

Annual FY 2019 Financial Report



**Defense
Nuclear Facilities
Safety Board**



FY 2019
 DEFENSE NUCLEAR FACILITIES SAFETY BOARD
 Annual Financial Report

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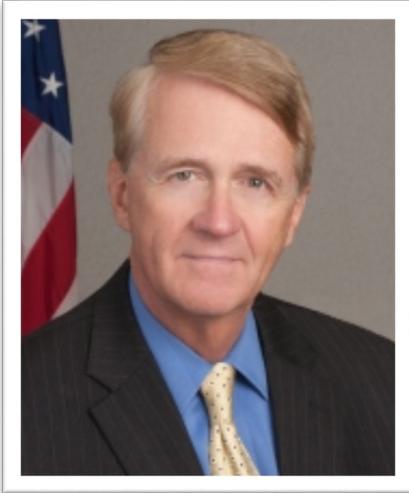
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Chapter 1 - Management's Discussion, and Analysis

1.1 Chairman's Message



I am pleased to submit the Annual Financial Report (AFR) for the Defense Nuclear Facilities Safety Board (Board) for Fiscal Year (FY) 2019. The report presents the FY 2019 performance accomplishments, as well as key financial and high-level performance information on our resource utilization. The Board's mission is to provide independent analysis, advice, and recommendations to the Secretary of Energy in his role as operator and regulator of Department of Energy (DOE) defense nuclear facilities, and to ensure adequate protection of public health and safety at such defense nuclear facilities. The Board is required by statute to review and evaluate the content and implementation of standards relating to the design, construction, operation, and decommissioning of DOE defense nuclear facilities, and to review the design of new DOE defense nuclear facilities.

In FY 2018, DOE issued Order 140.1, *Interface with the Defense Nuclear Facilities Safety Board*. The Board conducted three public hearings on this topic during FY 2018 and FY 2019, in Washington, DC, and Albuquerque, New Mexico. These hearings gathered information from DOE headquarters officials and field office personnel on the objectives of DOE Order 140.1; the Board's access to information, facilities, and personnel; and potential impacts to the Board's resident inspector program. The Board also received feedback from stakeholders on issues related to the DOE Order at these hearings. Preserving the Board's access to information, facilities, and personnel at DOE's defense nuclear facilities will remain an area of emphasis during FY 2020.

The Board is committed to ensuring that public resources in its trust are used wisely. I am pleased to report that, based on Federal Managers Financial Integrity Act (FMFIA) assessments, I have concluded (as required by Office of Management and Budget (OMB) Circular A-136) that the agency is in substantial compliance with FMFIA, and the financial and performance data published in this report are complete and reliable.

The Board remains committed to its nuclear safety mission at our nation's defense nuclear facilities. I am proud to lead our dedicated employees whose standard of excellence in carrying out this important mission mirrors the best of American excellence, values, and ideals.

A handwritten signature in black ink that reads "Bruce Hamilton". The signature is written in a cursive, flowing style.

Bruce Hamilton
Chairman
December 17, 2019

1.2 Introduction

This AFR summarizes the Board's oversight activities and associated resource expenditures for the period from October 1, 2018, through September 30, 2019 (FY 2019). This report was prepared pursuant to the requirements of the Accountability of Tax Dollars Act of 2002 and OMB Circular A-136, which provides instructions on the preparation of an AFR. As it did last year, the Board has separated its financial and performance reporting. This document is the Board's AFR. The Board's FY 2019 Annual Performance Report (APR) will be published with the Board's FY 2020 Congressional Budget Justification on February 3, 2020, and will align with the Board's FY 2019 Annual Report to Congress.

Agencies are also required to develop a performance budget with annual performance objectives that indicate the progress toward achievement of the strategic plan's goals and objectives. The Board's performance objectives for FY 2020 and FY 2021, as well as accomplishments for FY 2014 through FY 2019, will be included in its FY 2021 Budget Request to the Congress in accordance with the requirements of OMB Circular A-11. The Board also published its *Twenty-Ninth Annual Report to Congress* on April 1, 2019, available at <https://www.dnfsb.gov/documents/reports/reports-congress/twenty-ninth-annual-report-congress> which highlighted achievements of the Board from Calendar Year 2018.

Chapter 1, Management's Discussion, and Analysis, of the AFR provides an overview of Board's operations and is divided into seven main sections:

- *1. Chairman's Message;*
- *2. Introduction* summarizes the Board's mission, mandate, strategic plan, and organization;
- *3. Performance Goals, Objectives and Results* summarizes the Board's success in accomplishing its performance goals;
- *4. Analysis of the Financial Statements* summarizes the Board's financial results, position, and condition;
- *5. Analysis of Systems, Controls, and Legal Compliance* describes efforts to comply with the Anti-Deficiency Act, the Digital Accountability and Transparency Act of 2014 (DATA Act), and the Federal Information Security Modernization Act;
- *6. Forward-Looking Information-Future Challenges* describes anticipated future challenges and initiatives for the Defense Nuclear Facilities Safety Board.
- *7. Other Management Information* describes the Board performance on payment integrity.

1.2.1 Mission Statement and Organizational Structure

The mission of the Board, as defined in its enabling statute at 42 U.S.C. § 2286a(a), is to provide independent analysis, advice, and recommendations to the Secretary of Energy to inform the Secretary, in his/her role as operator and regulator of DOE defense nuclear facilities, in

providing adequate protection of public health and safety at such defense nuclear facilities. The Board is composed of five respected experts in the field of nuclear safety, supported by a staff of technical, administrative, and legal personnel.

1.2.2 The Board's Legislative Mandate

The Board's specific functions are delineated in its enabling statute at 42 U.S.C. § 2286a(b):

- The Board shall review and evaluate the content and implementation of the standards relating to the design, construction, operation, and decommissioning of defense nuclear facilities of the DOE (including all applicable DOE orders, regulations, and requirements) at each DOE defense nuclear facility. The Board shall recommend to the Secretary of Energy those specific measures that should be adopted to ensure that public health and safety are adequately protected. The Board shall include in its recommendations necessary changes in the content and implementation of such standards, as well as matters on which additional data or additional research are needed.
- The Board shall investigate any event or practice at a DOE defense nuclear facility that the Board determines has adversely affected, or may adversely affect, public health and safety.
- The Board shall have access to and may systematically analyze design and operational data, including safety analysis reports, from any DOE defense nuclear facility.
- The Board shall review the design of a new DOE defense nuclear facility before construction of such facility begins and shall recommend to the Secretary, within a reasonable time, such modifications of the design as the Board considers necessary to ensure adequate protection of public health and safety. During the construction of any such facility, the Board shall periodically review and monitor the construction and shall submit to the Secretary, within a reasonable time, such recommendations relating to the construction of that facility as the Board considers necessary to ensure adequate protection of public health and safety. An action of the Board, or a failure to act, under this paragraph may not delay or prevent the Secretary of Energy from carrying out the construction of such a facility.
- The Board shall make such recommendations to the Secretary of Energy with respect to DOE defense nuclear facilities, including operations of such facilities, standards, and research needs, as the Board determines are necessary to ensure adequate protection of public health and safety. In making its recommendations, the Board shall consider, and specifically assess, risk (whenever sufficient data exists), and the technical and economic feasibility of implementing the recommended measures.

1.2.3 Strategic Plan

During FY 2019, the Board operated in accordance with its Strategic Plan for FY 2018–2022, which sets forth a broad vision of how the Board will fulfill its statutory mission to “provide independent analysis, advice, and recommendations to the Secretary of Energy to inform the Secretary, in the role of the Secretary as operator and regulator of the defense nuclear facilities of the Department of Energy, in providing adequate protection of public health and safety at such defense nuclear facilities.” The principles and goals established in this Strategic Plan are listed below.¹

Principles

- Efficiently and effectively accomplish independent investigative and oversight functions as described in the enabling statute;
- Conduct operations in a manner that is accountable, fostering an organizational culture that relies on high standards of integrity, fiscal responsibility, and operational proficiency; and
- Develop and sustain the respect and confidence of the public through expertise and execution of the mission.

