Office of Inspector General

OFFICE OF CYBER ASSESSMENTS AND DATA ANALYTICS

MANAGEMENT LETTER

THE DEPARTMENT OF ENERGY'S FISCAL YEAR 2024 CONSOLIDATED FINANCIAL STATEMENTS

DOE-OIG-25-13
February 2025

Department of Energy
Washington, DC 20585

February 20, 2025

MEMORANDUM FOR THE SECRETARY

FROM: Jennifer L. Quinones
Deputy Inspector General

SUBJECT: Management Letter: *The Department of Energy's Fiscal Year 2024 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 (KPMG) to perform the audit of The Department of Energy's Fiscal Year 2024 Consolidated Financial Statements. During the audit, KPMG 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 audit, KPMG identified certain deficiencies in internal control that were considered to be a material weakness and communicated this material weakness in the audit report dated December 12, 2024. Specifically, KPMG identified a material weakness over the environmental management liability estimate. KPMG determined that Office of Environmental Management Headquarters had not ensured that the environmental liability estimate was adequately supported with valid cost estimates, schedules, and assumptions. For instance, KPMG identified that three sites at the Portsmouth Paducah Project Office did not maintain documentation to support risks and cost estimates associated with $39.1 billion of its environmental liability. KPMG also noted that the lack of management review at the Office of River Protection contributed to an overstatement of $1.8 billion. Finally, the Savannah River Site did not ensure that supporting documentation was available for risks associated with two of its projects. The findings that led to the material weakness are included in the attached management letter under Exhibit A.

Although not considered to be significant deficiencies or material weaknesses, KPMG noted other deficiencies in internal control that are also included in the attached management letter. The attached letter contains 13 new findings, 1 repeat finding, and a total of 22 recommendations that were issued during the audit of The Department of Energy's Fiscal Year 2024 Consolidated Financial Statements. Except for one instance, management fully concurred with each of the recommendations included in the management letter and had taken or planned to take corrective actions. Management's responses are included with each finding.

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 Infrastructure, S3
Under Secretary for Science and Innovation, S4
Under Secretary for Nuclear Security and Administrator of the National Nuclear Security Administration, S5
Senior Advisor, Office of Environmental Management, EM-1
Deputy Chief Financial Officer, CF-2

Audit Report: DOE-OIG-25-13

Department financial reports are available for download on the Office of the Chief Financial Officer website: https://www.energy.gov/cfo/listings/agency-financial-reports.

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

January 29, 2025

Ms. Jennifer Quinones
Deputy Inspector General
U.S. Department of Energy
1000 Independence Ave, S.W.
Washington, D.C. 20585

Ms. Quinones:

In planning and performing our audit of the consolidated financial statements of the United States Department of Energy (i.e., the Department or DOE) as of and for the year ended September 30, 2024, 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. 24-02, *Audit Requirements for Federal Financial Statements*, we considered the Department's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Department's internal control. Accordingly, we do not express an opinion on the effectiveness of the Department's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and 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. However, as discussed below, we identified certain deficiencies in internal control that we consider to be a material weakness and in accordance with *Government Auditing Standards*, we communicated this material weakness in our report dated December 12, 2024.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

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. During our audit, we identified certain deficiencies in internal control that we consider to be a material weakness which was communicated in our report dated December 12, 2024 and those deficiencies that comprise the material weakness are included in Exhibit A of this letter.

Although not considered to be significant deficiencies or material weaknesses, we also noted the following other deficiencies in internal control during our audit which we would like to bring to your attention, that are included in Exhibit B. We have also presented the status of prior year findings in Exhibit C. The DOE Office of Inspector General (OIG) will issue a separate management letter addressing information technology control deficiencies.

The Department's responses to the deficiencies identified in our audit are included in Exhibits A and B. 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 communication is intended solely for the information and use of the DOE OIG and DOE management, and is not intended to be, and should not be, used by anyone other than these specified parties.

Very truly yours,

KPMG LLP

Index to Exhibits

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

OPEN FINDINGS RELATED TO FISCAL YEAR (FY) 2024 NOTICES OF FINDINGS AND RECOMMENDATIONS (NFR) – MATERIAL WEAKNESS

Exhibit A

Process Area	NFR Number	NFR Description	Page
Environmental Liabilities – Environmental Management	**24-HQ-EM-01**	Headquarters Review of Site Estimates	**A-2**
	24-PPPO-EM-01	Ineffective Controls Over the Review and Approval of the Risk Registers	**A-3**
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OPEN FINDINGS RELATED TO FY 2024 NFRs – CONTROL DEFICIENCIES

Exhibit B

Process Area	NFR Number	NFR Description	Page
Property Plant & Equipment	**24-PTX-PPE-01**	Lack of Readily Available Documentation – PP&E Additions	**B-1**
Financial Reporting	**24-SRNS-FRP-01**	Lack of Documentation around Internal Controls	**B-2**
Human Resources – Contractor Pensions	**24-SNL-P-01**	SNL Pensionable Earnings Reconciliation	**B-3**
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Active Facilitates	**24-AF-01-LANL**	Ineffective Controls Over the Review and Approval of the Active Facilities Data Collection System Data Inputs	**B-6**
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EXHIBIT A

MANAGEMENT LETTER

OPEN FINDINGS RELATED TO FISCAL YEAR (FY) 2024 NOTICES OF FINDINGS AND RECOMMENDATIONS (NFR) – MATERIAL WEAKNESS

Environmental Liabilities – Environmental Management

BACKGROUND:

The Department of Energy's Office of Environmental Management (Environmental Management) has been charged with the responsibility for 15 sites where cleanup work is ongoing (originally 107, with 92 sites having completed their cleanup missions) around the country. These sites are geographically dispersed and have diverse types of cleanup work in their missions, including cleanup of tank waste, transuranic and solid waste disposition, soil and groundwater remediation, spent nuclear fuel and nuclear materials cleanup, and facility deactivation and decommissioning. These activities are large scale, technically challenging, and logistically complex.

