U.S. DEPARTMENT OF ENERGY

Office of Inspector General

DOE-OIG-26-04 December 15, 2025

The Department of Energy's Fiscal Year 2025 Consolidated Financial Statements

MANAGEMENT LETTER

Department of Energy
Washington, DC 20585

December 15, 2025

MEMORANDUM FOR THE SECRETARY

SUBJECT: Management Letter: *The Department of Energy's Fiscal Year 2025 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, *The Department of Energy's Fiscal Year 2025 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, noncompliance with which 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 a significant deficiency. KPMG communicated these concerns in the audit report dated December 10, 2025. Specifically, KPMG identified a material weakness over the environmental management liability estimate driven by the inability to obtain sufficient appropriate audit evidence to support the liability and cost estimates for Portsmouth Paducah Project Office and Waste Isolation Pilot Plant, the contingency estimate for Savannah River Site, and the changes in liability and cost estimates for the Hanford Site as of and for the year ended September 30, 2025. The findings that led to the material weakness are included in the attached management letter under "Exhibit A." Additionally, the audit identified certain deficiencies in internal control that KPMG considered to be a significant deficiency related to access controls over the Department's various financial systems. The findings that led to the significant deficiency will be included in a separate management letter covering *The Department of Energy's Unclassified Cybersecurity Program for Fiscal Year 2025*.

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 9 new findings, 4 repeat findings, and a total of 27 recommendations that were issued during the audit, *The Department of Energy's Fiscal Year 2025 Consolidated Financial Statements*. Except for three findings, management 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.

DOE-OIG-26-04

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

Sarah Nelson
Assistant Inspector General
for Management
Performing the Duties of the Inspector General
Office of Inspector General

cc: Deputy Secretary
Chief of Staff
Under Secretary for Nuclear Security and Administrator of the National Nuclear Security Administration, S5
Assistant Secretary, Office of Environmental Management, EM-1
Chief Financial Officer, CF-1
Deputy Chief Financial Officer, CF-2

DOE OIG HIGHLIGHTS

The Department of Energy's Fiscal Year 2025 Consolidated Financial Statements

Why The Audit Was Performed

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, *The Department of Energy's Fiscal Year 2025 Consolidated Financial Statement*s. 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, noncompliance with which could have a direct and material effect on the consolidated financial statements.

KPMG performed the audit in accordance with generally accepted government auditing standards.

DOE-OIG-26-04

What the Audit Found

During the audit, KPMG identified certain deficiencies in internal control that were considered to be a material weakness and a significant deficiency. KPMG communicated these concerns in the audit report, dated December 10, 2025. Specifically, KPMG identified a material weakness over the environmental management liability estimate driven by the inability to obtain sufficient appropriate audit evidence to support the liability and cost estimates for Portsmouth Paducah Project Office and Waste Isolation Pilot Plant, the contingency estimate for Savannah River Site, and the changes in liability and cost estimates for the Hanford Site as of and for the year ended September 30, 2025. Additionally, the audit identified certain deficiencies in internal control that KPMG considered to be a significant deficiency related to access controls over the Department's various financial systems. The findings that led to the significant deficiency will be included in a separate management letter covering *The Department of Energy's Unclassified Cybersecurity Program for Fiscal Year 2025*.

What the Audit Recommends

The attached letter contains 9 new findings, 4 repeat findings, and a total of 27 recommendations that were issued during the audit, *The Department of Energy's Fiscal Year 2025 Consolidated Financial Statements*. Except for three findings, management 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.

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

December 11, 2025

Ms. Sarah Nelson
Assistant Inspector General for Management
Performing the Duties of the Inspector General
U.S. Department of Energy
1000 Independence Ave., S.W.
Washington, DC 20585

Ms. Nelson:

In planning and performing our audit of the consolidated financial statements of the United States Department of Energy (the Department or DOE) as of and for the year ended September 30, 2025, 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 a significant deficiency and in accordance with *Government Auditing Standards*, we communicated this material weakness and significant deficiency in our report dated December 11, 2025.

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 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 11, 2025 and those deficiencies that comprise the material weakness are included in Exhibit A of this letter.

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. During our audit, we identified certain deficiencies in internal control that we consider to be a significant deficiency

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which was communicated in our report dated December 11, 2025 and those deficiencies that comprise the significant deficiency are reported in a separate management letter that is issued by the DOE Office of the Inspector General (OIG) addressing information technology control deficiencies.

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 Department's written responses to the deficiencies identified in our audit are included in Exhibits A and B. The Department's written 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) 2025 NOTICES OF FINDINGS AND RECOMMENDATIONS (NFR) AND FY 2024 NFR REISSUANCES – MATERIAL WEAKNESS

Exhibit A

Process Area	NFR Number	NFR Description	Page
Environmental Liabilities – Environmental Management	**25-HQ-EM-FSA-01**	Headquarters Oversight Over the Review of Site Estimates	**A-2**
	24-PPPO-EM-01	Ineffective Controls Over the Review and Approval of Risk Registers	**A-3**
	24-PPPO-EM-02	Portsmouth/Paducah Project Office Baseline Testing	**A-4**
	25-SRS-EM-FSA-01	Ineffective Controls Over the Review and Approval of the Risks Registers	**A-5**
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OPEN FINDINGS RELATED TO FY 2025 NFRs – CONTROL DEFICIENCIES

Exhibit B

Process Area	NFR Number	NFR Description	Page
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	25-HQ-FRAP-FSA-02	Ineffective Control Over Review of Direct Journal Entries by Subject Matter Experts	**B-2**
Environmental Liabilities – Environmental Management	**25-ID-EM-FSA-01**	Ineffective Controls Over the Review and Approval of Risk Registers	**B-3**
Human Resources – Contractor Pensions	**25-LANL-P-FSA-01**	Errors in the Post-Retirement Benefits Other Than Pensions Census Data	**B-4**
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STATUS OF PRIOR YEAR FINDINGS **Exhibit C**

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Exhibit A

MANAGEMENT LETTER

OPEN FINDINGS RELATED TO FISCAL YEAR (FY) 2025 NOTICES OF FINDINGS AND RECOMMENDATIONS (NFR) AND FY 2024 NFR REISSUANCES – MATERIAL WEAKNESS

Environmental Liabilities – Environmental Management

BACKGROUND:

The Department's Office of Environmental Management (EM) 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.