Goal 1

Independent review of content and implementation of standards relating to the design, construction, operation, and decommissioning of defense nuclear facilities.

Goal 2

Investigation of any event or practice at defense nuclear facilities, which the Board determines adversely affects or may adversely affect public health and safety.

Goal 3

Systematic analysis of design and operational data.

Goal 4

Timely review of design of new defense nuclear facilities before construction and periodically, thereafter.

Goal 5

Proposal of recommendations to the Secretary of Energy when determined necessary to ensure adequate protection of health and safety.

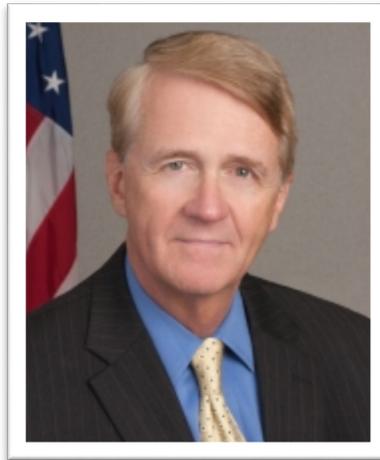
¹ Please note that the Board has approved a revised 2018-2022 Strategic Plan that is available on our website at www.dnfsb.gov. As this is a brand new version of our Strategic Plan, approved by the Board on December 10, 2019, the changes are not reflected in this document as this AFR pertains to FY 19, prior to the Strategic Plan revision.

Goal 6

Achievement of mission in a manner that is accountable and transparent to the public and achieves the mission efficiently and effectively.

1.2.4 Organization

The five-member Board leads the agency in defining actions regarding the safety aspects of the design, construction, operation, and decommissioning of DOE's defense nuclear facilities. As of November 15, 2019, two of the five Board positions were vacant.



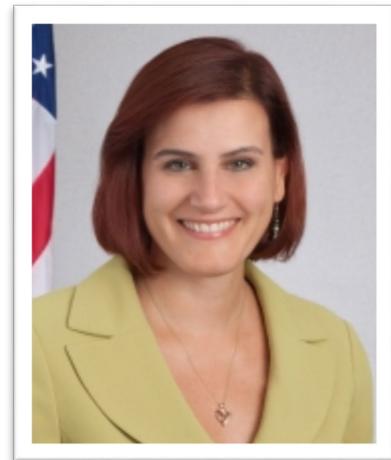
CHAIRMAN

Mr. Bruce Hamilton



Board Member

Ms. Jessie Hill Roberson



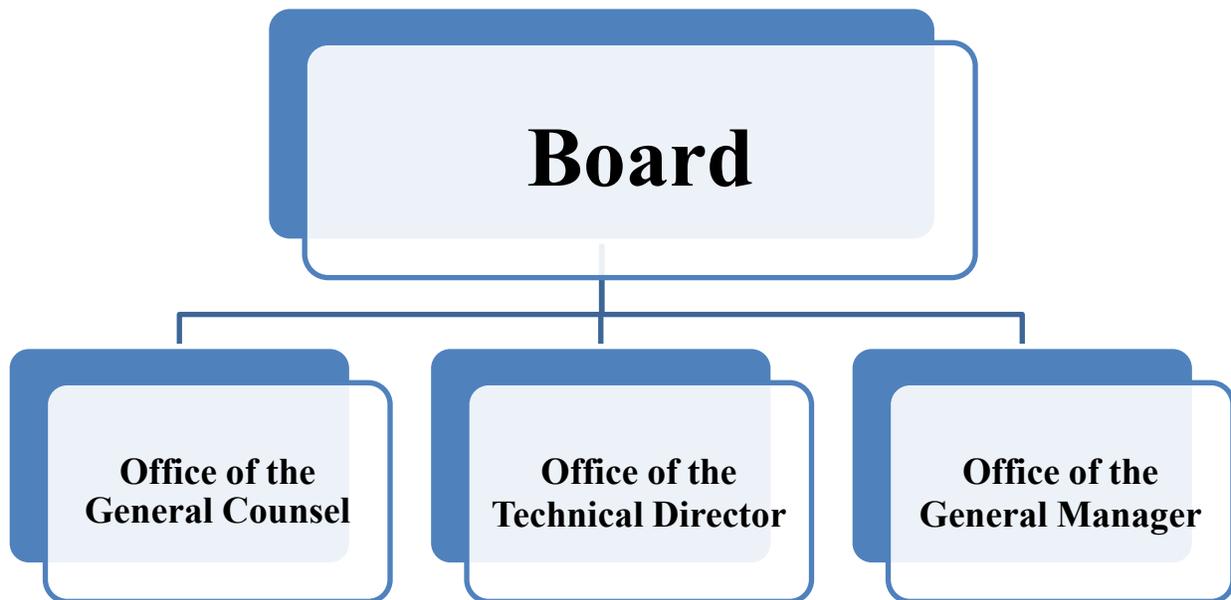
Board Member

Ms. Joyce L. Connery

1.2.5 Organizational Chart

The Board is currently composed of approximately 90 federal FTEs arranged in three offices under the five-member board. The majority of FTEs are assigned to the Office of the Technical Director (OTD), where they directly carry out the mission of the Board, supported by the Office of the General Manager (OGM) and the Office of the General Counsel (OGC). See: **Figure 1**.

Figure 1 - Organizational Chart



1.3 Performance Goals, Objectives and Results

In FY 2019, the Board met or exceeded nearly all of the objective targets in support of its strategic plan goals. Regular information sharing among the Board's matrixed technical staff supports the interrelationship of all strategic goals. The Board's technical staff has been organized specifically to achieve the agency's performance goals and to execute its Strategic Plan and Annual Performance Plans. Using a matrix form of organization, the Board gains management flexibility and avoids the need to establish layers of middle management that divert staff resources from performing health and safety reviews. The Board utilizes the interrelated technical groups staffed with technical specialists having both the education and work experience commensurate with their designated oversight assignments. Depending on the urgency of an issue, the Board's flexibility enables reassignment of resources among these groups as necessary. Details and further discussion will be published in the FY 2019 Annual Performance Report to be issued with the FY 2021 President's Budget.

1.4 Analysis of the Financial Statements

1.4.1 Limitation of the Financial Statements

The principal financial statements are prepared to report the financial position and results of operations of the Board, pursuant to the requirements of 31 U.S.C § 3515(b), Financial statements of agencies, and Public Law 107-289, the Accountability of Tax Dollars Act of 2002. The statements are prepared from the books and records of the Board in accordance with Federal Generally Accepted Accounting Principles (GAAP) and the formats prescribed by OMB. Reports used to monitor and control budgetary resources are prepared from the same books and records. The financial statements should be read with the realization that they are for a component of the U.S. Government.

1.4.2 Summary of Financial Results, Position, and Condition

As with many small agencies, the Board has adopted an “economies of scale” strategy for obtaining needed administrative support services. The Board has negotiated interagency agreements with the United States Department of Agriculture’s (USDA) National Finance Center for personnel/payroll services, and USDA’s Pegasys Financial Management Services (PFMS) team for accounting services on a fee-for-service basis. The Board’s financial statements were prepared by the PFMS in accordance with the accounting standards codified in the Statements of Federal Financial Accounting Standards (SFFAS) and OMB Circular A-136, *Financial Reporting Requirements*. Board staff have reviewed the statements sufficiently to provide reasonable assurance that they are consistent with the accounting data maintained by the Board.

1.4.3 Relevance of Balances and Amounts in the Principal Financial Statements

1.4.3.1 Balance Sheet

The Simplified Balance Sheet, **Table 1**, shows the major components of the Balance Sheet. Total Assets must equal Total Liabilities plus Net Position. Net Position is the net total of Unexpended Appropriations and Cumulative Results of Operations.