Environmental Management field sites have the responsibility to formulate, review, and support changes to their Environmental Management environmental liability in a timely, complete, and supportable manner in the period in which changes are known. Field personnel and site managers have the responsibility to review and approve changes to their site Environmental Management lifecycle and environmental liability estimates. Because of the unique complexities associated with the cleanup sites, Environmental Management Headquarters plays a key oversight role in ensuring that the environmental liability estimate is both accurate and well supported, is developed in accordance with accounting standards, considers the latest available information (including estimates developed by the site that are submitted in the lifecycle change control process), and is centrally compiled to include the full scope of Environmental Management without duplication or omissions. Examples of Environmental Management Headquarters environmental liability oversight activities include:

- Providing training on environmental liability reporting standards;
- Providing support and guidance to the field sites regarding the development and reporting of the Environmental Management liability estimate;
- Reviewing and approving Environmental Management liability estimate adjustments;
- Coordinating with site personnel to understand changes in the liability;
- Reviewing environmental liability documentation that supports the third quarter and fourth quarter environmental liability;
- Conducting lessons learned sessions across the Environmental Management complex;
- Conducting scout sessions in the second quarter of each year to survey site changes from the previous year;
- Conducting a thorough review of the third quarter and fourth quarter environmental liability data submitted by the sites; and
- Formulating Environmental Management Headquarters environmental liability contingencies where appropriate, as well as many other activities to ensure that the Environmental Management portion of the environmental liability is reasonable.

The Department's sites at Paducah, Kentucky, and Portsmouth, Ohio, operated gaseous diffusion plants that enriched uranium for use in nuclear weapons research and production, as well as for use in commercial nuclear power generation. Further, a Depleted Uranium Hexafluoride (DUF6) Conversion Project is at both locations. The Portsmouth/Paducah Project Office (PPPO), located in Lexington, Kentucky, provides oversight for the two sites and records the related environmental liabilities balances, including the provisions for contingency, for inclusion in the Department's consolidated financial statements.

The Department's Office of River Protection (ORP) was established by Congress in 1998 as a field office to manage the retrieval, treatment, and disposal of approximately 56 million gallons of radioactive tank waste currently stored in 177 underground tanks in the central part of the site. The tank waste is material left over from years of World War II and post-war production of nuclear weapons fuel. In support of this mission, ORP is responsible for the safe operation of the tank farms associated 200 Area facilities and construction and operation of the Hanford Tank Waste Treatment Plant and Immobilization Plant located in the central plateau. ORP and the Richland Operations Office were combined into the Hanford Field Office on October 1, 2024.

The Savannah River Site (SRS) was constructed in the early 1950s to produce materials such as plutonium and tritium used for nuclear weapons production. These activities resulted in chemical and radioactive wastes which are by-products of the nuclear material production processes. These wastes are treated, stored and, in some cases, disposed of at SRS. The National Nuclear Security Administration is the landlord at SRS and Environmental Management resides on the site until the Environmental Management cleanup mission is complete at SRS. SRS is managed and operated under a contract held by Savannah River Nuclear Solutions, LLC.

In developing the Environmental Management liability at SRS, SRS Environmental Management has implemented a risk management process to routinely review the risks associated with the remaining Environmental Management cleanup mission. As part of this process, Environmental Management SRS project owners hold risk elicitation meetings to make updates to the risks. The outcome of these meetings results in changes to existing risks, addition of risks, and closure of risks. Each individual risk is compiled to form the risk register which is run through the Crystal-Ball Monte Carlo analysis to calculate contingency at 80 percent confidence for each operating project. The sum of the contingency for all SRS Environmental Management projects is reported as part of the Environmental Management liability.

24-HQ-EM-01 – Headquarters Review of Site Estimates

Environmental Management Headquarters had not ensured that the environmental liability estimate was adequately supported with valid cost estimates, schedules, and assumptions. For instance, we identified that numerous sites did not maintain documentation to support risks and cost estimates associated with the environmental liability. In addition, we noted that the lack of management review at one site contributed to an environmental liability overstatement of $1.8 billion.

Environmental Management Headquarters had not performed an appropriate level of oversight of its field sites to ensure that the sites had readily available detailed and accurate documentation to support the environmental liability. In particular, Environmental Management Headquarters officials had not:

- Required field sites to develop their own policies and procedures that would address site-specific risks, assumptions, and conditions that would impact the environmental liability. Such policies and procedures should help ensure that estimates are adequately supported and reviewed to prevent and detect material misstatements of the Department's financial statements.
- Developed training for the field sites to sufficiently support their assumptions, risks, and cost estimates.
- Performed reviews of field site controls and documentation over their estimating process to ensure the accuracy and completeness of environmental liability estimates.

Ineffective Environmental Management policies and procedures at both Headquarters and field sites, in combination with ineffective oversight, increases the risk of material misstatement of the Department's financial statements and related notes (specifically related to the Environmental Management liability). As a result of the weaknesses identified, we found that:

- The PPPO's baseline estimate of $39.1 billion was not consistently supported by appropriate supporting documentation.
- The Portsmouth and DUF6 risks included in the PPPO's risk registers were not consistently calculated and supported by appropriate documentation requirements.

- The ORP's baseline liability estimate contained a $1.8 billion overstatement of the liability due to inadequate field site management review that failed to identify errors in the liability calculation.
- The SRS risk review controls for 25 risks associated with 2 project baseline summaries were not designed and implemented to ensure supporting documentation is available for each risk.

As a result of the issues noted in this NFR, the risk of the Department being unable to sufficiently and appropriately support financial statement balances was significantly increased. Further, without improvements, the risk of material misstatements to the Department's financial statements is increased.

RECOMMENDATION:

We recommend that the Senior Advisor, Office of Environmental Management:

1. Enhance Environmental Management Headquarters guidance to require field sites to develop policies and procedures related to developing and maintaining audit documentation. This should include the appropriate level of documentation needed to adequately support changes to environmental liability estimates, the timeliness of the availability of supporting documentation, and the expectations associated with adequate management reviews of all changes to the environmental liability.
2. Enhance and require annual Environmental Management Headquarters training on policies and procedures related to audit documentation necessary to support field site estimates.
3. Perform a periodic assessment of site management review controls at all Environmental Management field sites to identify areas of weakness and to aid the sites in addressing such weaknesses.

MANAGEMENT RESPONSE:

Environmental Management concurs with the FY 2024 Financial Statement Audit Findings and Recommendations. Environmental Management will enhance its guidance to require field sites to develop policies and procedures related to developing and maintaining adequate and timely audit documentation and ensuring adequate management reviews of all changes to the environmental liability. Environmental Management will enhance and require annual training on policies and procedures related to audit documentation necessary to support field site estimates. Environmental Management will also perform a periodic assessment of site management review controls at all Environmental Management field sites to identify areas of weakness and to aid the sites in addressing such weaknesses.