EM field sites have the responsibility to formulate, review, and record changes to their EM environmental liability that are probable and measurable based on supporting documentation in the period in which changes are known. Field personnel and site managers have the responsibility to review and approve changes to their site EM lifecycle and environmental liability estimates. Because of the unique complexities associated with the cleanup sites, EM Headquarters (EM HQ) plays a key oversight role in ensuring that the environmental liability estimate is reasonable, well supported, 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 centrally compiled to include the full scope of EM without duplication or omissions. Examples of EM HQ environmental liability oversight activities include:

- Establishing policy and procedures necessary to ensure EM, including the EM field sites, develop, submit, and record a valid, complete, and documented EM liability estimate based on all available information;
- Directing EM field site staff on actions needed to comply with EM liability estimate requirements;
- Serving as the primary interface at HQ level between EM and non-EM entities, e.g., National Nuclear Security Administration, Office of Science, Legacy Management, Office of Inspector General, U.S. Government Accountability Office, Office of the Chief Financial Officer, other external auditors, etc., for EM liability estimate-related inquiries and responses, internal/external communications, audit coordination, etc.;
- Reviewing of all EM field site liability estimates to ensure the recorded EM liability estimate is reasonable, probable, accurate, well-documented, and complete for quarter 3 and quarter 4;
- Conducting periodic evaluations of these procedures to ensure compliance with established or approved policies, accounting standards, regulations, etc.; and
- Receiving copies of all EM liability estimate-related findings, aiding the entities in responding to findings, developing corrective actions to remediate the identified issues, and ensuring that corrective actions have been implemented in the next audit cycle.

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 Savanah 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 waste 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 EM resides on the site until the EM cleanup mission is complete at SRS. Savannah River Nuclear Solutions, LLC (SRNS) is the site non-lab management and operating contractor.

In developing the EM liability at SRS, SRS EM has implemented a risk management process to routinely review the risks associated with the remaining EM cleanup mission. As part of this process, EM 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 level for each operating project. The sum of the contingency for all SRS EM projects is reported as part of the EM liability.

The Waste Isolation Pilot Plant (WIPP) is the United States' only deep geologic repository for the disposal of Transuranic (TRU) waste generated by atomic defense activities. Per the Waste Isolation Pilot Plant Land Withdrawal Act, WIPP is limited to disposing of 6.2 million cubic feet of TRU waste and is expected to operate beyond 2080. Located in the Chihuahuan Desert, 33 miles southeast of Carlsbad, New Mexico, WIPP disposes of waste in panels nearly 2,150 feet underground within a 250-million-year-old salt bed. In FY 2013, Carlsbad Field Office (CBFO) updated its lifecycle baseline to incorporate total costs for disposal of all TRU waste expected to be shipped to WIPP, which includes legacy waste and newly generated waste. However, the EM Configuration Control Board did not approve the baseline, and CBFO created a liability estimate placeholder until an EM-only environmental liability estimate for WIPP is developed and approved. The placeholder estimate utilizes budgetary projections and an annual pro-rata split between legacy waste and newly generated waste planned for emplacement. The assumption is legacy waste refers to EM waste, and newly generated waste refers to non-EM waste, which is not included in the liability. As such, CBFO uses the pro-rata split to determine the amount of legacy waste to form the EM-only environmental liability. In FY 2025, the WIPP EM liability represents $9.2 billion of the total EM liability of $418 billion, or 2.2 percent.

The Hanford Field Office (Hanford) 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 grouped under Richland and Office of River Protection project baseline summaries were established as part of the overall mission for the cleanup of environmental legacy waste. The vast work scope of the Hanford Field Office is included in project baselines to ensure that associated estimates are properly included in the overall environmental liability.

25-HQ-EM-FSA-01 – Headquarters Oversight Over the Review of Site Estimates

EM HQ's monitoring controls over EM field site liability estimates were not operating effectively to ensure the recorded EM liability estimate was reasonable, probable, accurate, well-documented, and complete for the third and fourth quarters. Specifically, we noted the following:

1. PPPO – As also noted in fiscal year 2024, the baseline estimate and risks included in the site's contingency estimate were not adequately supported with valid cost estimates, schedules and/or assumptions. The EM HQ reviews of these estimates through the quarter 3 and quarter 4 field site EM Liability Workbooks were not performed at a sufficient level of detail, and in accordance with SOPP #35, to detect these issues.

2. Hanford –

    a. The site's quarter 3 and quarter 4 roll-forwards did not include a narrative explaining the change by Project Baseline Summary. The EM HQ reviews of these quarter 3 and quarter 4 roll-forwards did not detect and correct this issue.

    b. Fiscal year 2025 changes for Richland projects totaling $2.8 billion were not adequately supported with valid cost estimates, schedules and/or assumptions. The EM HQ reviews of these changes through the quarter 3 and quarter 4 field site EM Liability Workbooks were not performed at a sufficient level of detail, and in accordance with SOPP #35, to detect these issues.

3. SRS – Risks included in the site's contingency estimate were not adequately supported with valid cost estimates, schedules and/or assumptions. The EM HQ review of this estimate through the quarter 3 field site EM Liability Workbook was not performed at a sufficient level of detail, and in accordance with SOPP #35, to detect this issue.

EM HQ lacked sufficient resources to adequately perform all control activities identified in SOPP #35, including monitoring and enforcement of policies and procedures at field sites.

A material portion, $56.5 Billion, of the DOE Environmental and Disposal Liability balance as of September 30, 2025, was unsupported or inaccurate. This was comprised of the following amounts by field site:

- The PPPO baseline and contingency estimate of $40.6 billion was unsupported. Due to dependencies, the funding delay contingency of $1.8 billion and long-term stewardship liability of $1.6 billion were also unsupported.
- The Hanford baseline liability estimate contained year over year changes for the Richland projects totaling $2.8 billion where a conclusion could not be reached to support the baseline estimate. Hanford's year over year change in Richland projects funding delay of $464 million were also unsupported due to the dependencies on the baseline estimate.
- The SRS contingency estimate of $9.2 billion was unsupported.

We are unable to conclude on the completeness, existence, accuracy or proper valuation of this financial line item.

RECOMMENDATIONS:

We recommend that EM HQ management:

1. Conduct a comprehensive assessment of resource needs and establish a process to ensure sufficient staff are allocated based on needs; and
2. Ensure consistent implementation of policies and procedures at all site locations and EM HQ.

MANAGEMENT RESPONSE:

EM concurs with the FY 2025 Financial Statement Audit Finding and Recommendations. EM plans to take corrective actions to address the issues identified. Specifically, EM HQ will update SOPP #35 to better describe the scope of the EM HQ environmental liability oversight role and responsibilities, as well as the environmental liability development and reporting responsibilities of the EM field sites. EM HQ will continue to work with field sites to complete the corrective actions required to produce probable, measurable, and supportable environmental liability estimates.

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

Our FY 2025 review disclosed that the PPPO had not fully implemented its corrective actions related to its controls over the review and approval of the risk registers. For example, the Portsmouth site and Paducah site risk review controls could not be assessed as the Department did not provide any of the necessary control documentation during FY 2025, including the risk registers, Federal risk review meeting minutes, Risk Assessment Forms, and Risk Analysis Reports.