Table 1 - Balance Sheet

Simplified Balance Sheet		
Whole Dollars		
	<u>FY 2019</u> <u>as of</u> <u>September 30, 2019</u>	<u>FY 2018</u> <u>as of</u> <u>September 30, 2018</u>
	-	-
Total Assets	\$20,421,414	\$15,521,551
Total Liabilities	\$2,866,531	\$2,931,369
Unexpended Appropriations	\$18,577,918	\$13,561,933
Cumulative Results of Operations	(\$1,023,035)	(\$971,750)
Net Position	\$17,554,883	\$12,590,182
Total Liabilities and Net Position	\$20,421,414	\$15,521,551

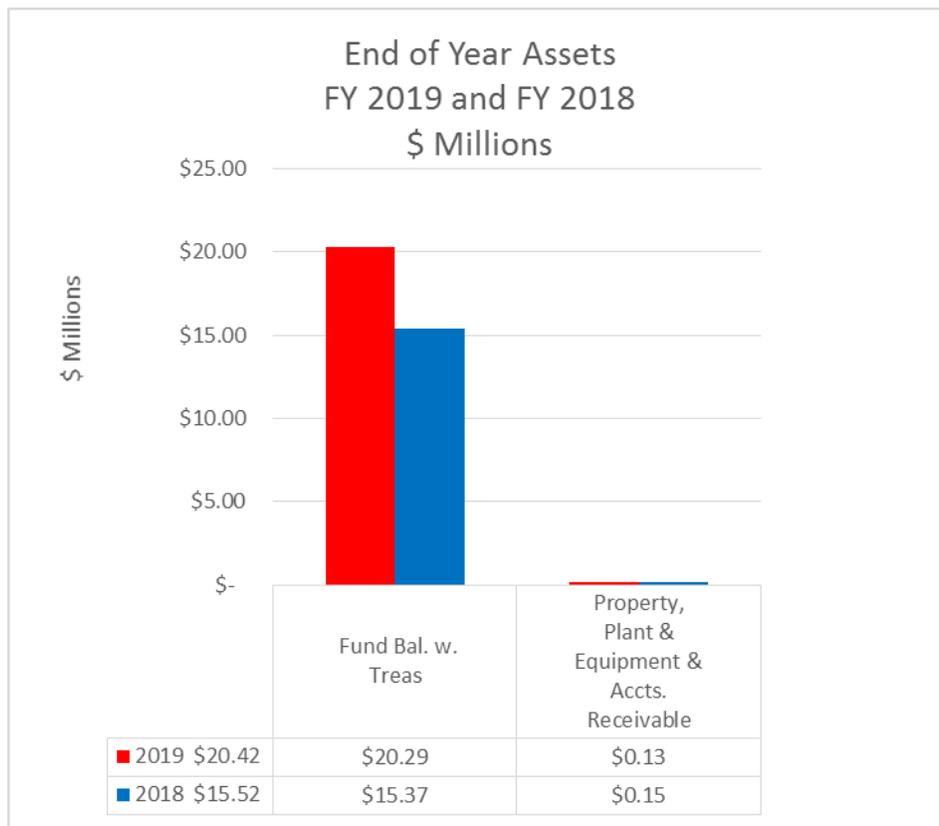
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Assets:

Fund Balance with Treasury (FBWT) (analogous to cash) comprises virtually all of the Board’s assets, except for a small amount of Property, Plant & Equipment (PPE) and a negligible amount of accounts receivable. FBWT represents appropriated funds maintained at the Treasury to pay for current liabilities and to finance authorized purchases.

As shown in the “End of Year Assets” chart, **Figure 2**, the asset balances were \$20.42 million as of September 30, 2019, an increase of \$4.90 million from the total of \$15.52 million as of the end of FY 2018. The increase in end of year cash was due to lower personnel outlays in FY 2019 that left more cash remaining at Treasury at the end of the year.

Figure 2 – End of Year Assets



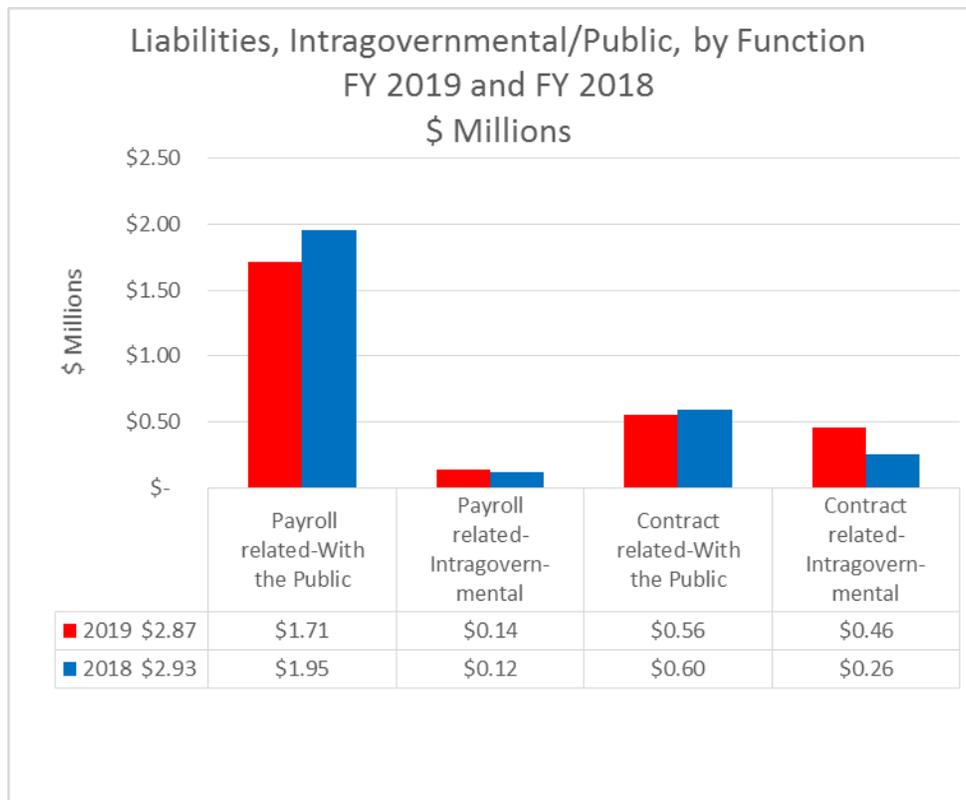
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Liabilities:

At the end of FY 2019, payroll-related liabilities (that include Withheld Taxes Payable, Accrued Payrolls, and Unfunded Leave) made up approximately 65 percent of the Board’s liabilities. The remaining 35 percent was made up of payables related to contractual obligations.

As shown in the “Liabilities” chart, **Figure 3**, as of September 30, 2019, the balance of payroll-related liabilities was \$1.85 million (including both payroll-related liabilities with the public (the Board’s employees) of \$1.71 million, and payroll related intragovernmental liabilities of \$0.14 million, a decrease of \$0.23 million (rounded) from the combined total of \$2.08 million at the end of FY 2018. The decrease was due to reduced payrolls resulting from fewer employees in FY 2019. Contractual obligation-related payables increased from \$0.86 million at the end of FY 2018 to \$1.02 million at the end of FY 2019 due to slower billing by contractors.