24-PPPO-EM-01 – Ineffective Controls Over the Review and Approval of Risk Registers

Controls designed to review and approve the Portsmouth and DUF6 risk registers did not operate effectively. Our substantive test work identified 24 exceptions related to 17 risks in both the Portsmouth and DUF6 risk registers. These exceptions fell into the following categories:

- 15 exceptions due to lack of supporting documentation for basis of the cost impact;
- 3 exceptions escalated an incorrect number of years;
- 5 exceptions where the cost impact did not agree to the supporting documentation; and
- 1 exception where the same cost was incorrectly applied to best case, most likely case, and worst case.

Portsmouth and DUF6 management, in conjunction with PPPO, did not perform ongoing monitoring of the operating effectiveness of the review and approval of the risk registers to identify these errors on their own. Additionally, Portsmouth and DUF6 management, in conjunction with PPPO, failed to retain documentation, transfer, and document organizational knowledge, either through turnover or other means, to properly support their risk determinations and basis of cost impact.

Ineffective operation of review controls over the risk register increases the risk that the environmental liability and the related footnote disclosure could be misstated. PPPO's Monte Carlo results were not calculated based on supported amounts. Due to the nature of the Monte Carlo analysis, the impact of these errors cannot be quantified to a precise monetary impact on the contingency calculated as a result.

RECOMMENDATION:

We recommend that the Manager, PPPO, direct the Deputy Manager for PPPO to:

4. Implement ongoing monitoring procedures to ensure that necessary controls over the review and approval of the risk register are operating effectively throughout the period; and
5. Design and implement processes to sufficiently document and maintain supporting documentation of inputs into each Federal risk, including those based on subject matter expert judgment.

MANAGEMENT RESPONSE:

PPPO concurs with the FY 2024 Financial Statement Audit Finding and Recommendations. PPPO will implement ongoing, documented monitoring procedures to ensure that necessary review and approval controls of the risk register are operating effectively. Additionally, PPPO will design and implement processes to ensure that the risk management process, including inputs into each Federal risk, risk registers, and subject matter expert judgement are sufficiently documented and supported.

24-PPPO-EM-02– Portsmouth/Paducah Project Office Baseline Testing

In reviewing the underlying data and assumptions supporting the baseline estimate, we identified multiple exceptions across several PPPO sites. Within the 80 samples across the sites, we noted the following:

- 20 of 34 samples at Paducah had exceptions with some having multiple errors. We noted that for 10 samples, management was unable to provide the documentation supporting the baseline estimate and instead provided FY 2022 or FY 2023 actuals or referenced a comparable site. Additionally, subject matter expert judgments for costs associated with 10 samples were unsupported. For one of these samples, management referenced Portsmouth work scope that was selected for testing and where exceptions were identified. Management also referenced Portsmouth work scope for another sample and was unable to provide supporting documentation.

- 19 of 25 samples at Portsmouth had exceptions. Specifically, for 8 samples, management was unable to demonstrate past actuals were entered into the estimating system or database completely and accurately. For 10 samples, management was unable to provide the documentation supporting the baseline estimate and/or the subject matter expert judgements were unsupported. For one sample, management was unable to demonstrate how a comparable site estimate was used.

- 9 of 21 samples at DUF6 had exceptions with some having multiple errors. For instance, subject matter expert judgments for costs associated with five samples were unsupported. For two other samples, the property identification number was incorrectly used in lieu of the building square feet. For three samples, management did not update the estimates to include readily available updated cost information. For three samples, management did not escalate costs to the appropriate FY. Management also improperly excluded items from the estimate for two sample items and did not utilize approved critical decision costs.

PPPO officials' controls over the preparation and review of the cost estimate were not properly designed and implemented. Specifically, officials did not adequately follow existing Environmental Management cost estimating and environmental liability guidance. In addition, PPPO did not maintain documentation of review controls over subject matter expert decisions and judgments and did not have documentation readily available to support their estimates.

Without properly designed and implanted controls over the documentation supporting the baseline estimate amounts, calculations, and judgements used, the risk exists that the PPPO environmental liability could be materially misstated. Ultimately, the overall environmental liability recorded in the consolidated financial statements and related note disclosures could be materially misstated.

RECOMMENDATION:

We recommend that the Manager, PPPO:

6. Establish review controls to maintain documentation over subject matter expert judgments made and data reviewed in the creation of, or updates to, baseline estimates;
7. Document the review controls and documentation requirements to support an estimate in a policy or procedure; and
8. Ensure EM Environmental Liability estimates are reasonable, documented, and meet the scope of Environmental Management's clean-up mission in accordance with Standard Operating Policies and Procedures #35 and cost estimating guidance.

MANAGEMENT RESPONSE:

PPPO concurs with the Fiscal Year 2024 Financial Statement Audit Finding and Recommendations. PPPO will identify and address audit findings' causes. Additionally, PPPO will conduct a self-assessment of internal policies and procedures over the liability estimate and update accordingly incorporating results and lessons learned. Lastly, PPPO will develop updated cost estimates that are reasonable, documented, and comprehensive.

24-ORP-EM-01– Review Controls Over Baseline Estimate

Management lacked effective internal control reviews at a level of precision necessary to identify and correct errors reported in the baseline estimate. Specifically, ORP's internal control procedures did not identify incorrect inputs in the 222-S Laboratory calculation which led to the baseline estimate being incorrectly recorded in the One Enterprise Management System.

The internal controls weakness occurred because the management review control in place did not identify that fringe and general and administrative escalation had been inappropriately included within the 222-S Laboratory estimate of the ORP-0014 (Tank Farms) baseline.

Without management review controls designed at an appropriate level of precision, the risk exists that management continue to not detect or correct errors which could result in a material misstatement recorded in the One Enterprise Management System and the Department's Annual Financial Report. As a result of the control failure noted, the environmental liability estimate at ORP was overstated by a known material misstatement of $1,844,456,231. Department management recorded a correcting entry for this error in the general ledger as a result of our test work.

RECOMMENDATION:

We recommend that the Manager, Hanford Field Office, direct the Assistant Manager for Tank Waste Operations to:

9. Refine or implement new management review internal controls to ensure environmental liability estimate calculations are performed and recorded appropriately and in accordance with policies and procedures.

MANAGEMENT RESPONSE:

Management concurs with the recommendation.

The Hanford Field Office Assistant Manager for Tank Waste Operations will refine or implement additional internal controls for review of baseline data prior to incorporation into environmental liability estimate.

The estimated completion date for the recommendation is May 31, 2025.