In addition, while the DUF6 site personnel provided documentation of their Federal risk review meetings, KPMG LLP noted that updates approved and documented in the meeting minutes were not accurately reflected in the subsequently provided redlined Risk Assessment Forms, June 30, 2025, risk register, or July 2025 Risk Analysis Report due to incorrect information in the meeting minutes. For example, we identified exceptions related to PA/PO-02 schedule minimum, most likely, and maximum updates. Those updates were incorrectly discussed and approved as old business for a different risk identification number, PA/PO-01, in the May 16, 2025, risk review meeting minutes.

Further, management did not meet their initial corrective action plan milestone dates to remediate the prior findings. Specifically, as of June 30, 2025, PPPO had only completed 10 of the 13 corrective actions planned. The remaining three planned actions are related to finalizing the risk processes for both Portsmouth and Paducah sites. Because the initial completion dates have passed, management is preparing an updated corrective action plan. As of September 30, 2025, the updated corrective action plan was not available for review

Because corrective actions are still ongoing, the findings noted will remain open until all corrective actions are fully implemented.

RECOMMENDATIONS:

We continue to recommend that the Acting Manager, PPPO, direct the Deputy Manager, PPPO to:

3. 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
4. Design and implement processes to sufficiently document and maintain supporting documentation of inputs into each Federal risk, including those based on subject matter expert (SME) judgment.

MANAGEMENT RESPONSE:

PPPO concurs with the FY 2025 Financial Statement Audit Finding and Recommendations. PPPO will continue implementing the current Corrective Action Plan in place, expected to be completed by June 30, 2026, consistent with the Milestone Revision Request submitted to the Office of the Chief Financial Officer along with the quarter 4 FY 2025 Quarterly Status Report.

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

Our FY 2025 review disclosed that the PPPO had not fully implemented its corrective actions related to its environmental baseline estimates. For example, the Portsmouth and Paducah site baseline estimates could not be assessed as the Department did not deliver estimate populations for either site during FY 2025.

In addition, the DUF6 baseline estimate was determined to be remediated by Department management; however, when KPMG LLP performed its substantive testwork over the provided baseline estimate population, exceptions were noted. In particular, 2 out of 32 samples had escalated costs that should not have been escalated, and 4 out of 32 samples had minor differences between costs recorded and supporting documentation. Furthermore, KPMG LLP was unable to conclude on an additional four samples related to the DUF6 baseline estimate based on the interdependencies, such as the deactivation and demolition costs and schedule and shared services, between the DUF6, Paducah, and Portsmouth site baseline estimates.

Further, management did not meet their initial corrective action plan milestone dates to remediate the prior findings. Specifically, as of June 30, 2025, PPPO had only completed 16 of the 23 corrective actions planned. Of the remaining seven planned actions, two were related to finalizing the baselines for the Portsmouth and Paducah sites. Because the initial completion dates have passed, management is preparing an updated corrective action plan. As of September 30, 2025, the updated corrective action plan was not available for review.

Because corrective actions are still ongoing, the findings noted remain open until all corrective actions are fully implemented.

RECOMMENDATIONS:

We continue to recommend that the Acting Manager, PPPO:

5. Establish review controls to maintain documentation over SME judgments made and data reviewed in the creation of, or updates to, baseline estimates;
6. Document the review controls and documentation requirements to support an estimate in a policy or procedure; and
7. Ensure the EM Environmental Liability estimates are reasonable, documented, and meet the scope of the EM clean-up mission in accordance with SOPP #35 and cost estimating guidance.

MANAGEMENT RESPONSE:

PPPO concurs with the FY 2025 Financial Statement Audit Finding and Recommendations. PPPO will continue implementing the current Corrective Action Plan in place, expected to be completed by June 30, 2026, consistent with the Milestone Revision Request submitted to the Office of the Chief Financial Officer along with the quarter 4 FY 2025 Quarterly Status Report.

25-SRS-EM-FSA-01 – Ineffective Controls Over the Review and Approval of the Risk Registers

Controls designed to review and approve the risk registers were not designed and operated effectively. Our substantive testwork identified 23 exceptions related to risks in 3 Project Baseline Summaries (11C, 13, and 30). These exceptions fell into the following categories:

- 4 exceptions due to differences between the recorded cost impact and the cost per supporting documentation for basis of the cost impact; and
- 19 exceptions due to the lack of supporting documentation for basis of compact impact.

In FY 2024, we issued NFR 24-SRS-EM-01. We noted that adequate documentation was not maintained by SRNS in meeting minutes or other forms of documentation to support the routine review of, and changes to, the risks. Missing documentation was identified in Project Baseline Summary 11C and 30. Management documented and implemented a Corrective Action Plan in December of 2024 to increase Federal oversight of contractor risk. However, while meeting minutes were provided to evidence the risk meetings in FY 2025, the level of detail in the documented meeting minutes and the supporting documentation maintained by SRNS was insufficient to assess the basis of cost impact for some of the risks selected for testing.

Internal controls related to the risk review process were not effectively designed and implemented. Specifically, policies and procedures were not specific enough to define the required or expected level of detail to support independent assessment, changes, and/or decisions on risks. Additionally, SRS EM failed to retain documentation to properly support their risk determinations and basis of the 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. The 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.

RECOMMENDATIONS:

We recommend that the Manager, Savannah River Operations Office, and the Manager, Savannah River Field Office:

8. Ensure the risk review policies and procedures used by SRNS management are updated to include sufficient documentation of the review of, and changes to, risks as part of the risk management process; and

9. Design and implement processes to sufficiently document and maintain supporting documentation of inputs into each risk, including those based on SME judgment.

MANAGEMENT RESPONSE:

Management concurs with Recommendation 8. EM will coordinate with the National Nuclear Security Administration appropriately to ensure the risk review policies and procedures used by SRNS management are updated to include sufficient documentation of the review of, and changes to, risks as part of the risk management process.

Estimated Completion Date: March 31, 2026

Management concurs with Recommendation 9. The Integrated Lifecycle Estimate Risk Manager will design and implement processes to sufficiently document and maintain supporting documentation of inputs into each risk, including those based on SME judgement. The procedures will be reviewed by Chief Financial Officer management to be implemented in FY 2026.

Estimated Completion Date: March 31, 2026

25-WIPP-EM-FSA-01 – Lack of Supporting Documentation for the WIPP Waste Split

In reviewing the annual placeholder for the FY 2025 CBFO EM environmental liability, EM HQ and the CBFO were unable to provide adequate supporting documentation to support the current pro-rata waste split. Management provided a whitepaper stating that the 2024 Annual TRU Waste Inventory Report and 2024 National TRU Waste Management Plan support the reasonableness of the ratios used in the WIPP estimate; however, management did not provide an analysis of the data in the reports to demonstrate management's assertion that the reports support the reasonableness of the ratios used. As such, we are unable to determine whether the pro-rata waste split is the most current available information and conclude on the accuracy and completeness of the estimate.