Figure 3 – Liabilities

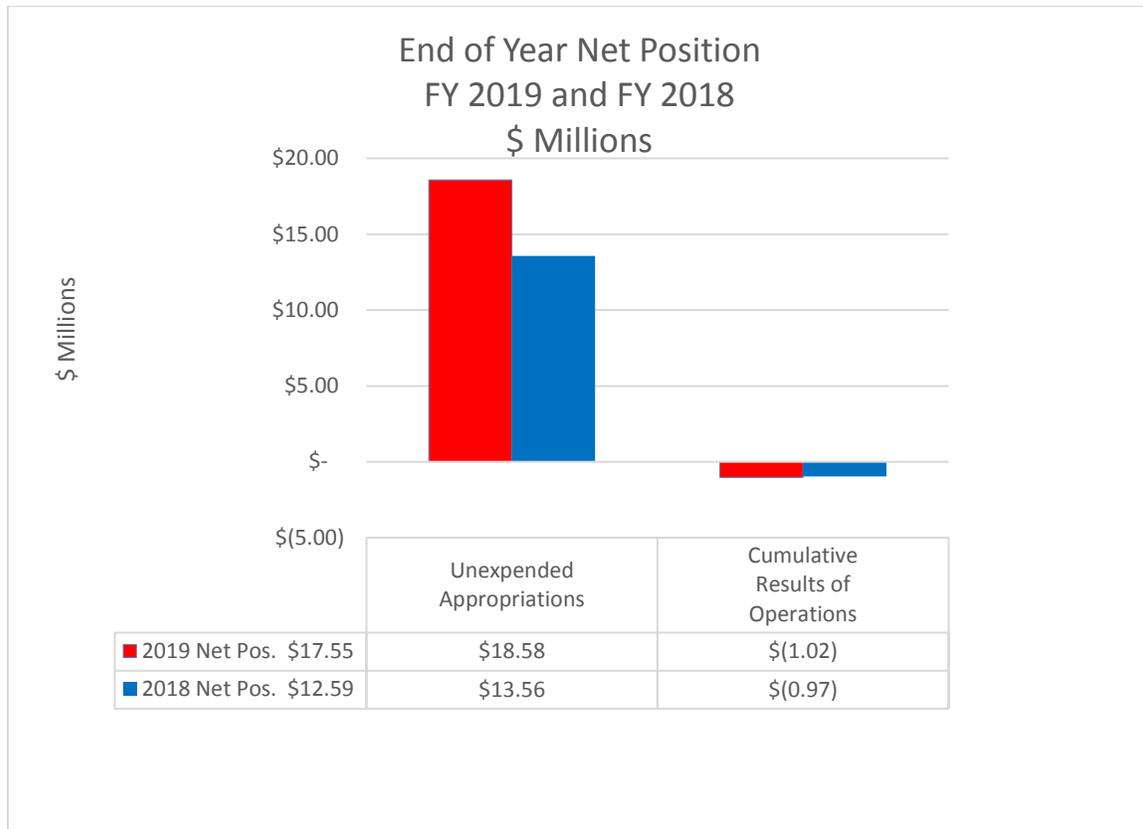


Net Position:

Net Position, **Figure 4**, on Government balance sheets is analogous to Equity on private sector balance sheets. However, it is a not measure of financial success for the Board, and increasing the Board’s Net Position is not a financial goal for the Board.

Net Position is calculated as Unexpended Appropriations plus Cumulative Results of Operations (CRO). CRO, which for the Board consists almost entirely of accumulated employee leave, changed the Board’s Net Position at the end of FY 2019 by \$(1.02) million. The Board pays for leave when taken as salaries, and the Board had sufficient funds for salaries.

Figure 4 – End of Year Net Position



1.4.3.2 Statement of Net Cost

The Summary Statement of Net Cost, **Table 2**, shows the comparative net cost of operations between FY 2019 and FY 2018.

Table 2 – Simplified Statement of Net Cost

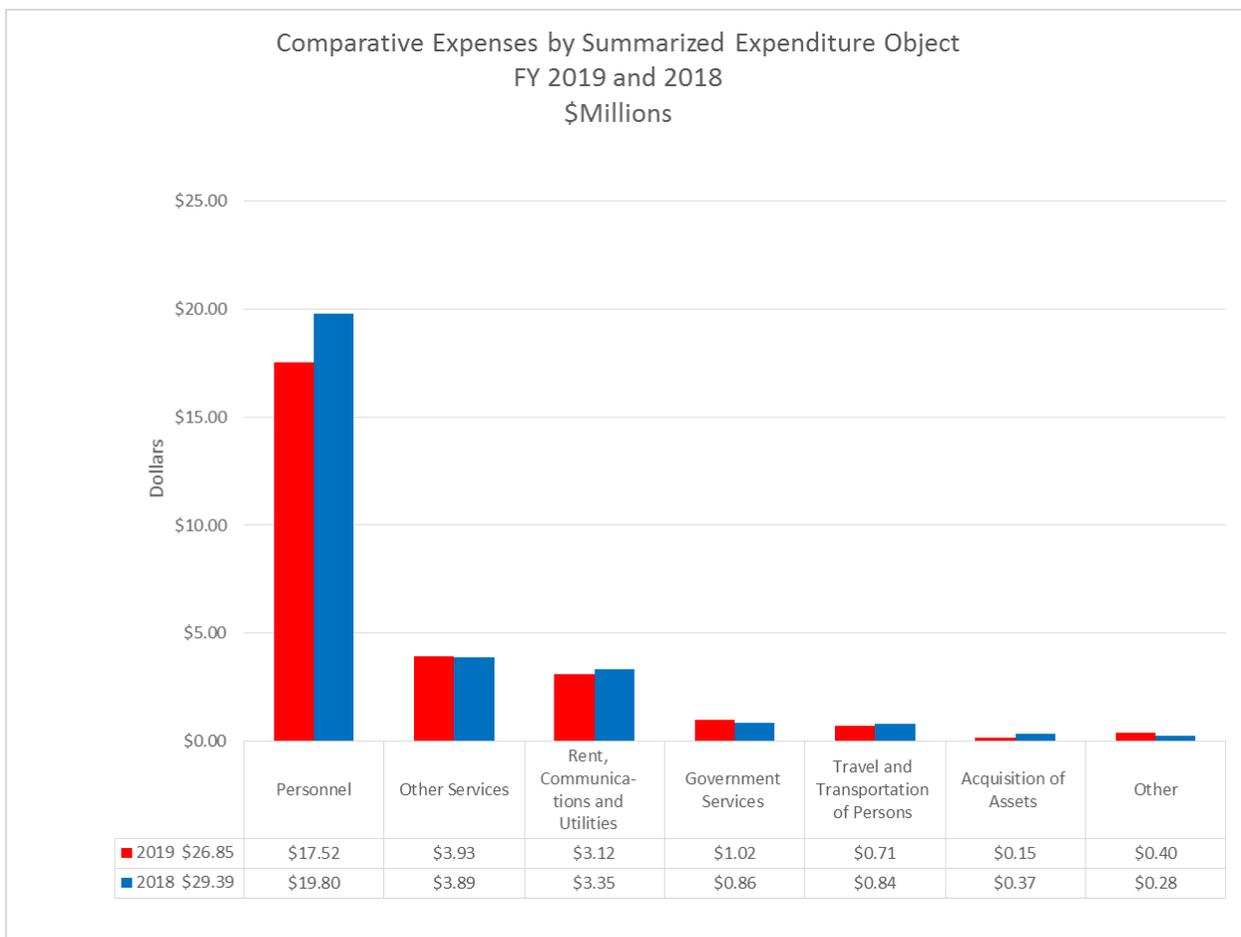
Simplified Statement of Net Cost Whole Dollars		
	FY 2019	FY 2018
Net Cost of Operations	\$26,853,937	\$29,395,946

The Board's net cost of operations for the year ending September 30, 2019, was \$26.85 million, a decrease of \$2.54 million or 9 percent from FY 2018 costs. The decrease in net cost was primarily due to lower personnel costs.

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The “Comparative Expenses by Summarized Expenditure Object” chart, **Figure 5**, groups expenses into a few summarized categories that include related expenditure object classes. For example, personnel salaries, personnel benefits, and imputed personnel costs are grouped into a single category called “Personnel.” The chart shows that the summary cost of direct-hire personnel in FY 2019 made up approximately 65 percent of all costs (\$17.52 million/\$26.85 million). Thus, the \$2.28 million reduction in Personnel costs accounted for most of the total net cost decrease of \$2.54 million. Direct hire employee headcount decreased from 90 at the beginning of FY 2019 to 87 at the end of Q1 2019, to 87 at the end of Q2 2019, to 84 at the end of Q3 2019, then increased to 88 at the end of Q4 2019. Cost changes in other categories were relatively small.