24-SRS-EM-01– Ineffective Internal Controls Over the Review of Risks

Adequate documentation for 25 risks across Project Baseline Summary 11C (15 risks) and Project Baseline Summary 30 (10 risks) was not maintained by Savannah River Nuclear Solutions, LLC in meeting minutes or other forms of documentation to support the routine review of, and changes to, the risks.

Internal controls related to the risk review process were not designed and implemented. Specifically, policies and procedures were not established to require evidence be maintained at a sufficient level of detail to support review, changes, and/or decisions on risks.

Risk review controls that are not designed and implemented to ensure supporting documentation is available for each risk increases the probability that the SRS Environmental Management contingency could be misstated.

RECOMMENDATION:

We recommend that the Manager, Savannah River Operations Office:

10. Ensure the risk review policies and procedures used by Savannah River Nuclear Solutions, LLC management are updated to include sufficient documentation of the review of, and changes to, risks as part of the risk management process; and
11. Ensure review processes utilized by the Integrated Life-Cycle Estimate Risk Manager are refined to provide more Federal oversight of the contractor-identified risks.

MANAGEMENT RESPONSE:

Management concurs with Recommendation 10. Environmental Management will direct SRNS management to refine SRS's *Operational Risk and Opportunity Management Process Manual 14B*, Procedure 2.1, to include the requirement to keep documentation regarding risk reviews.

Estimated Completion Date: December 20, 2024

Management concurs with Recommendation 11. The Integrated Life-Cycle Estimate Risk Manager is updating the procedures for the risk review process to include more Federal employee involvement. The procedures will be reviewed by Chief Financial Officer management to be implemented in FY 2025.

EXHIBIT B

MANAGEMENT LETTER

OPEN FINDINGS RELATED TO FISCAL YEAR (FY) 2024 NOTICES OF FINDINGS AND RECOMMENDATIONS (NFR) – CONTROL DEFICIENCIES

Property, Plant & Equipment (PP&E)

BACKGROUND:

The Department enters into large contracts with civilian commercial entities and universities to operate laboratories and other Department facilities. The Pantex Plant (Pantex), located near Amarillo, Texas, is the Nation's primary facility for the final assembly, dismantlement, and maintenance of nuclear weapons. At the time of our review, Consolidated Nuclear Security, LLC (CNS) managed and operated the facility, along with the Y-12 National Security Complex in Tennessee under a single contract from the Department's National Nuclear Security Administration (NNSA).

CNS was contracted through FY 2024 to perform day-to-day operations in support of Pantex's mission. CNS operated Pantex as an integrated contractor whose financial information is included in the Department's consolidated financial statements. Pantex's portion of CNS' contract expired on October 31, 2024. Following a 4-month transition period, PanTeXas Deterrence, LLC will be the future management and operating contractor for Pantex.

24-PTX-PPE-01 – Lack of Readily Available Documentation – PP&E Additions

During our test work over the FY 2024 interim PP&E additions at Pantex, we noted that management's control to have documentation readily available was not operating effectively. As a result, officials did not provide sufficient appropriate documentation (e.g. invoices and timecards) to support PP&E additions during the year in a timely manner.

CNS was unable to provide the requested documentation in a timely manner to support that it had adhered to the Government Accountability Office *Standards for Internal Control in the Federal Government* (Green Book) policies. According to CNS, the delay was caused by competing priorities resulting from the transition of Pantex operations out of its contract.

Ineffectively designed and implemented controls over maintaining readily available documentation for PP&E additions increases the risk of misstatement of the PP&E balance on the balance sheet and in the related note disclosures.

RECOMMENDATION:

We recommend that NNSA direct the management and operations contractor at Pantex to:

12. Operate controls to maintain PP&E additions documentation so that it is available for examination.

MANAGEMENT RESPONSE:

NNSA management concurs. NNSA has and will continue directing the contractor to operate controls to maintain PP&E additions documentation so that it is available for examination. NNSA management considers this action closed.

Financial Reporting

BACKGROUND:

The Department enters large contracts with civilian commercial entities and universities to operate laboratories and other Department facilities. The Savannah River Site, located near Aiken, South Carolina, is a key Department industrial complex dedicated to environmental cleanup, nuclear weapons stockpile stewardship, and nuclear materials disposition in support of the Nation's nuclear non-proliferation efforts. The Savannah River Site is managed and operated under a contract held by Savannah River Nuclear Solutions, LLC (SRNS).

24-SRNS-FRP-01 – Lack of Documentation around Internal Controls

Our test work identified that SRNS did not have complete and/or accurate support readily available to support its account balances. Specifically:

• Support for active and inactive pension samples was provided more than 50 days late;

• The property, plant, and equipment roll-forward information did not agree to the population provided or to the trial balance;

• The lease request was provided more than 40 days late; and

• The reconciliation initially provided was incomplete.

The identified weaknesses occurred because SRNS had not established policies and procedures to maintain adequate documentation as required by the Government Accountability Office Green Book policies and the *DOE Financial Management Handbook*. As a result, officials could not provide requested information in a timely manner to support financial information.

Controls over maintaining readily available documentation were not adhered to and increases the risk of misstatement of financial statement balances.

RECOMMENDATION:

We recommend the Manager, Savannah River Operations Office, direct SRNS to:

13. Ensure contractors are aware of and implement requirements to maintain and provide documentation in a timely manner.

MANAGEMENT RESPONSE:

Recommendation 13: Concur.

Management will direct SRNS to ensure contractors are aware of and implement requirements to maintain and provide documentation in a timely manner.

Human Resources – Contractor Pensions

BACKGROUND:

The Department of Energy enters into large contracts with civilian commercial entities and universities to operate laboratories and other Department facilities. Most of these contractors sponsor defined benefit pension and post-retirement benefits other than pension and post-retirement benefits (PRB) plans. The Department approves these contractors' pension and post-retirement benefits plans and is ultimately responsible for the allowable costs of funding these plans. As the Department is contractually obligated for reimbursing the allowable costs of the contractor contributions to the defined benefit pension and post-retirement benefits 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.

National Technology and Engineering Solutions of Sandia, LLC (NTESS) is tasked with managing and operating Sandia National Laboratories (SNL) on behalf of the Department. The census data file is prepared jointly by NTESS and a contracted third-party administrator, USI Consulting Group, for the pension ASC 715 and ERISA valuations. It is generated from the administrative records maintained by the third-party administrator and uses data pulled from the same PeopleSoft database used for payroll purposes. SNL is responsible for providing and understanding all key inputs to the plan for use in the actuary's estimate and is responsible for reviewing the census data file to ensure the data included is accurate.