EM HQ and CBFO do not have properly designed and implemented controls over maintaining supporting documentation for the WIPP estimate. Additionally, CBFO has not updated the Federal Site Lifecycle Estimate for the EM liability; therefore, an outdated placeholder continues to be used.

Without properly designed and implemented controls over the documentation supporting the WIPP pro-rata waste split, the risk exists that the WIPP 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.

RECOMMENDATIONS:

We recommend that EM HQ in coordination with the Manager, CBFO:

10. Establish review controls to maintain documentation over assumptions and inputs used in the WIPP estimate, including the waste split;
11. Update the methodology of the WIPP placeholder estimate to align with the most current and available information; and
12. Approve the WIPP EM Federal Site Lifecycle Estimate.

MANAGEMENT RESPONSE:

EM does not concur with the finding. In 2013, the methodology and the factors used in the WIPP placeholder were audited by KPMG LLP. Since 2013, the factors used in the placeholder have been updated every year with CBFO points of contact, including the site manager, and the EM Headquarters National TRU Waste Management SME. Further, reports and documentation were reviewed every year for information that was deemed more current or more likely than the information in the placeholder. EM has provided information every year to KPMG LLP to support changes to the factors and provides evidence of due diligence over the placeholder estimate. The WIPP placeholder estimate is for a project that extends to 2083, with significant uncertainties of the amounts and types of waste that be shipped and disposed of at WIPP decades in the future. For instance, the President's Executive Order on surplus plutonium could significantly reduce the magnitude of waste that is currently planned for disposal at WIPP. Furthermore, EM is purposefully being conservative by choosing not to update to the legacy/newly-generated waste splits in the 10-year window of the National TRU Waste Management Plan, which would have resulted in over $2 billion downward adjustment to the WIPP placeholder estimate. EM is not willing to reduce the placeholder by 25 percent based on projections that are in the short-term when the long-term is so uncertain. In EM's view, the information included in the placeholder is still the most reasonable and best information given the uncertainty regarding waste splits and the fact that we have no better information to support a change to the estimate.

AUDITOR COMMENTS:

Management's assertion that the placeholder factors have been updated annually and reviewed for more current information is not supported by the evidence provided during the audit. While whitepapers were provided stating that certain reports support the ratios used, no analysis, meeting minutes, or working papers were provided to demonstrate how management arrived at this conclusion.

25-HAN-EM-FSA-01 – Ineffective Controls over Baseline Estimate Changes

Hanford's management review controls over their baseline estimate did not operate as designed as management could not readily provide documentation to support assumptions, judgements, and balances used in certain calculations. In reviewing the underlying data and assumptions supporting the baseline estimate, we identified multiple exceptions. Of the 116 samples tested related to Hanford, we noted the following:

- Thirteen of the 94 Baseline Change Request activity samples had exceptions. Of the 13 samples:
  - Duration was inconsistently calculated for 7 samples selected;
  - Sufficient supporting documentation was not provided for 4 samples selected; and
  - Underlying information was inaccurately recorded for 2 samples selected.

- Twelve of the 22 Other Hanford Contractor activity samples had exceptions. Of the 12 samples:
  - Sufficient underlying supporting documentation was not provided or did not substantiate the underlying estimate calculation for 11 samples; and
  - Point estimate information did not agree to the recorded estimate for one sample.

Additionally, the site's third and fourth quarter roll-forwards were not developed based on the standard EM HQ roll-forward template and did not show changes by Project Baseline Structure or provide a narrative of the reasons for the changes.

Hanford did not establish site-specific policies and procedures that align with EM HQ's expectations to maintain consistent documentation of SMEs' decisions. Management also did not maintain documentation of review over certain SME decisions, assumptions, and judgements used in certain baseline estimate calculations and balances. This is, in part, due to existing contracts between the Department and Hanford's contractors not requiring contractors to maintain adequate documentation to support baseline estimate calculations.

Additionally, management's existing baseline change controls were not designed at a precise level to identify and capture other than inconsequential errors within estimate calculations for Federal and contractor baseline changes.

Finally, Hanford failed to establish an adequate contingency plan for the loss of SMEs and key personnel. Such a plan is essential to ensure that consistent, reliable, and relevant information is provided efficiently, especially when detailing year-over-year changes as well as all other changes.

Hanford did not accurately calculate and was unable to appropriately support their baseline estimate as required by EM HQ's *Cost Estimate Development Handbook*. As a result, misstatements in the balance were identified which did not allow conclusion on year-over-year changes in the Hanford environmental liability baseline estimate of approximately $2.8 billion for Hanford Richland projects.

RECOMMENDATIONS:

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

13. Establish, formalize, and document policies and procedures for consistent documentation of SME decisions;
14. Refine existing controls to maintain supporting documentation, including the review and confirmation of Federal and contractor baseline estimates, concurrence with data, SME judgement, assumptions used, changes to the estimates, and basis of all estimates;
15. Refine existing controls to ensure review is at a precise level to detect and correct other than inconsequential misstatement in estimate calculations;
16. Establish, formalize, and document a contingency plan for the loss and/or change in SMEs and key personnel; and
17. Comply with the EM HQ's policies and procedures for the preparation of the third and fourth quarter roll-forwards.

MANAGEMENT RESPONSE:

Hanford management does not concur in whole with KPMG finding 25-HAN-EM-FSA-01 and associated recommendations. The Hanford Field Office affirms that its environmental liability estimate is credible, well-documented, accurate, and comprehensive, in full alignment with the four characteristics of a high-quality estimate as defined in the Government Accountability Office (GAO) *Cost Estimating and Assessment Guide*. Management does not concur with the recommendations for the following reasons.

1. Establish, formalize, and document policies and procedures for consistent documentation of SME decisions.

Management Response: The use of Cost Estimate Input Sheets and SME informed allocations is consistent with contract requirements and industry best practices, ensuring traceability and defensibility of cost elements. Hanford already refined process requirements to require additional substantiation of basis of estimate documentation for new and revised estimates and corrected the estimates identified in the prior audit and will continue enhancement of supporting documentation as estimates are developed or refined.

2. Refine existing controls to maintain supporting documentation, including the review and confirmation of Federal and contractor baseline estimates, concurrence with data, SME judgement, assumptions used, changes to the estimates, and basis of all estimates.