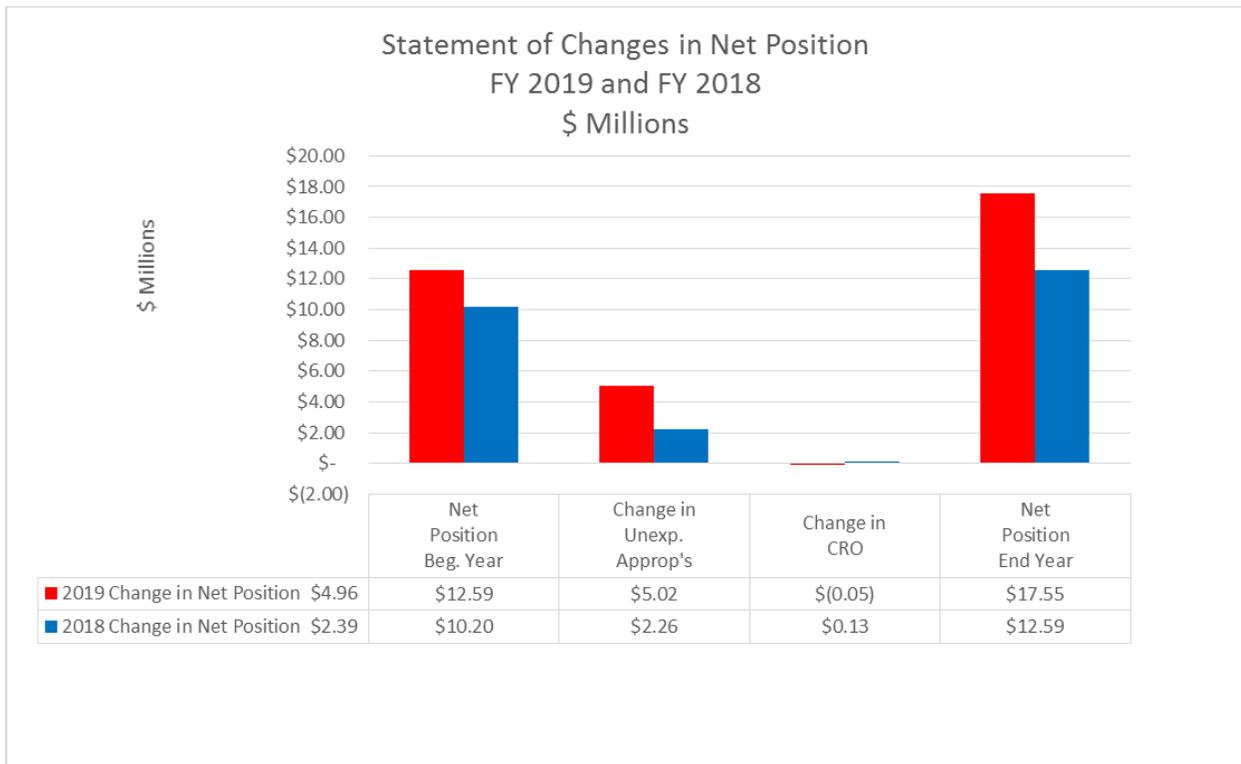
Figure 5 – Comparative Expenses by Summarized Expenditure Object



1.4.3.3 Statement of Changes in Net Position (SCNP)

The chart showing the SCNP, **Figure 6**, shows the factors that caused the Net Position to increase by \$4.96 million during the FY 2019. There were two such factors: first, we increased our unexpended appropriations by \$5.02 million. This was primarily due to reduced personnel expenses. Second, we decreased CRO by \$(0.05) million.

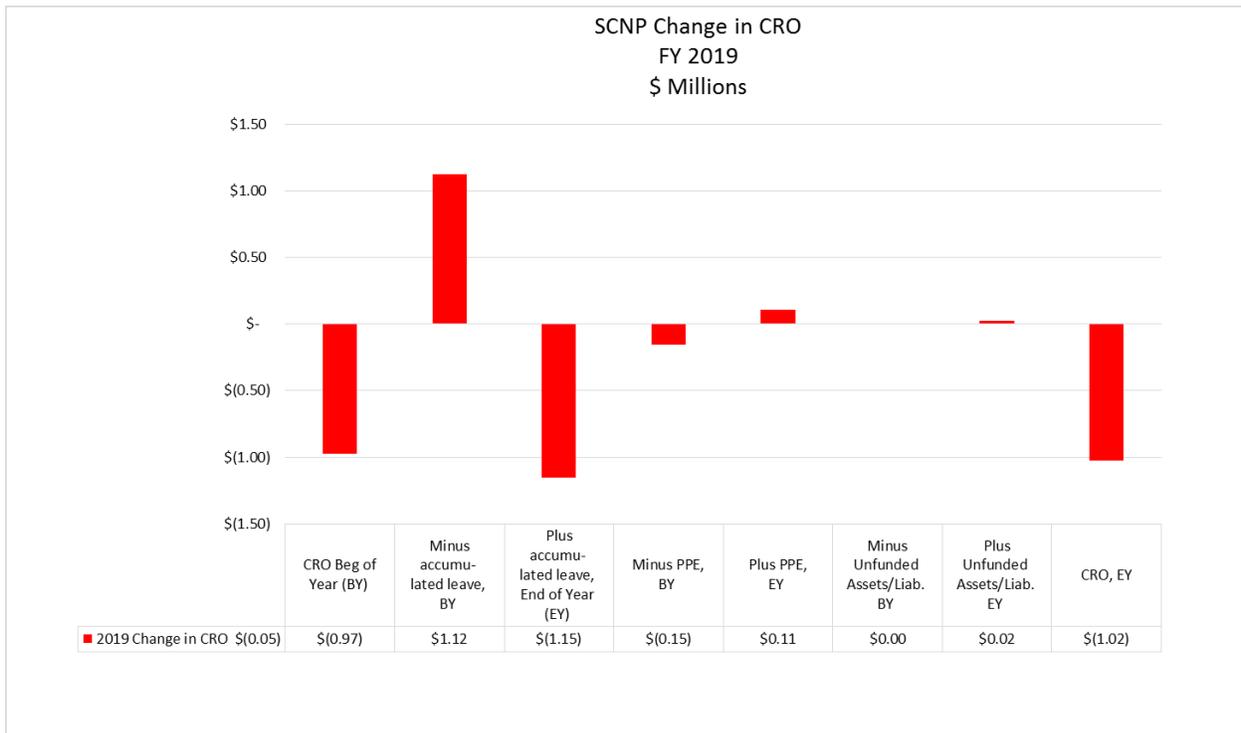
Figure 6 – Statement of Changes in Net Position



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As shown in the chart, SCNP – Change in CRO, **Figure 7**, unfunded accumulated leave changed by \$(0.03) million from \$(1.12) million at the beginning of FY 2019 to \$(1.15) million at the end of FY 2019. The book value of PP&E decreased by \$(0.04) million from \$0.15 million at the beginning of FY 2019 to \$0.11 million at the end of FY 2019. There was also a small change of \$0.02 million in unfunded Assets combined with Unfunded Liabilities. All of this caused CRO to decrease by \$(0.05) million, from \$(0.97) million at the beginning of FY 2019 to \$(1.02) million at the end of FY 2019.