SNL PRB plans include retiree medical, dental, and life insurance plans which are closed to new entrants. NTESS prepares the PRB census data file from data in the PeopleSoft database. Segal Consulting, SNL's actuary for the SNL PRB liability since 2017, uses the census data and eligibility requirements of the PRB plans in the valuation to estimate the future cost of benefits due to the eligible employees upon retirement. SNL is responsible for providing and understanding all key inputs to the plan used in the actuary's estimate and is responsible for reviewing the census data file to ensure the data included is accurate.

24-SNL-P-01 – SNL Pensionable Earnings Reconciliation

During our testwork over the pension census data at SNL, we identified two individuals out of a sample of 30 that had incorrect pensionable earnings listed in the census data file used in the actuarial pension liability valuation. We noted that one individual had incorrect pensionable earnings understated by $160,419.51, and another individual had pensionable earnings understated by $2,880. SNL's internal control to reconcile the census data file to supporting documentation was not operating effectively to produce an accurate census data file. At our request, SNL and USI Consulting Group further examined their census data file and determined that 149 out of 3,544 individuals included in the valuation had an incorrect pensionable earnings amount in the pension census data file used in the actuarial pension liability valuation.

Management's existing processes and controls did not adequately address the risk related to the accuracy of the census data at SNL. Management conducted control testing in April 2024 which identified failures and noted that the control was first performed on the January 2023 census data after having transferred much of the responsibility over the census data to the Plan Administrator. In the conclusion for that testing, ongoing issues with the vendor were noted.

Without effective review controls in place, the risk exists that SNL's actuarial pension liability valuation could be misstated due to inaccurate information in the census data file used by the actuary, potentially resulting in a misstatement in the financial statements.

RECOMMENDATION:

We recommend that the Manager, Sandia Field Office, director SNL to:

14. Enhance census data file reconciliation controls to ensure the accuracy of census data files used by the actuary in the actuarial pension liability valuation.

MANAGEMENT RESPONSE:

NNSA and NTESS disagree with the KPMG LLP conclusion that the internal control to reconcile the census data file to supporting documentation was not operating effectively. The Enterprise Risk Management test of OMB A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control*, determined that while the control did not prevent all errors, it effectively ensured that the data was reasonably free from error. This standard indicates a low likelihood of errors that would materially impact the overall integrity of the data. In contrast, while the basis for the auditors' criteria was not specified, they appear to be applying a standard that requires the data to be completely free from errors, which exceeds the Office of Management and Budget's criteria. While the basis for the auditors' criteria was not specified, this expectation is unrealistic and may not be feasible in practice.

The effect presented in the NFR that the pension liability "could be misstated" was assessed by NTESS. The earnings correction amounts from the 149 identified errors are approximately $500,000, which represents a 0.009 percent impact on the pension eligible earnings. This results in an increase to the NTESS Retirement Income Plan Pension Benefit Obligation liability of approximately $45,000 or 0.05 percent. As discussed with the auditors, NTESS already enhanced the data file reconciliation by proactively implementing updates to the controls surrounding pension earnings reviews. These enhancements will be reflected in the January 1, 2025, census data. The new controls include a thorough salary review comparing USI-reported data with NTESS-provided files, as well as a revised approach to sampling the census file data. These measures will continue to improve the accuracy and reliability of the census data moving forward.

AUDITOR COMMENTS:

We are classifying this finding as a control deficiency, not a significant deficiency or material weakness which are more severe than a control deficiency. Office of Management and Budget Circular A-123 defines a control deficiency as, "A control deficiency exists when the design, implementation, or operation of a control does not allow management or personnel, in the normal course of performing their assigned functions, to achieve control objectives and address related risks. A deficiency in design exists when (1) a control necessary to meet a control objective is missing or (2) an existing control is not properly designed so that even if the control operates as designed, the control objective would not be met. A deficiency in implementation exists when a properly designed control is not implemented correctly in the internal control system. A deficiency in operation exists when a properly designed control does not operate as designed, or when the person performing the control does not possess the necessary authority or competence to perform the control effectively."

We issued this NFR because the control operated with exceptions and failed to prevent inaccurate information from being used in the actuarial pension liability valuation. Additionally, management did not document a threshold for acceptable deviations within its pension earnings review control or an analysis to determine the acceptable materiality of deviations within the control. Therefore, we determined that the control was not operating as designed. A control deficiency is evaluated for the potential of a misstatement to occur. While we noted that the control deficiency could potentially result in a misstatement to the financial statements, we determined that the control deficiency would not cause a material misstatement in the financial statements and, therefore, did not consider this deficiency to be a significant deficiency or material weakness.

24-SNL-P-02 – SNL Monitoring Census Data Actuarial Inputs

While verifying the SNL census data used by the actuary for the PRB liability calculation, we found that the adjusted service dates in the October 1, 2023, census file did not match those used in the actuary's PRB liability calculation for 7 out of 30 active participants. Per discussions with Segal, SNL and KPMG LLP were informed that to calculate the FY 2024 SNL PRB liability the actuary used historical adjusted service dates from a 2017 active data file rather than the dates from the October 1, 2023, SNL census file. We compared the adjusted service dates from the 2017 active data file to the October 1, 2023, SNL census file and found that 893 out of 3,189 PRB active participants had updated adjusted service dates, with an average change of 441 days. As such, we determined that SNL's control over monitoring the data inputs used by the actuary in the SNL PRB liability was not operating effectively.

For the active population, SNL's actuary elected to use the adjusted service dates from the 2017 active data file for the SNL PRB calculation to estimate the future liability of benefits upon retirement. The actuary concluded that changes in the adjusted service date after 2017 did not impact the valuation because the SNL PRB plans are closed to new participants. As part of the Census Reconciliation process, the actuary returned the 2023 adjusted service dates that were provided; therefore, SNL management was unaware of the actuary's election to use the 2017 active data file rather than the October 1, 2023, SNL census file until the issue was raised during our actuarial confirmation procedures.

SNL's actuary recalculated the PRB liability using the adjusted service date from the October 1, 2023, SNL census file and determined that the FY 2024 PRB liability would increase from $542,844,081 to $544,820,279, an increase of $1,976,198 or 0.36 percent of the PRB liability. Without effective monitoring controls in place, the risk exists that the SNL PRB liability could be misstated due to the actuary not using adjusted service dates provided in the active census data file, potentially resulting in a misstatement in the financial statements.