Management Response: The estimate is developed using a structured and repeatable process consistent with the DOE EM *Cost Estimate Development Handbook* and grounded in a robust Baseline Change Request process, incorporating documented approvals, SME input, and quantitative risk analysis to address cost and schedule uncertainties. The estimate integrates historical data, parametric models, and assemblies, and is supported by traceable documentation and assumptions, as required by both DOE and GAO guidance. The challenge to SME judgment (e.g., a 2.3 percent additional allowance for infrastructure reliability cost estimate over the prior year experience) disregards the practical necessity of such adjustments in managing aging systems critical to cleanup and defending an appropriate budget request and unduly focused on documentation providing the "why" it was included. Hanford's estimates are built on defensible assumptions, refined through DOE approved methodologies, and supported by historical data.

3. Refine existing controls to ensure review is at a precise level to detect and correct other than inconsequential misstatement in estimate calculations.

Management Response: Management does not concur with the audit's conclusions, which reflect a limited understanding of the complexity of Hanford's estimating processes. The audit's reliance on simplified recalculations using Microsoft Excel, without full context of the estimating logic or contractually accepted methodologies, led to overstated concerns. The focus on immaterial variances, such as a 0.42-year duration rounding or a 213-hour duplication, fails to recognize the scale and rigor of lifecycle estimates supporting a multi-billion-dollar liability. While the audit identified a limited number of exceptions, these were either immaterial errors, already addressed through fiscal year 2024 corrective actions, or captured within the estimate's built-in risk and contingency allowances. Hanford's estimates are built on defensible assumptions, refined through DOE approved methodologies, and supported by historical data. The inclusion of $12.7B (50 percent confidence level) in contingency for RL-0201 alone reflects a conservative approach to uncertainty, consistent with GAO's emphasis on risk-adjusted estimating and DOE's requirement for confidence levels in lifecycle estimates. It further underscores the conservative and comprehensive nature of the estimate for which active cleanup is projected through 2086 and involves decisions specific to treatment and remediation still not resolved. Minor discrepancies, such as rounding differences or isolated data entry errors, fall well within acceptable estimating tolerances and do not compromise the integrity of the overall estimate.

4. Establish, formalize, and document a contingency plan for the loss and/or change in SMEs and key personnel.

Management Response: Establishing staffing plans for loss of personnel is not a local Hanford function. This function is provided through DOE's service center (Human Capital) that creates and approves DOE staffing plans. Notwithstanding, Hanford established, formalized, and documented a Financial Statement succession plan on February 24, 2025, in support of the Fiscal Year 2024 EM Corrective Action under *Strengthen*

Environmental Liability Oversight. Despite significant staffing changes from the Deferred Resignation Program, Hanford has institutionalized process improvements and enhanced documentation protocols, demonstrating resilience and a continued commitment to estimate quality under challenging conditions.

5. Comply with the EM Headquarters' policies and procedures for the preparation of the third and fourth quarter roll-forwards.

Management Response: Hanford is in full compliance with EM's Standard Operating Policies and Procedures *#35 Annual Environmental Liability Estimate*. As noted in the criteria, EM's Standard Operating Policies and Procedures #35 Annual Environmental Liability Estimate Section 11.b.vii. states that sites have the responsibility to "Complete, and submit to EM HQ, a roll-forward at Qtr. 3 and Qtr. 4. The roll-forward is to be developed based on the standard EM HQ roll-forward template, which shows changes by PBS and provide a narrative of the reason(s) for the changes." Hanford's roll-forward is based on the standard EM HQ roll-forward template which shows changes by project baseline summary (PBS) and provides narrative for the reasons for the changes (i.e., variance explanations). The procedure wording "based on" clearly articulates that Hanford is not required to use the standard EM HQ roll-forward template but can instead use its own version.

AUDITOR COMMENTS:

While we acknowledge Management's response, our audit found that policies for documenting estimates were not consistently applied and the rationale for SME decisions was often missing, which undermines the defensibility of the estimates. The errors identified through our statistical sampling represent broader systemic issues and cannot be dismissed as immaterial or absorbed by contingency funds, as these are intended for future uncertainties, not existing inaccuracies. Furthermore, the roll-forward reports did not provide the required narrative explanations for cost changes by project, failing to comply with EM Headquarters' policy. Addressing these fundamental gaps in documentation, justification, and compliance is essential to ensuring the integrity of the overall estimate.

Exhibit B

MANAGEMENT LETTER

OPEN FINDINGS RELATED TO FY 2025 NFRs – CONTROL DEFICIENCIES

Financial Reporting

BACKGROUND:

The Department records manual journal entries in its primary accounting system, the Standard Accounting and Reporting System (STARS). STARS does not enforce segregation of duties over journal entry posting as the system allows the same individual to create and post a journal entry. The Office of Finance and Accounting's (OFA) guidance, Review of Direct General Ledger (GL) Entries Entered and Posted by the Same STARS Users, outlines the limited circumstances where this segregation of duties may not be practicable. To address both the risk of fraud and the risk of error related to this lack of segregation of duties, OFA has established controls to review all journal entries with the same creator and poster to ensure the journal entry was appropriate, supported, and correct. During FY 2025, OFA utilized two different controls to meet this objective.

From October 1, 2024, to April 30, 2025, an OFA employee performed a review of each manual journal entry that was identified as having the same creator and poster. The OFA employee received an automated email alert when a journal entry was posted in STARS where the batch creator and batch poster were the same. The OFA employee maintained a manual tracking spreadsheet of all journal entry batches requiring follow-up. The tracker was validated monthly against a STARS report, DOE Journal Detail Entry by User, customized to show only journal entry batches with the same creator and poster. The OFA employee would inspect the entry, follow up with the appropriate individuals with knowledge of the transaction, determine if the entry was valid, and work to obtain the appropriate documentation, if necessary. At the time of the walkthrough, this individual was no longer employed by the Department, and the Department did not maintain the records of operation of the control in the current fiscal year.

A new control was implemented on May 1, 2025, and retroactively applied to all entries posted from October 1, 2024, on. In the new control, journal entries created and posted by the same user were reviewed by the OFA Funds Management Team using daily automated analysis from STARS. This information was loaded into an Infor Risk and Compliance (IRC) dashboard based on defined rules that exclude automated and integrated contractor related entries by journal entry category. Exceptions to the defined rules, including entries created and posted by the same user, are included on the IRC dashboard for further action. For entries identified as requiring follow up, the Funds Management team sends an email to the user and user's supervisor to remind them of the Department's policy that journal entries should have separate creators and posters. Supervisors are required to respond and confirm that it was appropriate that the entry was posted by the preparer, the journal entry is supported, and the journal has been reviewed. Supervisor responses are saved to a shared drive. and the exception is marked as closed in the dashboard with comments describing the resolution. A monthly report summarizing all exceptions and their status is reviewed by the Funds Management Team supervisor and retained.