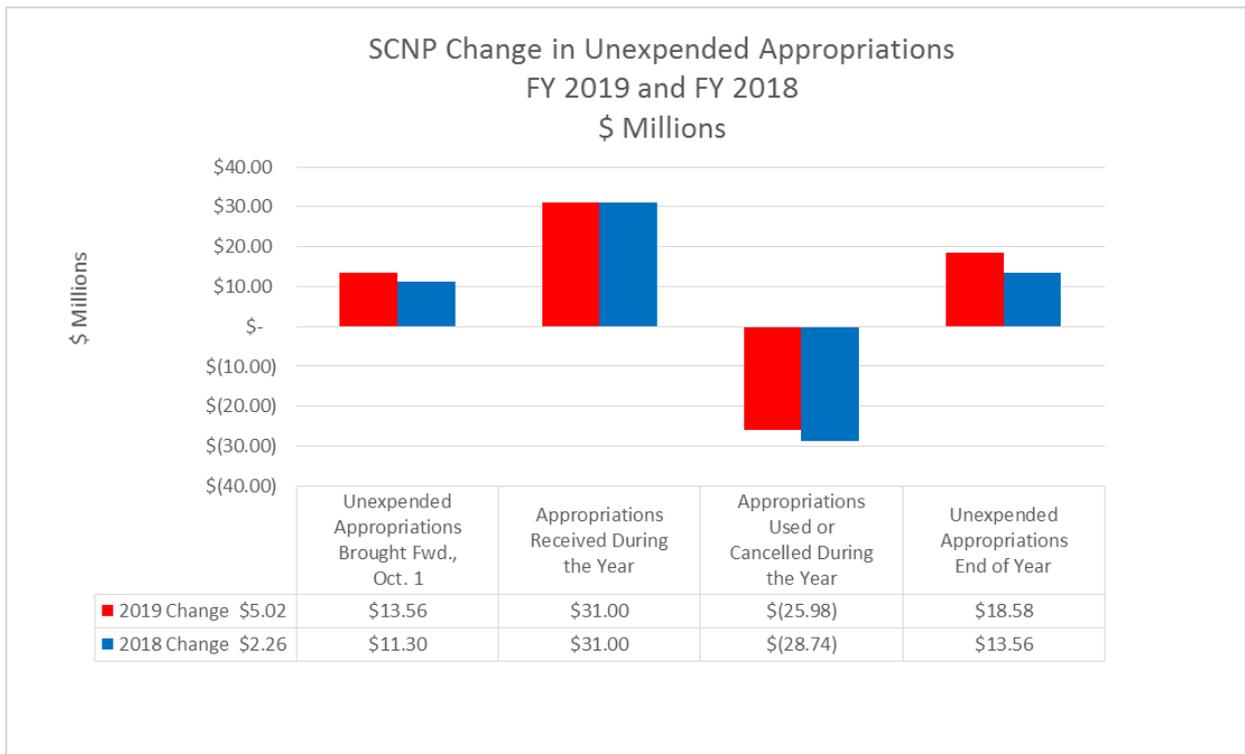
Figure 7 – SCNP Change in Cumulative Results of Operations



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As shown in **Figure 8**, during FY 2019 the Board used (expended) \$25.98 million of its appropriations. This is a decrease of \$(2.76) million from the \$28.74 million that it used in FY 2018. Lower expenditures were due mainly to lower personnel costs. The Board received \$31.00 million in appropriations in both FY 2019 and FY 2018. The Board’s end of FY 2019 Unexpended Appropriations increased by \$5.02 million to \$18.58 million at the end of FY 2019 from \$13.56 million at the end of FY 2018.

Figure 8 – SCNP Change in Unexpended Appropriations



1.4.3.4 Statement of Budgetary Resources

The Statement of Budgetary Resources (SBR) shows the sources and uses of funds. To “use” funds in this context means to obligate them or to outlay them. To outlay means to pay out cash from Treasury. The SBR is divided into four parts:

- Budgetary Resources
- Status of Budgetary Resources
- Unobligated Balance
- Outlays

A simplified version of the SBR is presented as **Table 3**.

Table 3 – Simplified Statement of Budgetary Resources

Simplified Statement of Budgetary Resources		
Whole Dollars		
	FY 2019 as of September 30 (Whole Dollars)	FY 2018 as of September 30 (Whole Dollars)
Budgetary Resources		
Unobligated balance from prior year budget authority	\$ 9,986,424	\$ 8,140,500
Appropriations	\$ 31,000,000	\$ 31,000,000
Total Budgetary Resources	\$ 40,986,424	\$ 39,140,500
Status of Budgetary Resources		
New obligations and upward adjustments (total)	\$ 28,408,804	\$ 29,805,492
Unobligated balance, end of year:		
Unexpired unobligated balance, end of year	\$ 8,339,328	\$ 5,156,144
Expired unobligated balance, end of year	\$ 4,238,292	\$ 4,178,864
Unobligated balance, end of year (total)	\$ 12,577,620	\$ 9,335,008
Total Budgetary Resources	\$ 40,986,424	\$ 39,140,500
Outlays, net (total)		
	\$ 25,959,009	\$ 29,048,492

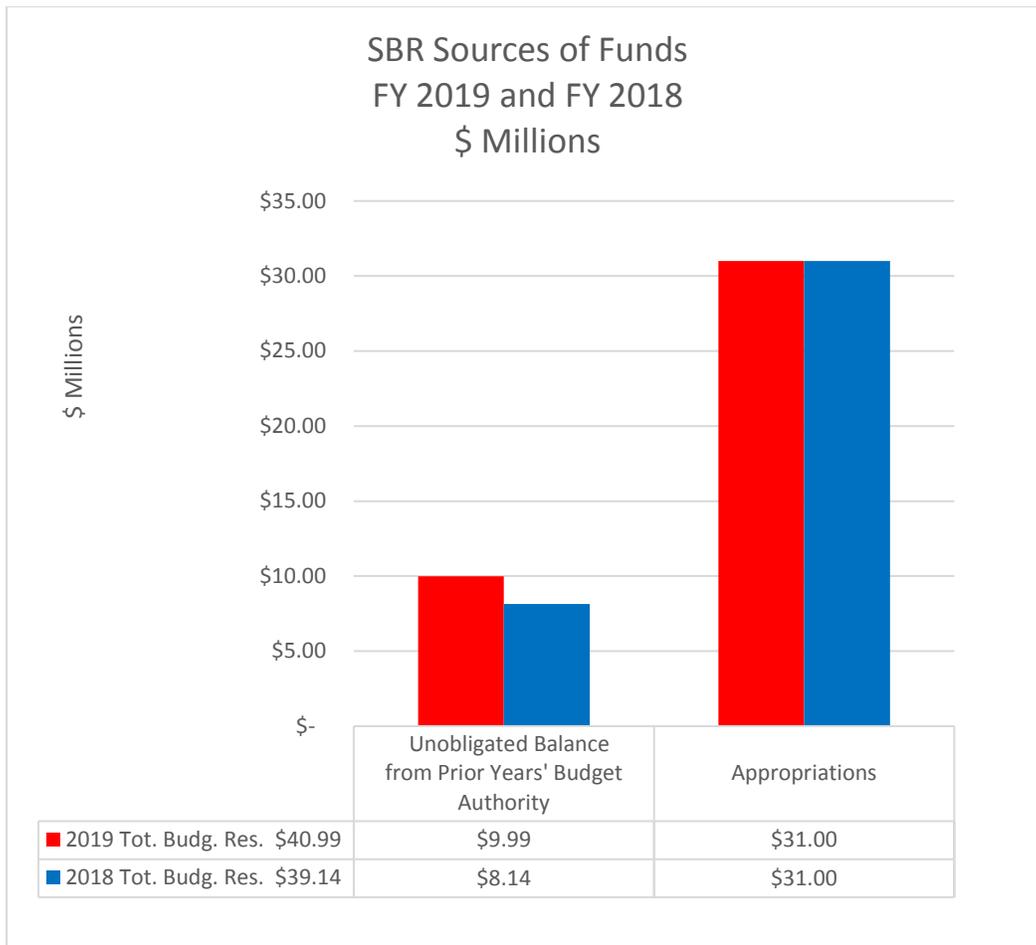
1.4.3.4.1 Budgetary Resources

This part of the SBR shows the sources of all funds available to cover obligations during this fiscal year and last year. These sources are divided into:

- Unobligated balances from prior years: FY 2019, \$9.99 million; FY 2018, \$8.14 million.
- New appropriations received during the year: FY 2019, \$31.0 million; FY 2018, \$31.0 million.

As shown in the “SBR Sources of Funds” chart, **Figure 9**, Total Budgetary Resources available were \$40.99 million in FY 2019 compared to \$39.14 million in FY 2018.

