



Office of Inspector General

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**OFFICE OF CYBER  
ASSESSMENTS AND DATA  
ANALYTICS**

**MANAGEMENT LETTER**

**THE DEPARTMENT OF ENERGY'S FISCAL YEAR  
2022 CONSOLIDATED FINANCIAL STATEMENTS**

**DOE-OIG-23-13  
FEBRUARY 2023**



**Department of Energy**  
Washington, DC 20585

February 1, 2023

MEMORANDUM FOR THE DEPUTY CHIEF FINANCIAL OFFICER

A handwritten signature in cursive script that reads "Kshemendra Paul".

FROM: Kshemendra Paul  
Assistant Inspector General  
for Cyber Assessments and Data Analytics  
Office of Inspector General

SUBJECT: INFORMATION: Management Letter on The Department of Energy's  
Fiscal Year 2022 Consolidated Financial Statements

Pursuant to requirements established by the Government Management Reform Act of 1994, the Office of Inspector General engaged the independent public accounting firm of KPMG LLP to perform the audit of *The Department of Energy's Fiscal Year 2022 Consolidated Financial Statements*. During the audit, KPMG LLP considered the Department of Energy's internal controls over financial reporting and tested for compliance with certain provisions of laws, regulations, contracts, and grant agreements that could have a direct and material effect on the consolidated financial statements.

During the course of the audit, KPMG LLP identified deficiencies in internal control that are included in the attached management letter. Specifically, the attached letter contains four new findings and five recommendations that were issued during the audit of *The Department of Energy's Fiscal Year 2022 Consolidated Financial Statements*. One prior year finding and recommendation was also re-issued. 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. The audit did not identify any deficiencies in internal controls over financial reporting that are considered material weaknesses.

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

Attachment

cc: Deputy Secretary, DS  
Chief of Staff, DS  
Under Secretary for Science and Innovation, S4  
Under Secretary for Nuclear Security and National Nuclear Security Administration, S5  
Principal Deputy Under Secretary for Infrastructure, S3

Audit Report: DOE-OIG-23-13

## INDEPENDENT AUDITORS' REPORT



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

January 18, 2023

Ms. Teri L. Donaldson  
Inspector General  
U.S. Department of Energy  
1000 Independence Ave, S.W.  
Washington, D.C. 20585

Dear Ms. Donaldson:

In planning and performing our audit of the financial statements of the United States Department of Energy (i.e., the Department or DOE) as of and for the year ended September 30, 2022, in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and Office of Management and Budget Bulletin No 22-01, *Audit Requirements for Federal Financial Statements*, we considered the Department's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Department's internal control. Accordingly, we do not express an opinion on the effectiveness of the Department's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses and/or significant deficiencies, and therefore, material weaknesses and/or significant deficiencies may exist that were not identified. In accordance with *Government Auditing Standards*, we issued our report dated November 14, 2022, on our consideration of the Department's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. During our audit, we identified deficiencies in internal control that are included in Exhibit A. The DOE Office of Inspector General will issue a separate management letter addressing information technology control deficiencies.

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

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

Very truly yours,

**KPMG LLP**

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## Index to Exhibits

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

**OPEN FINDINGS RELATED TO FISCAL YEAR 2021 NOTICES OF FINDINGS AND Exhibit A RECOMMENDATIONS**

Process Area	NFR Number	NFR Description	Exhibit A
Environmental Liabilities – Active Facilities	21-SLAC-AF-01 (Reissued)	Ineffective Controls Over the Review and Approval of the Active Facility Data Collection System Data Inputs	A-1
Environmental Liabilities – Environmental Management	22-RL-EM-01	Insufficient Review of Baseline Changes	A-2
	22-ORP-EM-01	Lack of Supporting Documentation over Contingency	A-3
Environmental Liabilities – Long Term Stewardship	22-HQ-LTS-01	Insufficient Communication for Workscope	A-4
Procurement	22-SRS-PR-01	Ineffective Design and Implementation of Controls over the Review of Accruals	A-5
<b>STATUS OF PRIOR YEAR FINDINGS</b>			<b>Exhibit B</b>
<b>ACRONYMS</b>			<b>Exhibit C</b>

EXHIBIT A

## MANAGEMENT LETTER

## OPEN FINDINGS – INTERNAL CONTROLS AND OTHER OPERATIONAL MATTERS

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 Office of Environmental Management (Environmental Management) program. The Department's methodology for calculating the environmental liability estimate for active facilities uses data from the Active Facilities Database Collection System (AFDCS), which is driven from the Facilities Information Management System, the Department's property management database. 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 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 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.