To address the risk that fraudulent or invalid journal entries are posted, the Department has implemented a control requiring a completed Direct GL Entry Review Form by a SME for certain GL entries posted by the Headquarters office. This includes entries in STARS that are greater than or equal to $500 million or posted to a prior period with (1) Journal Entry (JE) Source: 'ADI JE Adjustment,' 'Manual,' or 'Elimination' and (2) JE Category: 'Adjustment,' 'TP Correction,' 'Elimination,' or 'Environmental Liability.'

25- HQ FRAP-FSA-01 – Weakness in the Operating Effectiveness of Journal Entry Segregation of Duties Control

Controls over the review of direct journal entries with the same creator and poster were not operating effectively for the period under audit. Specifically, for the 16 entries identified by the dashboard for the first operating period (May 2025), we identified one instance where the control was not reviewed in accordance with the standard operating procedure, Direct Journal Entry Controls Standard Operating Procedure. This entry was created October 1, 2024, and posted to the period SEP-24.

The OFA Funds Management Team did not reach out to the supervisor or user who created the journal entry as both individuals were no longer employed at the Department, and no additional variance resolution procedures were included in the standard operating procedure, which did not clearly define the control objective.

Journal entry review controls that are not operating effectively increase the possibility that fraudulent or invalid postings are made to the general ledger and weaken internal control over financial reporting. As the journal entry was created and posted by the same user, appropriate segregation of duties was not maintained. The validity of the journal entry was not confirmed and documented by an authorized reviewer.

RECOMMENDATIONS:

We recommend that the Funds Management Team within OFA:

18. Ensure a thorough review of all journal entries with the same creator and poster is performed and documented regardless of the availability of the original user and supervisor to respond to inquiries; and

19. Enhance the control standard operating procedure to define the control objective in terms that are understood by all relevant individuals in the entity.

MANAGEMENT RESPONSE:

Manegemnt concurs with the finding. Management OFA will update the standard operating procedures to identify a point of contact to review all journal entries with the same creator and poster if the original user and supervisor are separated from the Department. This was unprecedented to have the employee and entire management chain and the previous control reviewers separate from the Department in a short period of time.

25-HQ-FRAP-FSA-02 – Ineffective Control Over Review of Direct Journal Entries by Subject Matter Experts

Management's control over the review of direct journal entries by SMEs is not operating effectively. Specifically, in performing our interim testwork over 37 entries, we identified 2 instances where the SMEs who reviewed and posted the entries did not evidence their review by completing a Direct GL Entry Review Form as required by Department policy.

The relevant SMEs understood the need for the Direct GL Entry Review Form for entries such as accruals, however, omitted the identified entries as they were high-dollar transactions performed in the normal course of business.

Journal entry review controls that are not operating effectively increase the possibility that fraudulent or invalid postings are made to the GL and weaken internal control over financial reporting.

RECOMMENDATION:

We recommend that the OFA:

20. Provide additional training or issue reminders and further clarification to the various control operators regarding the entries that the policy applies to.

MANAGEMENT RESPONSE:

Management concurs with the recommendation indicated above. OFA will review and update the guidance on Direct GL Journal Entries. OFA will include the updates in the Annual OFA Quarter 3/Quarter 4 reporting guidance.

Environmental Liabilities - Environmental Management

BACKGROUND:

The Department's EM is responsible for developing cost estimates for environmental cleanup and reviewing all calculations of the environmental and disposal liability. The cost estimates represent the cost of remaining cleanup activities, including contingency, as of September 30 of the current fiscal year and are recorded in the Department's consolidated financial statements. These cost estimates are updated, as needed, due to changes in technological improvements and/or challenges, regulatory requirements, or other circumstances. Contingency is added to the cost estimates to take into consideration the occurrence of an event that may result in a cost impact or schedule delay and is based on risks identified in a site risk register, which is reviewed and approved by site management, prior to use in a Monte Carlo analysis.

The Department's site at Idaho National Laboratory (INL) operated 52 reactors throughout its lifetime, resulting in spent nuclear fuel that is maintained on site at INL for treatment and disposition. Further, INL is a national leader in TRU waste treatment resulting in the most TRU waste shipments to the WIPP. The Department's Idaho Cleanup Project (ICP), located near Idaho Falls, Idaho, records the related environmental and disposal liabilities balances, including provisions for contingency, for inclusion in the Department's consolidated financial statements.

25-ID-EM-FSA-01 – Ineffective Controls Over the Review and Approval of the Risk Registers

Controls over the review and approval of ICP risk registers were not designed appropriately. During our testwork over risk registers, ICP officials could not provide sufficient documentation to support the judgments made by SMEs regarding the basis of cost impacts for certain risks, as supporting documentation for these risks was not centrally retained or readily accessible. This condition was exacerbated by staff turnover.

ICP officials did not appropriately develop and document responsibilities for SMEs to retain supporting documentation in a centralized location for their judgements when developing or updating risk registers. In addition, ICP officials did not develop and maintain sufficient documentation of the internal control system so that controls continue to operate effectively when key personnel and their subject matter expertise and knowledge of control operations are lost.

Without appropriately designed review and approval controls over risk registers, ICP officials have not addressed the risk that the environmental and disposal liability and the related note disclosure could be misstated.

RECOMMENDATIONS:

We recommend that the Manager, ICP:

21. Design, document, and implement policies and processes over the responsibilities of SMEs to retain supporting documentation for their judgements when developing or updating risk registers, such as meeting minutes, independent reports or cost estimates, or other data that the SME is reviewing to arrive at their ultimate conclusion; and
22. Design, document, and implement policies and processes over requirements for the sufficient documentation of review and approval controls so that controls continue to operate effectively when key personnel and their subject matter expertise and knowledge of control operations are lost.

MANAGEMENT RESPONSE:

ICP concurs with the Financial Statement Audit Recommendations. ICP will implement processes and requirements as recommended to ensure that necessary documentation is developed and retained in support of the risk register and are available when staff transitions occur.

Human Resources – Contractor Pensions

BACKGROUND:

The Department 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 (PRB) plans. The Department approves these contractors' pension and PRB plans and is ultimately responsible for the allowable costs of funding these plans. As the Department is contractually obligated to reimburse the allowable costs of the contractor contributions to the defined benefit pension and PRB plans, the Department's financial statements reflect the assets, liabilities, and related costs of these plans. The contractors invest in a variety of securities and financial instruments to fund these plans.

Triad National Security, LLC is tasked with managing and operating the Los Alamos National Laboratory (LANL) on behalf of the Department. LANL PRB plans include retirees and their dependents medical and dental insurance plans which are closed to new entrants. Triad National Security, LLC prepares the PRB census data file from data in the Human Resources-Benefits database. Aon, LANL's actuary for the LANL PRB liability since 2020, uses the census data and eligibility requirements of the PRB plans in the valuation to estimate the future cost of benefits due to eligible employees upon retirement. LANL 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.