RECOMMENDATION:

We recommend the Manager, Sandia Field Office, direct SNL to:

15. Monitor the data inputs used by the actuary for the SNL PRB liability calculation to include but not limited to performing reviews and reconciliations over the census data so that the data inputs used by the actuary may be agreed upon prior to the PRB liability calculation being performed.

MANAGEMENT RESPONSE:

The NNSA and SNL concur with the recommendation to enhance monitoring of the data inputs used by the actuary. While SNL had an internal control in place to reconcile the census data file, it proved ineffective when the actuary returned adjusted service dates that matched those in the original census file, rather than providing the actual dates utilized in the valuation.

The effect presented in the NFR indicates that the PRB liability "could be misstated." National Technology and Engineering Solutions of Sandia, LLC has assessed this concern. Although SNL was previously unaware that the actuary was using historical data in the valuation, this approach is valid and falls within the organizational discretion to maintain static data for estimating the liability of future retirement benefits for this closed group. KPMG LLP has also noted that written confirmation regarding the use of historical data would suffice to close this inquiry.

To prevent this issue from recurring, SNL is implementing the following improvements to prepare for the FY 2025 PRB valuation:

Written Confirmation from the Actuary: SNL will implement a formal process to obtain written confirmation from the actuary regarding the data utilized in the valuation. This confirmation will explicitly identify whether any historical data is being referenced or relied upon in the current valuation process.

Comprehensive Data Validation Process: As part of the Census Reconciliation process, the actuary will be required to provide a complete dataset of all actual data points utilized in the valuation. This will ensure that reconciliation efforts are not limited to only the participants being valued but encompass the entire dataset. SNL will conduct a thorough comparison of the actuary-provided data against the original census file. This validation step will confirm that the current year's data has been accurately utilized, unless otherwise noted and mutually agreed upon.

These control improvements will enhance the accuracy and reliability of the valuation processes moving forward.

Active Facilities

BACKGROUND:

Environmental liabilities for active facilities represent anticipated remediation costs for contaminated facilities still in active use (active facilities) and for retired contaminated facilities awaiting transfer to the Department's Office of Environmental Management. The Department's methodology for calculating the environmental liability estimate for active facilities uses data from the Active Facilities Database Collection System (AFDCS). The Department relies on field site personnel to review and approve relevant facility data inputs (e.g., gross square footage, principal contaminant, and building type) for each facility in AFDCS. To assist in the facility review, comparison reports between AFDCS and the Facilities Information Management System (FIMS), the Department's property management database, are run twice a year to identify facilities that have changed in one system but not the other. AFDCS flags these differences as required edits that site personnel must address in the AFDCS. AFDCS is configured to prevent data from being included in the liability estimate if required edits aren't made.

When data from all the sites have been approved by the Cognizant Federal Manager, the Office of Finance and Accounting (OFA) will review the data for quality and integrity. As a part of this review, OFA runs variance reports and distributes the variance reports to the field sites and requests that the sites verify the changes made to the AFDCS data inputs. After receiving and reviewing the applicable variance report, the sites can make changes to their data by requesting to unlock the record for each facility that requires an update. When the review is complete and data finalized, OFA will then run the active facility cost model to generate the estimated liability for active facilities. For interim and final financial reporting, all sites under Environmental Management must prepare a 'CLNUP_EM_Workbook' which includes any necessary adjustments to the AFDCS estimate for accurate reporting.

24-AF-01-LANL – Ineffective Controls Ove the Review and Approval of the Active Facilities Data Collection System Data Inputs

Controls designed to require the review, editing, and approval of the sites' AFDCS data inputs did not operate effectively. During our test work over AFDCS data inputs, we identified one "non-asbestos" facility at Los Alamos National Laboratory (LANL) where the gross square footage in AFDCS was inaccurate when compared to the size per supporting documentation. Upon further review and discussions with NNSA management and the site, it was determined that the facility size had not been updated in AFDCS when an update was made for the facility's size in FIMS during FY 2023. This resulted in an understatement of the active facilities liability of $23,600 as of September 30, 2023, and 2024.

Site personnel did not make the required adjustment to update the facility size in AFDCS after updating FIMS. OFA runs reports in February and July of every year comparing FIMS to AFDCS data to alert sites of changes to site data inputs that require updates. Upon receipt of these reports from OFA, the Site Data Contacts are required to review and make the required edits and updates to AFDCS data inputs and notify OFA of these changes. The Site Data Contacts at LANL did not properly review these variances, and as a result, the incorrect size remained in AFDCS and the FY 2024 fourth quarter active facilities liability.

We also noted that Los Alamos Field Office management, in conjunction with LANL, did not perform ongoing monitoring of the operating effectiveness of the review, edit, and approval of the AFDCS data input to identify these errors.

Ineffective operation of review controls over AFDCS data inputs increases the risk that the active facilities liability and the related footnote disclosure could be misstated. In this case, due to the misstatement in the AFDCS size, the FY 2024 active facilities liability had a factual understatement of $23,600. This resulted in an auditor-projected understatement of $1,976,680.76 which impacts U.S. Standard General Ledger 29950000 *Estimated Cleanup Cost Liability* and "Note 14. Environmental and Disposal Liabilities" of the Department's FY 2024 consolidated financial statements. Subsequent to the misstatements being identified, management recorded an adjustment to correct the factual portion of the identified misstatement for FY 2024 fourth quarter reporting.

RECOMMENDATION:

We recommend that the Manager, Los Alamos Field Office, in conjunction with LANL:

16. Implement ongoing monitoring procedures to ensure that necessary controls over active facilities reporting are operating effectively throughout the period.

MANAGEMENT RESPONSE:

LANL concurs that the square footage for Property Sequence Number 85279 was not updated in AFDCS in a timely manner. LANL has deployed a new and more accurate technology to measure square footage which resulted in the increased footprint for this building as recorded in FIMS. LANL reviewed the FY 2024 third quarter variance report referenced in the Cause section of this finding, and this facility did not appear in that variance report. As such, LANL did not update the square footage in AFDCS. We understand that the $23,600 understatement was calculated through the AFDCS algorithm and projected using KPMG LLP's sampling tool; therefore, we cannot confirm the accuracy of this calculation or the projected error.

LANL has already implemented new procedures to ensure that when square footage is changed in a facility in FIMS that AFDCS will be updated by LANL site data contact during AFDCS unlock periods, and the NNSA cognizant Federal manager will review and approve.