Figure 9 – SBR Sources of Funds



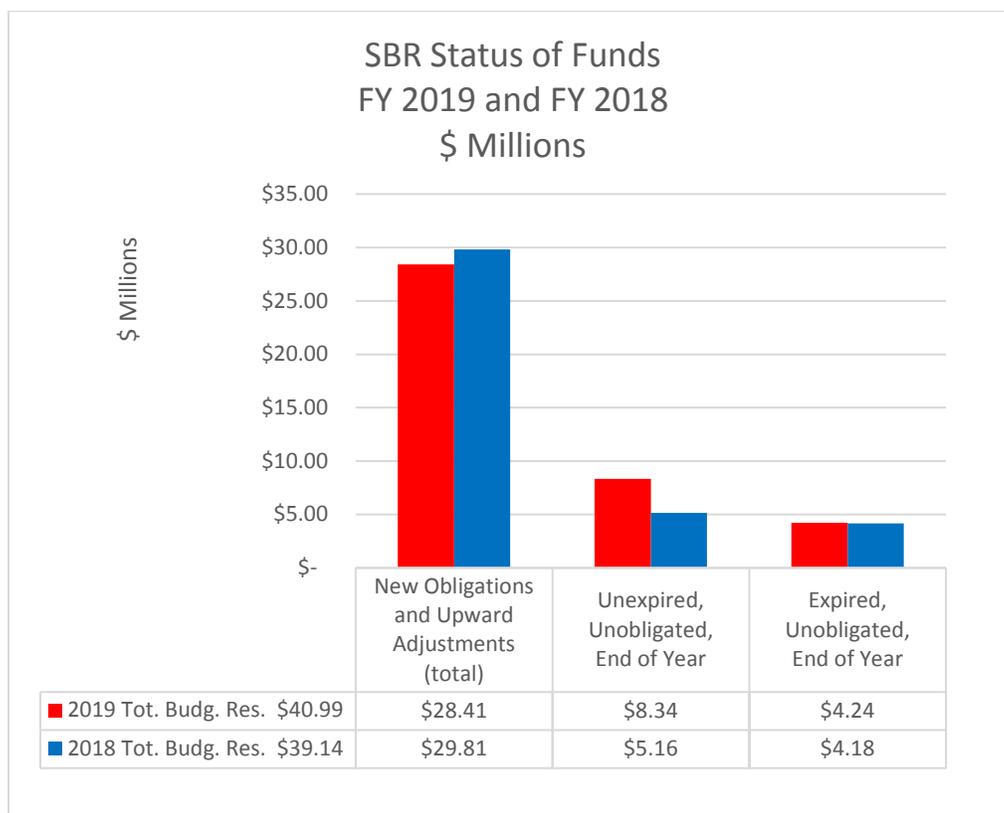
1.4.3.4.2 Status of Budgetary Resources

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This part of the SBR shows the extent to which the Board used its funds during the year. By construction, Status of Budgetary Resources equals Budgetary Resources. There are only two things that the Board can do with its resources, either obligate them or not. If they were not obligated at the end of the year, it is either because the funds were unexpired but the Board did not obligate them, or the funds came forward from FY 2018 as expired and, therefore, the Board could not obligate them.

As shown in the “SBR Status of Funds” chart, **Figure 10**, the significant difference between FY 2019 and FY 2018 is that the FY 2019 Unobligated balance at the end of the year was \$12.58 million. That balance is \$3.24 million more than the \$9.34 million at the end of FY 2018. This increase was the result of starting FY 2019 with \$1.32 million more in unobligated balances than that with which we started FY 2018, combined with reduced new obligations, primarily in personnel, during the year of \$(1.40) million, and also combined with de-obligations of prior-year agreements of \$(0.52) million (not shown).

Figure 10 – SBR Status of Funds



1.4.3.4.3 Outlays, Net

This part of the SBR shows Net Outlays, **Figure 11**. Net Outlays in FY 2019 were \$3.09 million less than in FY 2018, primarily because of lower outlays for personnel costs.

Figure 11 – SBR Outlays



1.4.4 Overall financial condition and financial management

As of September 30, 2019, the financial condition of the Board was sound with respect to having sufficient funds to meet program needs, and the Board exercised adequate control of these funds to conduct its health and safety oversight mission and to ensure that obligations did not exceed budget authority.

No financial management issues have arisen since the end of FY 2018 nor have any anticipated or unanticipated financial risks occurred during FY 2019.

1.5 Analysis of Systems, Controls, and Legal Compliance

This section provides information on the Board's compliance with FMFIA, as well as other management information, initiatives, and issues. FMFIA requires that agencies establish controls that provide reasonable assurance that: (1) obligations and costs comply with applicable law; (2) assets are safeguarded from waste, loss, unauthorized use, or misappropriation; and (3) revenues and expenditures are properly recorded and accounted for. It also requires the Board's Chairman to provide an assurance statement on the adequacy of internal controls. A summary of Management Assurances is included in Appendix B

The internal control program is the organization, policy, and procedures that help managers achieve intended results and safeguard the integrity of their programs. The Board evaluated its internal control program for the fiscal year ending September 30, 2019. Each Board Office Director (as well as each line manager) prepares an annual assurance assertion that identifies any control weaknesses requiring the attention of the Board's Executive Committee on Internal Control (ECIC). In addition to managers' knowledge of daily operations, these assertions are based on internal control activities such as internal and contractor assessments of work processes directed by the ECIC, as well as other activities such as financial statements audits and Office of Inspector General (OIG) audits and reports.

The ECIC consisted of the General Manager, Technical Director, General Counsel, and one Board Member. The OIG participated as an observer. The ECIC met to review the reasonable assurance assertions provided by the Office Directors and the reported internal control deficiencies. Based on the information provided, the ECIC reported to the Chairman that there were no internal control deficiencies serious enough to require reporting as a material weakness or non-compliance.

1.5.1 FMFIA Statement of Assurance

Unmodified Statement of Assurance (FMFIA)

The Defense Nuclear Facilities Safety Board's (DNFSB) management is responsible for managing risks and maintaining effective internal control to meet the objective of Section 2 of the Federal Managers' Financial Integrity Act (FMFIA). DNFSB conducted its assessment of risk and internal control in accordance with OMB Circular A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control*. Based on the results of the assessment, DNFSB can provide reasonable assurance that internal control over operations, reporting, and compliance were operating effectively as of September 30, 2019.



12/17/2019

Bruce Hamilton
Acting Chairman

Date

1.5.2 Financial Management Systems Strategy and Framework

The Board's financial management systems strategy is to contract with USDA PFMS for the provision of U.S. Standard General Ledger compliant accounting and financial reporting services that comply with all federal financial systems requirements. At the same time, the OGM maintains its own Financial Tracking System (FTS) in which it records all obligations and outlays and that serves as an independent check on the accuracy and completeness of transaction records in PFMS. The combination of PFMS and FTS provides high-quality, current, and accessible accounting data that provide effective controls over budget execution and reporting and a solid historical basis for budget projections. The OGM reports regularly to the Board on the budget status and trends.

Because the Board contracts for and obtains accounting services from a federal shared services provider, USDA PFMS, and thus does not operate a financial management system, the Board does not provide a management assurance related to FMFIA § 4 or Section 803(a) of the Federal Financial Management Improvement Act. PFMS is part of USDA's Office of the Chief

Financial Officer (OCFO). OCFO/PFMS issued a System and Organization Controls or SOC 1 report on September 9, 2019. It contained the Independent Service Auditor's Report on USDA's PFMS organization and stated, in part, that the USDA PFMS controls operated effectively to provide reasonable assurance that the control objectives stated in USDA's description of controls were achieved throughout the period July 1, 2018, to June 30, 2019, if complimentary subservice organization and customer agency controls, assumed in the design of USDA's controls, operated effectively through that time period. PFMS updated the Independent Service Auditor on October 1, 2019, to the effect that PFMS was not aware of any material changes to their controls that would adversely affect the Auditor's opinion that was communicated in the USDA SOC 1 report referenced above.