**21-SLAC-AF-01 – Ineffective Controls Over the Review and Approval of Active Facility Data Collection System Data Inputs (Re-Issued)**

Our fiscal year (FY) 2022 testing noted that the SLAC National Accelerator Laboratory (SLAC) had taken steps to remediate the weaknesses identified in the controls designed to require the review, editing, and approval of AFDCS data inputs. Specifically, SLAC's Excess Facilities Program document was modified to specifically add the AFDCS as a database to be updated in the section related to building deactivation. Additionally, the AFDCS database update was added as a checklist item in Exhibit K – Post-Demolition Checklist. Further, SLAC selected a member of Facilities and Operations to act as the Excess Facility Program Manager to ensure that all updates are reported timely and accurately.

However, because there were no occurrences of the performance of this control during FY 2022, we were unable to verify that the corrective actions taken were effective. We acknowledge that SLAC has put the recommended updates in place and will review the operation of the required edits control for effectiveness when an occurrence takes place. As such, this finding remains open until the effectiveness of the corrective actions taken can be determined.

## RECOMMENDATION:

We continue to recommend that the Manager, Bay Area Site Office, direct SLAC to:

1. Perform an update of the SLAC Excess Facility Program policy and documentation checklists to explicitly incorporate required AFDCS updates as part of the disposal process, resulting in the effective operation of the required edits control.

A-1

**MANAGEMENT RESPONSE:**

Management concurs with the recommendation. The SLAC Site Office is responsible for SLAC oversight and will oversee the implementation of the SLAC corrective action plan. The SLAC Site Office has directed SLAC to perform an update of the SLAC Excess Facility Program policy and documentation checklists to explicitly incorporate required AFDCS updates as part of the disposal process, resulting in the effective operation of the required edits control. SLAC has completed this corrective action. Because there were no occurrences of the performance of this control during FY 2022, the SLAC Site Office was unable to verify that the corrective actions taken were effective. The SLAC Site Office will review the operation of the required edits control for the effectiveness when an occurrence takes place and will inform the DOE Office of Inspector General of the occurrence.

**Environmental Management****BACKGROUND:**

Environmental Management is responsible for developing cost estimates for environmental cleanup. The cost estimates are the estimate of the work required to perform cleanup activities as of September 30 of the current FY and are updated as needed due to changes in technological improvements/challenges, regulatory requirements, or other circumstances. Environmental Management recognizes the risks and uncertainties in its project cost and schedule estimates by recording contingency as part of the environmental liability.

**22-RL-EM-01 – Insufficient Review of Baseline Changes**

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 projects should be reflected in the baselines to ensure that the estimate is properly reflected in the overall environmental liability. In early FY 2022, the Richland Operations Office Project Control Officers and Federal Project Directors performed their reviews over the baseline changes.

During our test work, we identified that controls over the review and recording of baseline changes at the Richland Operations Office did not operate as designed. Specifically, an incorrect baseline change was recorded in the Integrated Planning, Accountability, and Budgeting System for RL-0040, Nuclear Facility D&D – Remainder of Hanford. The incorrect amount was calculated and recorded for RL-0201, Hanford Site-Wide Services.

The weakness identified occurred because review controls in place did not identify that Hanford used incorrect support to record the RL-0040 baseline change. In addition, while there were multiple reviews performed over the baseline change for RL-0201, review controls in place did not detect incorrect formula logic within the calculation spreadsheet for the baseline. As a result, the Hanford environmental liability was overstated by \$168,556,687. Without effective review controls in place over baseline changes, there is a risk that an error could occur that results in a material misstatement not being detected.

**RECOMMENDATION:**

We recommend that the Manager, Richland Operations Office, direct the Deputy Manager, Richland Operations Office, to:

2. Refine review controls to ensure calculations are properly performed and changes to the baseline are appropriately recorded.

**MANAGEMENT RESPONSE:**

Management concurs with the recommendation. The Richland Operations Office corrected the environmental liability overstatement in the final Environmental Liability Form CLNUP-EM for the FY 2022 financial statement. The review controls will be refined to ensure calculations are performed and changes to the baseline are appropriately recorded.

**22-ORP-EM-01 – Lack of Supporting Documentation over Contingency**

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 58 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 and associated 200 Area facilities and construction and operation of the Hanford Tank Waste Treatment Plant and Immobilization Plant located in the Central Plateau.