25-LANL-P-FSA-01 – Errors in the Post-Retirement Benefits Other Than Pensions Census Data

During our testwork over the PRB census data at LANL, we identified two individuals out of a sample of 30 that had an incorrect date of hire and an incorrect date of retirement, respectively listed in the census file used in the actuarial PRB liability calculation. We noted one individual had their date of hire overstated by 1 year, and the other individual had their date of retirement overstated by 1 month.

Management's existing processes and controls over the monitoring and review of PRB census data did not adequately address the risk related to the accuracy of the PRB census data at LANL. Specifically, management's process for sampling years of service to ensure data reliability failed to identify and resolve errors for two individuals who had incorrect dates of hire and retirement, respectively.

Without effective monitoring controls in place, the risk exists that LANL's actuarial PRB liability valuation could be misstated due to inaccurate information in the PRB census data file, potentially resulting in a misstatement in the financial statements.

RECOMMENDATION:

We recommend that the Manager, Los Alamos Field Office, direct LANL to:

23. Enhance census data monitoring controls to ensure the accuracy of census data files used by the actuary in the actuarial PRB liability valuation.

MANAGEMENT RESPONSE:

Management concurs with the finding. LANL recognizes the importance of maintaining complete and accurate census data to ensure the reliability of actuarial calculations. LANL and its actuary Aon, will enhance census data monitoring controls to ensure the accuracy of census data files by refining sampling techniques and methodologies and enhancing data validation procedures. These enhancements will ensure data accuracy and integrity. The development and implementation of additional monitoring controls will improve LANL's risk mitigation strategy.

LANL and Aon additional monitoring controls to be implemented with this corrective action plan and completed by June 30, 2026, are as follows:

Specific actions include:

- LANL will review data verification protocols.
- LANL will delineate specific hierarchies and update policies and procedures for vendor data updates.
- LANL will implement additional validation checks as appropriate and update policies and procedures.
- LANL will review AON census data where discrepancies exist (e.g., date of hire <> first status date) for propriety.
- Aon will expand the scope for data confirmation and validate the dates of hire between LANL and DBCalc. Policies and procedures will be updated with this process improvement.
- LANL will perform reviews, at regular intervals, of Empyrean Benefit Start Date <> Aon Benefit Commencement Date to validate the accuracy of their data. Policies and procedures will be updated to reflect this procedure.

<u>Property, Plant, & Equipment (PP&E)</u>

BACKGROUND:

Lawrence Livermore National Laboratory (LLNL), managed and operated by Lawrence Livermore National Security, LLC as the integrated contractor, is a federally funded research and development center that was established to meet national security needs related to nuclear weapons research and development. Their mission is to strengthen U.S. security through the development and application of world-class science and technology. LLNL focuses on ensuring safety, security, and reliability of the Nation's nuclear stockpile, reducing global threats, advancing energy and environmental security, and enhancing national resilience through scientific innovation.

25-LLNL-PPE-FSA-01 – Ineffective Controls Over Timely Capitalization of PPE

LLNL accounts for PP&E activity in the Sunflower Assets sub-ledger system and the Department's STARS through the monthly data feed of transactions. In performing testwork over capitalized PP&E additions as of June 30, 2025, we identified three instances where the PP&E additions had been placed in service during FY 2024 but were not capitalized until FY 2025. Specifically, we tested three additions totaling approximately $55 million that were placed in-service in July 2024, and which had a depreciation expense from July 2024 through the end of September 2024 totaling $7.5 million. LLNL Property Accounting was notified of the in-service statuses in October 2024 and then recorded the capitalization and depreciation in Sunflower Assets between October 2024 and March 2025. As such, the additions and depreciation were recorded out-of-period in both the Sunflower Assets and STARS systems.

LLNL management control activities were not effective in ensuring the costs for completed projects or assets were transferred from Work in Process (WIP) to completed PP&E within the fiscal period placed in service. LLNL has policies and procedures in place to monitor WIP and assets to be capitalized monthly, but they did not operate effectively. Property Accounting was not notified of the assets being completed until October 2024, but the in-service date was July 2024. These assets were included in their monthly tracking but were not appropriately followed up on to ensure they were booked in the right period as they neared completion.

LLNL incorrectly recorded the capitalization in FY 2025 instead of FY 2024 resulting in a $55 million understatement of completed plant in service and $7.5 million understatement of accumulated depreciation as of September 30, 2024, within the Sunflower Assets and STARS systems. The ineffective control noted over timely capitalization of costs from WIP to completed PP&E increases the risk of future misstatement of the PP&E balance and related depreciation expense.

RECOMMENDATIONS:

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

24. Review, update, and document internal controls and processes to align with accounting standards and ensure balances are transferred from WIP to completed PP&E once an asset is in use;

25. Review, update, and document internal controls and processes to align with accounting standards to ensure that depreciation is recorded in the correct period when the asset is placed in service; and

26. Establish stronger lines of communication with project managers to better identify completed projects and units placed in service allowing for costs to be properly transferred to completed PP&E and in the correct FY.

MANAGEMENT RESPONSE:

The National Nuclear Security Administration respectfully disagrees with the finding as presented in the NFR. Per DOE Financial Management Handbook Chapter 10 guidance in effect at that time, LLNL was not required to capitalize the noted assets immediately upon being placed in service. Prior to its update in September 2024, Chapter 10 allowed up to 6 months from the date an asset was placed in service to transfer construction work in process to completed PP&E. The assets in question were capitalized within this timeframe, in accordance with the guidance then in effect.

We would also like to emphasize that the timing of the policy update directly impacted the assessment of LLNL's capitalization process. The NFR, as currently written, suggests a control deficiency; however, LLNL controls operated effectively and were fully compliant with the requirements in place prior to September 2024. The late change to DOE Financial Management Handbook Chapter 10 should be explicitly acknowledged when evaluating LLNL procedures and control environment. We respectfully request that this context be incorporated into the final assessment, as it is critical for an accurate representation of our compliance and internal control effectiveness.

With the updated Chapter 10.1 criteria now in place, LLNL has taken the following actions to remain in compliance with contractual requirements:

- Reviewed and updated internal controls and processes to ensure timely transfer of balances from WIP to completed PP&E, in line with current accounting standards.
- Reviewed and updated controls to ensure depreciation is recorded in the correct period when assets are placed in service.
- Established stronger communication with project managers to accurately identify completed projects and assets placed in service.

LLNL will continue to monitor and revise procedures as necessary to remain compliant with current and future DOE Financial Management Handbook standards.