24-AF-01-LLNL – Ineffective Communication of Quality Information

The NNSA inappropriately recorded an adjustment to the "CLNUP_EM_Workbook' based on erroneous information provided by the site. As a result, the FY 2024 active facilities liability was misstated. During our test work over AFDCS data inputs, we identified one "non-asbestos" facility at Lawrence Livermore National Laboratory (LLNL) for which supporting documentation was provided by the Office of the Chief Financial Officer at LLNL indicating an incorrect gross square footage was recorded in AFDCS. When we inquired about this difference with OFA, OFA management worked with NNSA's Management and Budget, who confirmed the error with LLNL regarding the facility size reported in AFDCS. This error indicated an overstatement of $12,102,000 in the FY 2024 active facilities liability. NNSA then recorded an adjustment to the 'CLNUP_EM_Workbook' to correct the apparent overstatement of $12,102,000 in FY 2024 fourth quarter reporting.

Upon further discussions and review of supporting documentation with NNSA and LLNL, it was subsequently determined that the gross square footage for the "non-asbestos" facility at LLNL had been accurately reported in AFDCS. Therefore, NNSA had recorded an inaccurate adjustment to the 'CLNUP_EM_Workbook' to account for the apparent overstatement of $12,102,000. This ultimately resulted in an understatement of $12,102,000 in FY 2024 fourth quarter reporting.

Management's established reporting lines did not effectively ensure that LLNL, NNSA Program Offices, and individuals involved in the financial reporting and audit process possess the quality information necessary for each unit to fulfill its overall responsibilities. LLNL did not effectively communicate quality information related to the facility in question until after the adjustment had already been made. Additionally, management did not effectively communicate quality information across reporting lines to enable personnel involved in the financial reporting and audit process to achieve their objectives and support the internal control system related to financial reporting.

Ineffective operation of reporting lines and internal communication increases the risk that the financial statements and the related notes could be misstated. In this instance, the ineffective operation of controls resulted in NNSA recording an inaccurate adjustment to the 'CLNUP_EM_Workbook' to account for the overstatement of $12,102,000. This resulted in an understatement of $12,102,000 which impacts U.S. Standard General Ledger 29950000 *Estimated Cleanup Cost Liability* and "Note 14. Environmental and Disposal Liabilities" of the Department's FY 2024 consolidated financial statements.

RECOMMENDATION:

We recommend that Manager, Livermore Field Office, in conjunction with LLNL:

17. Reinforce proper reporting lines within their organizational structure to ensure that all sites, offices, and individuals involved in the financial reporting and audit process understand the proper interactions needed to fulfill their individual and the organization's overall responsibilities.

MANAGEMENT RESPONSE:

NNSA and LLNL concur with the NFR. During the audit of the active facilities cost area, KPMG LLP and MB-60 requested support for square footage for LS431. LLNL's Livermore Infrastructure group provided supporting legacy square footage documents to MB-60 personnel to be shared with the KPMG LLP auditors. LLNL attributes the inaccurate adjustment to three main factors:

• Misinterpretation of the intent behind the response.

• Insufficient timeframes to research and provide an informed reply, given that the relevant LLNL subject matter expert was unavailable.

• LLNL's inadequate challenge and failure to persist in contesting the prior period adjustment. LLNL has robust internal controls in place that validate FIMS data to a 95-percent confidence level, which helps prevent such errors. This situation was an anomaly resultant from the combination of the factors mentioned above.

<u>Inventory</u>

BACKGROUND:

The Department enters into large contracts with civilian commercial entities and universities to operate laboratories and other Department facilities. The Savannah River Site, located near Aiken, South Carolina, is a key Department industrial complex dedicated to environmental cleanup, nuclear weapons stockpile stewardship, and nuclear materials disposition in support of the Nation's nuclear non-proliferation efforts. The Savannah River Site is managed and operated under a contract held by SRNS.

24-SRNS-NM-01 – Lack of Supporting Documentation and Review Over Data Entry Inputs

During our test work, a misstatement of $77,000 was identified within the current year activity of the Department's nuclear materials inventory. The amount recorded could not be substantiated with SRNS because it did not retain historical copies of the calculations for the equivalent rates used in calculating the nuclear materials activity.

The posting error occurred because the existing control procedures for reviewing and validating data entries in underlying spreadsheets were not operating at a sufficient level of precision to effectively detect all errors. Additionally, data information owners were not readily available per the Government Accountability Office's Green Book Standards to provide cost component information when requested by the auditors. As a result, officials could not provide requested information in a timely manner to support the financial information.

The ineffective control over data entry review and validation resulted in an overstatement of approximately $77,000 in the inventory balance. Additionally, because of the lack of supporting documentation over the equivalent rate calculation, the recorded values could not be validated.

RECOMMENDATIONS:

We recommend that the Manager, Savannah River Operations Office, direct SRNS to:

18. Implement a comprehensive review protocol to ensure that data is thoroughly checked for accuracy before recording the financial transactions in the system of record; and
19. Ensure contractors are aware of and implement requirements to maintain and provide documentation in a timely manner

MANAGEMENT RESPONSE:

Management concurs with Recommendation 18. The Manager, Savannah River Operations Office, will direct SRNS to implement a comprehensive review protocol to ensure that data is thoroughly checked for accuracy before recording the financial transactions in the system of record.

Estimated Completion Date: December 15, 2024

Management concurs with Recommendation 19. The Manager, Savannah River Operations Office, will direct SRNS to ensure that it is aware of and implements requirements to maintain and provide documentation in a timely manner.

Estimated Completion Date: December 15, 2024

Environmental Liabilities – Environmental Management

BACKGROUND:

The Department's Environmental Management is responsible for developing cost estimates for environmental cleanup and reviewing all calculations of the environmental liability to ensure that the liability is complete and accurate. Cost estimates are prepared for the work required to perform cleanup activities as of September 30 of the current FY and are recorded in the Department's consolidated financial statements. Cost estimates are updated as needed due to changes in technological improvements/challenges, regulatory requirements, or other circumstances.

The Hanford Site is responsible for the cleanup of environmental legacy waste from over 40 years of nuclear weapons material production at the site. From 1943 to 1963, 9 plutonium production reactors were built along the Columbia River, and 5 processing facilities (canyons) were built on the Central Plateau, with more than

1,000 support facilities and radiological laboratories around the site. As such, multiple projects were established as part of the overall mission for the cleanup of environmental legacy waste. The vast work scope of the Richland Operations Office is included in project baselines to ensure that associated estimates are properly included in the overall environmental liability. The Richland Operations Office and the Department's Office of River Protection were combined into the Hanford Field Office on October 1, 2024.