During our review of the ORP environmental liability estimate, we identified that controls were lacking over the proper storage and maintenance of documentation. Specifically, officials were unable to provide adequate support for the Monte Carlo output of risks, which agreed to the contingency recorded for PBS 0014 – Tank Farms.

The weaknesses identified occurred because the Monte Carlo output related to the Tank Farms contingency estimate was not retained by management. Site officials were unable to provide support for the contingency used in the environmental liability estimate. Due to the nature of the Monte Carlo simulation which computes a variety of outcomes using computational algorithms for several variables for each risk, no one iteration of this output is likely to be the same. As such, the difference between the output provided by management for review and the amount recorded for the ORP contingency depicts a difference of approximately \$585 million. Without effective controls in place to retain documentation, there is a risk that an error could occur that results in a material misstatement not being detected.

**RECOMMENDATION:**

We recommend that the Manager, Office of River Protection, direct the Assistant Manager for Tank Farms to:

3. Assess the risk related to documentation retention and develop appropriate controls to ensure documentation supporting changes to the environmental liability are properly stored and maintained.

**MANAGEMENT RESPONSE:**

Management concurs with the recommendation. ORP's Assistant Manager for Tank Farms will review the documentation requirements for the Tank Farms Contractor Lifecycle Cost Estimate, which supports the Tank Farms environmental liability, and implement appropriate documentation retention requirements across the Contractor Lifecycle Cost Estimate model for both baseline and risk.

**Long-Term Stewardship****BACKGROUND:**

Environmental Management is responsible for developing the workscopes for environmental cleanup as well as long-term stewardship (LTS) for non- National Nuclear Security Administration (NNSA) sites where Environmental Management cleanup is ongoing. At NNSA sites, LTS is the responsibility of NNSA. In accordance with its internal Standard Operating Policies and Procedures # 35, Environmental Management is also responsible for informing program offices of changes in environmental cleanup scope. Upon completion of cleanup scope, the site reverts back to the program office or transfers to the Office of Legacy Management LTS. LTS extends from the year after the last year of the site's Environmental Management mission through to 75 years from the current year (unless a regulatory driver or activities past the 75-year period are known). For example, if cleanup ended in 2022, then LTS would carry through 2097.

**22-HQ-LTS-01 – Insufficient Communication for Workslope**

During our test work, we identified that controls over the Program Secretarial Offices review of the LTS start date were not properly designed to identify and communicate important assumption changes, such as a change to the end date of environmental cleanup scope. Specifically, we noted that 7 years of overlapping LTS workslope was recorded for Los Alamos National Laboratory.

The weakness identified occurred because of an adjustment outside of the Integrated Planning, Accountability, and Budgeting System for the Los Alamos National Laboratory environmental liability (EMLA) estimate that was not identified and communicated to key stakeholders. The EMLA estimate was developed and reported by the Environmental Management Consolidated Business Center. In FY 2022, the EMLA estimate was updated resulting in the extension of the end-date for the environmental cleanup workslope through 2043. This update was included as an adjustment outside of the Integrated Planning, Accountability, and Budgeting System which showed the environmental cleanup workslope concluding in 2038. However, NNSA, who develops and reports the Los Alamos National Laboratory LTS estimate, had included the assumption that LTS was scheduled to start in FY 2037 based on the LTS estimate in FY 2016. No communication was provided to NNSA regarding the change to the cleanup workslope end-date to 2043 by the Environmental Management Consolidated Business Center. Further, during the Office of the Chief Financial Officer's review of the 'CLNUP' workbooks in FY 2022, this change did not trigger the review threshold for additional scrutiny. As such, the Los Alamos National Laboratory LTS liability is overstated for the years 2037 to 2043 by \$43,685,000. In addition, without effective communication of changes to assumptions between key stakeholders, the Department continues to risk that LTS misstatements are not identified and communicated timely.

**RECOMMENDATION:**

We recommend that Environmental Management's Director for Budget and Planning:

4. Clarify guidance and training on communication of changes in Environmental Management cleanup scope end dates to all field office environmental management liability leads to ensure that all changes in end dates and scope, especially when made outside of the Integrated Planning, Accountability, and Budgeting System, are effectively communicated to the relevant Program Secretarial Offices .