AUDITOR COMMENTS:

Statement of Federal Financial Accounting Standards 6, *Accounting for Property, Plant, and Equipment*, requires that constructed PP&E be recorded as construction work in process until it is placed in service, at which point the balance must be transferred to general PP&E. We issued this NFR because LLNL did not timely transfer work in process to completed plant, resulting in the asset not being captured in the correct fiscal period which is a departure from Statement of Federal Financial Accounting Standards 6 and the accounting standards.

Exhibit C

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, 2025
Environmental Liabilities – Environmental Management	
A. Headquarters Review of Site Estimates (24-HQ-EM-01)	Closed in FY25
B. Ineffective Controls Over the Review and Approval of the Risk Registers (24-PPPO-EM-01)	Open
C. Portsmouth/Paducah Project Office Baseline Testing (24-PPPO-EM-02)	Open
D. Review of Controls Over Baseline Estimate (24-ORP-EM-01)	Closed in FY25
E. Ineffective Internal Controls Over the Review of Risks (24-SRS-EM-01)	Closed in FY25
F. Documentation of Review Controls over the RL Baseline Estimates (24-RL-EM-01)	Closed in FY25
Property, Plant, & Equipment	
A. Lack of Readily Available Documentation – PP&E Additions (24-PTX-PPE-01)	Closed in FY25
Financial Reporting	
A. Lack of Documentation around Internal Controls (24-SRNS-FRAP-01)	Closed in FY25
Human Resources – Contractor Pensions	
A. SNL Pensionable Earnings Reconciliation (24-SNL-P-01)	Open
B. SNL Monitoring Census Data Actuarial Inputs (24-SNL-P-02)	Closed in FY25
Active Facilities	
A. Ineffective Controls Over the Review and Approval of the Active Facilities Data Collection System Data Inputs (24-AF-01-LANL)	Closed in FY25
B. Ineffective Communication of Quality Information (24-AF-01-LLNL)	Closed in FY25
Inventory	
A. SRNS Ineffective Review over Capitalization Entries (24-SRNS-NM-01)	Closed in FY25
Procurement	
A. Ineffective Monitoring of Undelivered Orders Stale Balances (23-PPPO-PR-01)	Open

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REISSUED FINDINGS IN FY 2025 *(excluding 24-PPPO-EM-01 and 24-PPPO-EM-02 which are included in Exhibit A)*

Human Resources – Contractor Pensions

BACKGROUND:

The Department 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 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 National Technology and Engineering Solutions of Sandia, LLC and a contracted third-party administrator, USI Consulting Group, for the pension Accounting Standards Codification 715 and Employee Retirement Income Security Act 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.

Repeat Finding: SNL Pensionable Earnings Reconciliation (24-SNL-P-01)

Our FY 2025 review disclosed that SNL had not fully implemented its corrective actions related to its controls over the census data file. KPMG LLP compared the FY 2025 pension census file to the FY 2024 pension census file and confirmed the individuals identified during the FY 2024 audit continue to have understated pensionable earnings in FY 2025. Per discussion with SNL, the census data file is finalized as of January 2025; therefore, SNL did not have sufficient time to correct the data for the FY 2025 audit.

Because corrective actions by SNL are still ongoing, the finding noted will remain open until all corrective actions are fully implemented.

RECOMMENDATION:

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

27. 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:

Management concurs with the finding. The National Nuclear Security Administration 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 Office of Management and Budget Circular No. 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. This expectation is unrealistic and may not be feasible in practice.

The effect presented in the FY 2024 NFR that the pension liability "could be misstated" was assessed by NTESS. In FY 2024, 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 in 2024 by proactively implementing updates to the controls surrounding pension earnings reviews. Because of the timing the census file is run, the corrections did not occur in the file used for FY 2025. These enhancements will be reflected in the census data effective January 1, 2025, which will be utilized in FY 2026. The new controls include a comprehensive salary review that compares USI-reported data with files provided by NTESS, as well as a revised approach to sampling the census file data, implemented in Quarter 1 of FY 2025. We communicated the updated procedural changes to KPMG LLP in May 2025, detailing the modifications to the Quality Management System document. These measures will enhance the accuracy and reliability of the census data moving forward.

The NFR states that NTESS did not have sufficient time to correct the data for FY 2025; however, this statement is misleading. All corrective actions were implemented as promptly as possible, but the census file used for the FY 2025 audit used data as of January 1, 2024, and had already been processed before the changes were made. Since all corrective actions have been completed, NTESS considers this matter closed.

Procurement

BACKGROUND:

The 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, STARS, 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.

The PPPO is one of the Department's operations offices and manages the Department's cleanup efforts at the Portsmouth, Ohio, and Paducah, Kentucky, gaseous diffusion plant sites. This includes Environmental Remediation, Waste Management, DUF6 Conversion, and Decontamination and Decommissioning at the sites. PPPO executes work orders related to the DUF6 project which results in Government obligations.

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

Our FY 2025 review disclosed that the PPPO had not fully implemented its corrective actions related to the undelivered order stale balance. KPMG LLP reviewed the FY 2025 undelivered orders population and noted that the stale balance noted in the 2023 finding is still present in the 2025 undelivered orders population.

Because corrective actions by PPPO are still ongoing, the finding will remain open until all corrective actions are fully implemented.

RECOMMENDATION:

We continue to recommend that the Acting Manager, PPPO:

28. 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:

PPPO agrees with the finding that a stale balance exists; although PPPO does not have the authority or ability to deobligate the funds from the Edison Electric Institute contract which is administered by a different program office. EM HQ consulted with the Office of Science and the EM Consolidated Business Center and the EM Consolidated Business Center successfully deobligated the funds from the Edison Electric Institute contract. No further actions for PPPO are warranted.

Exhibit D

MANAGEMENT LETTER

ACRONYMS

CBFO	Carlsbad Field Office
DOE/Department	Department of Energy
DUF6	Depleted Uranium Hexafluoride
EM	Environmental Management
FY	Fiscal Year
GL	General Ledger
HQ	Headquarters
ICP	Idaho Cleanup Project
INL	Idaho National Laboratory
IRC	Infor Risk and Compliance
JE	Journal Entry
LANL	Los Alamos National Laboratory
LLNL	Lawrence Livermore National Laboratory
NFR	Notice of Findings and Recommendations
NTESS	National Technology & Engineering Solutions of Sandia, LLC
OFA	Office of Finance and Accounting
OIG	Office of Inspector General
PPPO	Portsmouth Paducah Project Office
PP&E	Property, Plant, and Equipment
PRB	Post-Retirement Benefits Other than Pensions
SME	Subject Matter Expert
SNL	Sandia National Laboratories
SOPP	Standard Operating Policies and Procedures
SRNS	Savannah River Nuclear Solutions, LLC
SRS	Savannah River Site

STARS	Standard Accounting and Reporting System
TRU	Transuranic
WIP	Work in Progress
WIPP	Waste Isolation Pilot Plant

FEEDBACK

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