are grants that expired over three years ago, which have not yet been closed out. Therefore, this finding remains open.

Recommendation:

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

Management Reaction:

Management concurs with the recommendation. Management noted that timely closeout of awards remains an office priority. Management further noted that it has made significant progress in this area and has reduced the number of awards in closeout status by 33% from April 2011 to April 2012. Management noted that it has recently revised the closeout plan to utilize Headquarters and local support

service contractors to assist with closeout services and has reorganized ACQ in order to establish a team dedicated solely to the closeout of expired awards. ACQ has also developed enhanced workload management reports, which will make it easier for staff to manage their closeout workloads and for management to monitor closeout progress. Based upon these corrective actions, management expects that the necessary corrective actions will be completed on or about September 30, 2014.

Human Resources

Repeat Finding 5: Leave Approval Forms (11-HQ-H-01)

In FY 2011, our review of 51 payroll disbursements identified five disbursements 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. As a result of these errors, we recommended that the Director, Office of Human Capital Management (HCM), in coordination with the payroll staff, revise DOE Order 322.1C, *Pay and Leave Administration and Hours of Duty*, Section 4.d.3.d to ensure consistent application across the Department. Additionally, we recommended that the Director, Human Capital Policy Division, reinforce the requirements of DOE Order 322.1C, Section 4.d.3.d.

Our follow-up in FY 2012 found that HCM had properly revised DOE Order 322.1C, Section 4.d.3.d to ensure consistent application across the Department. However, our review of 25 payroll disbursements for the nine months ended June 30, 2012 identified two disbursements where the Department was unable to provide evidence of a completed OPM Form 71 or other acceptable method of approval. Therefore, this finding remains open.

Recommendation:

5. We continue to recommend that the Director, Human Capital Policy Division reinforce DOE Order 322.1C Section 4.d.(3)(d), as revised, through:
 - a. Reviewing all alternative methods approved by Departmental elements; and
 - b. Reviewing the training provided to supervisors on this subject to ensure that each organizational unit is aware that leave approvals must be completed and approved each time an employee requests leave exceeding one hour.

Management Reaction:

Management concurs with the recommendation. Management noted that when DOE Order 322.1C is revised, the Department 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. Management noted that the current "Supervisory Essentials Training Program" for supervisors and managers includes a module on time and attendance that covers the supervisor's role and responsibility and all reporting requirements for time and attendance. HCM will ensure this module is continued in any future updates to the training program.

Procurement

Repeat Finding 6: Incorrect Trading Partner Code (**11-XN9-PRO-01**)

In FY 2011, our review of a sample of 95 disbursements from the period October 1, 2010 through April 30, 2011 identified one invoice that was coded to the incorrect trading partner code. As a result of this error, we recommended that the Director, OFA, direct OFCR personnel to evaluate the adequacy of the annual trading partner review procedures in place to ensure that the control effectively mitigates the risk of material misstatements in trading partner balances.

Our follow-up in FY 2012 found that OFCR had not completed the corrective actions to the referenced finding. OFCR plans to complete their OMB Circular No. A-123 internal control evaluation and testing of key controls that mitigate the risks of material misstatements due to supplier record trading partner errors by December 31, 2012. Therefore, this finding remains open.

Recommendation:

6. We continue to recommend that the Director, OFA, direct OFCR personnel to evaluate the adequacy of the annual trading partner review procedures in place to ensure that the control effectively mitigates the risk of material misstatements of trading partner balances.

Management Reaction:

Management concurs with the recommendation. Management noted that the Department's evaluation of internal controls over the accuracy of trading partner information associated with supplier records is scheduled for completion in FY 2013. Additionally, management noted that its year-end review of FY 2012 intragovernmental costs identified no significant issues regarding supplier records.

Property, Plant, & Equipment

Repeat Finding 7: Property, Plant, and Equipment Capitalization and Depreciation (**11-SNL-F-01**)

In FY 2011, our review of a randomly selected sample of 30 asset additions at the Sandia National Laboratories (SNL) identified six assets that were not capitalized by SNL during the proper fiscal year based upon the asset's in-service date.

In FY 2012, our review of a randomly selected sample of 25 asset additions identified 16 assets that were not capitalized by SNL during the proper fiscal year. Rather, these assets were capitalized at a later date using the correct placed-in-service date. Therefore, this finding remains open.

Recommendation:

7. We continue to recommend the NNSA Field CFO, in conjunction with the Manager, Sandia Site Office, enhance existing policies and procedures to ensure the timely recording of capitalized assets.

Management Reaction:

Management concurs with the recommendation. Management noted that it has approved a schedule to have the backlog completed during FY 2013. Additionally, management noted that procedures have been updated to ensure the timely recording of capitalized assets.

ACRONYMS

ACQ	Office of Acquisition and Assistance
AFDCS	Active Facilities Data Collection System
AFR	Agency Financial Report
ARRA	American Recovery and Reinvestment Act
BEA	Battelle Energy Alliance, LLC
BMPC	Bechtel Marine Propulsion Corporation
BNL	Brookhaven National Laboratory
CAP	Corrective Action Plan
CFO	Chief Financial Officer
Department or DOE	Department of Energy
DIMS	Departmental Inventory Management System
EFASC	Energy Finance and Accounting Service Center
EM	Office of Environmental Management
ES&H	Environment, Safety, and Health
Fermilab	Fermi National Accelerator Laboratory
FIPP	Financial Institution Partnership Program
FMS	Financial Management Service
FSO	Fermi Site Office
FY	Fiscal Year
GFRS	Governmentwide Financial Report System
HCM	Office of Human Capital Management
INL	Idaho National Laboratory
IPABS	Integrated Planning, Accountability, and Budgeting System
IPT	Independent Project Team
IT	Information Technology
LANL	Los Alamos National Laboratory
LASO	Los Alamos Site Office
LBNL	Lawrence Berkeley National Laboratory
LM	Office of Legacy Management
LPO	Loan Programs Office
LTS	Long-Term Stewardship
LTS&M	Long-Term Surveillance and Maintenance
MT	Metric Tons
M&O	Management and Operating
NNSA	National Nuclear Security Administration
NRLFO	Naval Reactors Laboratory Field Office
OFA	Office of Finance and Accounting
OFFM	Office of Field Financial Management
OFCR	Office of Financial Control and Reporting
OMB	Office of Management and Budget
OPM	Office of Personnel Management
PCS	Permanent Change of Station
PO	Purchase Order
PP&E	Property, Plant, and Equipment
PRB	Post-Retirement Benefits other than Pensions
SGL	Standard General Ledger
SME	Subject Matter Expert
SOPP	Standard Operating Policies and Procedures
SNL	Sandia National Laboratories

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UDO
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University of California Office of the President
Undelivered Order
Y-12 National Security Complex

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