**MANAGEMENT RESPONSE:**

Management concurs with the recommendation. Management plans to clarify the role of Environmental Management liability leads in communication of changes in Environmental Management cleanup completion dates in Environmental Management Headquarters guidance and training to the field sites. The coordination of changes will be communicated through the Office of the Chief Financial Officer for NNSA sites and with Program Secretarial Offices that have a Memorandum of Understanding with Environmental Management regarding LTS estimation. Additionally, management plans to coordinate with the Office of the Chief Financial Officer on a concurrent review process for all LTS estimates that the Office of the Chief Financial Officer reviews as part of the restructured environmental liability to ensure that a duplication does not exist in the environmental liability for sites where Environmental Management has no visibility.

**Procurement****BACKGROUND:**

Accruals are recorded in a variety of ways, including through accrual adjustments recorded in the Financial Accounting Support Tool (FAST). Individuals associated with the invoice/accrual for which they are identified as the approving official or proxy may calculate a revised accrual and enter it as an adjustment in FAST. For uncosted balances greater than \$1 million, approvers are required to review the automated accrual and make adjustments as necessary. If an adjustment is made, the official should attach the support for the adjustment in FAST. If a determination is made that an adjustment is not necessary, support should be available to justify that an adjustment was not necessary. FAST interfaces with the financial system of record, the Standard Accounting and Reporting System, to record the accrual balances for financial reporting.

**22-SRS-PR-01 – Ineffective Design and Implementation of Controls over the Review of Accruals**

The Savannah River Operations Office (SRS) is responsible for the accounting and reporting for Allottee 38, including reviewing and adjusting monthly accruals for contracts, invoices, and other types of accruals. During test work, it was noted that SRS did not follow implemented controls to verify that accruals are recorded accurately, as required by Green Book Principles 10 and 12. As a result, SRS under accrued for a contract by \$29,588,408 at fiscal year-end which was identified as part of year-end accruals substantive test work.

The weakness identified occurred because SRS did not provide sufficient training to approving officials responsible for understanding accrual support documentation, as required by Green Book Principle 4. The error identified resulted from the approving official entering the incorrect figure from the support provided on the accrual calculation sheet into FAST. As a result, the accrued expense balance was understated by \$29,588,408 as of September 30, 2022.

**RECOMMENDATIONS:**

We recommend that the Manager, SRS, ensure that:

5. Policies and procedures to verify controls are in place to prevent, detect, and correct accuracy errors to accruals in a timely manner; and
6. Employees are trained and requirements are reinforced on the proper accrual of costs within the appropriate fiscal year reporting period.

**MANAGEMENT RESPONSE:**

Management concurs with the recommendations. Management will update the applicable policies to verify controls are in place to prevent, detect, and correct accuracy errors to accruals in a timely manner. Management will also ensure the cognizant procurement personnel are adequately trained and requirements are reinforced on the proper accrual of costs within the appropriate fiscal year reporting period.

## EXHIBIT B

## MANAGEMENT LETTER

## STATUS OF PRIOR YEAR FINDINGS

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

**Status at September 30, 2022**

## Environmental Liabilities

- |  |                   |
|--|-------------------|
| A. Insufficient Controls Over the Review of the Risk Registers (21-RL-EM-01)         | Closed in FY2022  |
| B. Insufficient Supporting Documentation for Environmental Liability (21-LANL-EM-01) | Closed in FY 2022 |

## Pensions

- |   |                   |
|---|-------------------|
| C. Census Data Member Status (21-LBNL-P-01) | Closed in FY 2022 |
|---|-------------------|

## Active Facilities

- |  |                   |
|--|-------------------|
| D. Insufficient Review and Approval of the Active Facility Data Collection System Data Inputs (21-LBNL-AF-01)              | Closed in FY 2022 |
| E. Ineffective Controls Over the Review and Approval of Active Facility Data Collection System Data Inputs (21-SLAC-AF-01) | Open in FY 2022   |

## Financial Reporting

- |   |                   |
|---|-------------------|
| F. Missing Post-Closing Journal Entry Support in the Standard Accounting and Reporting System (21-HQ-FR-01) | Closed in FY 2022 |
|---|-------------------|

EXHIBIT C

MANAGEMENT LETTER

ACRONYMS

AFDCS	Active Facilities Data Collection System
Department/DOE	Department of Energy
Environmental Management	Office of Environmental Management
EMLA	Los Alamos National Laboratory Environmental Liability
FAST	Financial Accounting Support Tool
FY	Fiscal Year
LTS	Long-Term Stewardship
NNSA	National Nuclear Security Administration
OFA	Office of Finance and Accounting
ORP	Office of River Protection
SLAC	SLAC National Accelerator Laboratory
SRS	Savannah River Operations Office

## **FEEDBACK**

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Office of Inspector General (IG-12)  
Department of Energy  
Washington, DC 20585

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