24-RL-EM-01 – Documentation of Review Controls Over Baseline Estimates

Richland Operations Office's management review controls did not operate as designed for certain contractor and Federal baseline estimates. Management was not able to provide documentation to support assumptions and judgements used in certain baseline estimate calculations relating to Performance Baseline Summary 13 Solid Waste Stabilization and Disposition, Performance Baseline Summary 30 Groundwater/Vadose Zone Remediation, and Performance Baseline Summary 201 Hanford Site-Wide Services samples.

Richland Operations Office's management did not maintain documentation of review controls over certain subject matter experts' and specialists' decisions, assumptions, and judgements used in certain baseline estimate calculations for both contractor and Federal estimates. In addition, existing contracts between the Department and Richland Operations Office's contractors did not require contractors to maintain documentation to support certain baseline estimate calculations.

Without documentation of reviews over assumptions, calculations, and judgements used in baseline estimate calculations, the risk exists that the Richland Operations Office environmental liability could be misstated. Ultimately, the overall environmental liability recorded in the consolidated financial statements and related note disclosures could also be misstated.

RECOMMENDATIONS:

We recommend that the Manager, Hanford Field Office, direct the Assistant Manager for Mission Support to:

20. Refine existing review controls to maintain documentation over judgements made, assumptions utilized, and data reviewed in the creation of, or updates to, baseline estimates; and

21. Refine existing controls to maintain supporting documentation, including the review and confirmation of contractor baseline estimates, concurrence with data, subject matter expert judgement, assumptions used, changes to the estimates, and basis of all estimates.

MANAGEMENT RESPONSE:

Hanford Field Office management concurs with the recommendations. The Hanford Field Office Assistant Manager for Mission Support will refine existing review controls for baseline data and implement those controls for development of new estimates and updates to existing estimates.

The estimated completion date for the recommendations is July 31, 2025.

MANAGEMENT LETTER

STATUS OF PRIOR YEAR FINDINGS

Prior Year Findings Related to Internal Controls and Other Operational Matters *(with parenthetical references to findings)*

	Status as of September 30, 2024
Revenue	
A. Ineffective Monitoring of Stale UCO Balances (23-HQ-REV-01)	Closed in FY 2024
Environmental Management	
A. Ineffective Controls over the Review and Approval of the Risk Registers (23-PPPO-EM-01)	Closed in FY 2024
B. Review Controls over Baseline Changes (23-RL-EM-01)	Closed in FY 2024
C. Ineffective Controls over the Review and Approval of the Risk Registers (23-SRS-EM-01)	Closed in FY 2024
Contractor Pensions	
A. Census Data Member Status (23-LBNL-P-01)	Closed in FY 2024
Procurement	
A. Ineffective Monitoring of Stale UDO Balances (23-PPPO-PR-01)	Open

REISSUED FINDING IN FY 2024

Procurement

Repeat Finding: Ineffective Monitoring of Undelivered Orders Stale Balances (23-PPPO-PR-01)

BACKGROUND:

Department offices and laboratories can utilize contracts to procure goods and services from vendors including other Federal agencies, other entities within the Department, and non-Federal entities. When the requesting office executes a contract, a budgetary accounting entry is recorded in the Department's financial management system, Standard Accounting and Reporting System, to U.S. Standard General Ledger 48010000, Undelivered Orders - Obligations, Unpaid which represents funding on the contract that has been obligated but not yet costed (goods or services not yet received or performed). According to Department policies and procedures, obligations which have not had costing activity within the previous 12 months are considered stale balances.

Our FY 2023 test work identified that management did not have sufficient evidence readily available to demonstrate that undelivered order balances were valid as of September 30, 2023. During our FY 2023 test work over inactive undelivered orders, we identified that one of three samples had a balance of $680,667.85 and has been stale since fiscal year 2018. The period of performance on this work order expired in December 2014 and PPPO, the requesting office, began the process to de-obligate the funding in August 2018 with an amendment to the work order. However, as of September 30, 2023, this de-obligation has not been processed.

The Portsmouth/Paducah Project Office was not able to provide sufficient supporting documentation to support closure of this finding in FY 2024. Our review identified that the amount noted in the previously issued finding is still present in Portsmouth/Paducah Project Office's inactive undelivered orders population. We consider this finding to remain open until corrective actions have been implemented.

RECOMMENDATION:

We continue to recommend that the Manager, Portsmouth/Paducah Project Office:

22. Establish communication down and across the entity's reporting lines to readily obtain and provide evidence necessary to support the internal control system and demonstrate that "stale" undelivered order balances are still valid as of the year-end financial reporting date.

MANAGEMENT RESPONSE:

After testing was completed, PPPO gathered documents to support that the undelivered order stale balance should be considered active. The documents included a summary of the history of the undelivered order stale balance and a copy of the contract connected to the undelivered order stale balance.

While communication down and across entity reporting lines is effective and easily utilized to manage, minimize, and eliminate stale balances, those communication lines do not readily exist outside of our Department Organizational Element. The contract for this undelivered order stale balance is managed by the Office of Nuclear Energy, and PPPO falls under Environmental Management. To obtain assistance in clearing this undelivered order stale balance, PPPO has requested the assistance of Environmental Management Head of Contracting Activity to contact and gain cooperation from the Office managing the contract in question. PPPO will continue to work through Headquarters until this matter is resolved.

EXHIBIT D

MANAGEMENT LETTER

ACRONYMS

AFDCS	Active Facilities Database Collection System
CNS	Consolidated Nuclear Security, LLC
DOE/Department	Department of Energy
DUF6	Depleted Uranium Hexafluoride
FIMS	Facilities Information Management System
FY	Fiscal Year
Green Book	*Standards for Internal Control in the Federal Government*
LANL	Los Alamos National Laboratory
LBNL	Lawrence Berkeley National Laboratory
LLNL	Lawrence Livermore National Laboratory
NFR	Notice of Findings and Recommendations
NNSA	National Nuclear Security Administration
NTESS	National Technology and Engineering Solutions of Sandia, LLC
OFA	Office of Finance and Accounting
ORP	Office of River Protection
Pantex	Pantex Plant
PPPO	Portsmouth/Paducah Project Office
PP&E	Property, plant, & equipment
PRB	Postretirement Benefits Other Than Pensions
RL	Richland
SNL	Sandia National Laboratories
SRNS	Savannah River Nuclear Solutions, LLC
SRS	Savannah River Site
UCO	Unfilled customer orders
UDO	Undelivered Orders

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