1.5.3 Analysis of Legal Compliance

1.5.3.1 Digital Accountability and Transparency Act of 2014 (DATA Act)

The purpose of the DATA Act is to provide to the public an accurate list of all of the contract obligations that have been executed by all Federal Agencies. The Department of the Treasury, the U.S. General Services Administration (GSA), and others developed a tool called the DATA Broker to improve the quality of the contract lists. The basic strategy for improving the contract list is to compare all of the contract actions in Federal Procurement Data System (FPDS) with obligation transactions in the agencies' Accounting Systems to assure that every contract obligation that should be in FPDS is in FPDS and that FPDS obligation data are consistent with the obligation transactions in the accounting system data.

During FY 2019, the Board improved its procedures by adding a new data field to capture permanently the Procurement Instrument Identification number (PIID) in its Financial Tracking System (FTS). The PIID in FTS provides a permanent label that marks in FTS every obligation executed by the Contracting Officer and that Federal Acquisition regulations require us to report in the FPDS. Having all such obligations in FTS permanently marked with a PIID enables the DNFSB staff to produce at any time an accurate list of all obligation actions where the PIID is required. Staff then compare that list with the PIID-labelled obligations in the Pegasys accounting system and in FPDS. If they detect an inconsistency between the FTS list and either Pegasys or FPDS, they correct it, if possible. Also during FY 2019 staff corrected an error in its rules for constructing the PIID. This correction will enable the accounting system list of PIID-labelled obligations to compare more accurately with the FPDS list of PIID-labelled contract actions. The Board's OGM also has procured an upgrade of its contract-writing system so that it interfaces directly with GSA's FPDS system and automatically records contract actions in FPDS at the same time that the Contracting Officer executes the contract. This will help assure that obligation actions in the accounting system are matched by corresponding contract actions in FPDS.

1.5.3.2 Federal Information Security Modernization Act

The Federal Information Security Modernization Act (FISMA) requires an annual independent evaluation of an agency's information security program and practices to determine their effectiveness. DNFSB is still awaiting the final recommendations of the FY 2018 OIG independent FISMA evaluation as of September 30, 2019. The Board continues to update policies and information system contingency plans for continued compliance with the information security program.

1.5.4 GAO Investigations and Reports

In accordance with OMB Circular A-50, *Audit Follow Up*, ensuring prompt and proper resolution and implementation of audit recommendations is important to Board management. Government Accountability Office (GAO) Report 15-181, *Defense Nuclear Facilities Safety Board: Improvements Needed to Strengthen Internal Control and Promote Transparency*, as revised March 2, 2015, contained six recommendations. The Board had previously disagreed with one of GAO's recommendations. In February 2019, the Board informed GAO that its position had changed to accept the recommendation, and in April 2019, the Board submitted its revised procedures responding to the recommendation. All of the GAO recommendations are now closed. The report and the recommendation status can be found at: <http://www.gao.gov/products/GAO-15-181>.

In September 2019, GAO initiated a new engagement with the Board: Nuclear Safety Board Relationship with the Department of Energy (engagement code 103707). This review will examine DOE Order 140.1, *Interface with the Defense Nuclear Facilities Safety Board*, its effect on DNFSB's ability to meet its statutory responsibilities, and its impact on public and worker safety and on DNFSB's access to information required to carry out its congressionally-mandated responsibilities.

1.5.5 Compliance with the Inspector General Act of 1978

The Board is required to file a report annually under the Inspector General Act of 1978, Pub. L. 95-452, Oct. 12, 1978, 92 Stat. 1101, codified at 5 U.S.C. Appendix 3. The statute mandates a report which:

- (A) States whether there has been established in the federal entity an office that meets the requirements of this section;
- (B) Specifies the actions taken by the federal entity otherwise to ensure that audits are conducted of its programs and operations in accordance with the standards for audit of governmental organizations, programs, activities, and functions issued by the Comptroller General of the United States, and includes a list of each audit report completed by a federal or non-federal auditor during the reporting period and a summary of any particularly significant findings; and

- (C) Summarizes any matters relating to the personnel, programs, and operations of the federal entity referred to prosecutorial authorities, including a summary description of any preliminary investigation conducted by or at the request of the federal entity concerning these matters, and the prosecutions and convictions which have resulted.

The Board reports as follows for FY 2019:

- (A) 42 U.S.C §2286k provides that the Inspector General of the Nuclear Regulatory Commission (NRC) serves as the Inspector General for the Board.
- (B) The OIG completed five assessments on Board programs during FY 2019, including its Assessment of the Most Serious Management and Performance Challenges Facing DNFSB in FY 2019 (DNFSB-19-A-01); the Audit of DNFSB's Issue and Commitment Tracking System (IACTS) and Its Related Processes (DNFSB 19-A-02); the Audit of the Defense Nuclear Facilities Safety Board's Financial Statements for Fiscal Years 2018 and 2017 (DNFSB-19-A-03); the Independent Evaluation of DNFSB's Implementation of the Federal Information Security Modernization Act (FISMA) of 2014 for FY 2018 (final report pending as of September 30, 2019); and the Audit of DNFSB's Compliance with Standards Established by the DATA Act. The OIG initiated but has not yet completed several more audits of DNFSB as of September 30, 2019, including the Audit of DNFSB's Human Resources Program; the Independent Evaluation of DNFSB's Implementation of the Federal Information Security Modernization Act (FISMA) of 2014 for FY 2019; and the Audit of DNFSB's FY 2019 Financial Statements.
- (C) In regard to prior year audits, the Board is implementing three recommendations from the Audit of DNFSB's Telework Program (DNFSB-17-A-06), to revise policy and operating procedures, telework agreements, and recordkeeping for the Telework Program. The Board implemented and closed all recommendations from the Audit of DNFSB's Resident Inspector Program (DNFSB-17-A-05), including establishing a transparent process for Resident Inspector staffing decisions. The Board also closed all recommendations from both the Audit of the Board's Financial Statements for Fiscal Years 2017 and 2016 (DNFSB-18-A-04), and the Cybersecurity Act of 2015 Audit (DNFSB-16-A-07), for compliance with the Privacy Act of 1974 and E-Government Act of 2002. DNFSB has one remaining recommendation to implement from the Audit of DNFSB's Implementation of Its Governing Legislation (DNFSB-18-A-05), to address organizational culture challenges.
- (D) The Board referred no matters to prosecutorial authorities.

1.6 Forward-Looking Information-Future Challenges

In FY 2018, DOE issued Order 140.1, *Interface with the Defense Nuclear Facilities Safety Board*. The Board conducted three public hearings on this topic during FY 2018 and FY 2019, in Washington, DC, and Albuquerque, New Mexico. These hearings gathered information from

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DOE headquarters officials and field office personnel on the objectives of DOE Order 140.1; the Board's access to information, facilities, and personnel; and potential impacts to the Board's resident inspector program. The Board also received feedback from stakeholders on issues related to the DOE Order at these hearings. Preserving the Board's access to information, facilities, and personnel at DOE's defense nuclear facilities will remain an area of emphasis during FY 2020.

Also in FY 2019, the Board continued its engagement with the National Academy of Public Administration (the Academy) to respond effectively to the findings and recommendations provided in the Academy's independent assessment of the Board's operations published in November 2018. During FY 2019, the Board held a series of Board Member public business meetings to discuss the Academy's implicit and explicit recommendations and subsequently undertook a comprehensive revision of the agency's strategic plan using a process facilitated by advisors from the Academy. The Board issued a revised strategic plan on December 10, 2019.

1.7 Other Management Information

1.7.1 Payment Integrity

The Board is deemed to not be susceptible to significant improper payments since the functional payment areas are limited to traveler reimbursement, commercial vendors for supplies and services, and the payroll electronic funds transfer payments. The Board does not administer any entitlement, grant or loan programs. Nonetheless, to comply with Circular A-123, Requirements for Payment Integrity Improvement, Appendix C, Part 1.C.2.d., DNFSB plans to perform a qualitative risk assessment during FY 2020. During FY 2019, the National Finance Center (for payroll) and the USDA (for all other payments) made total payments of approximately \$26 million on the Board's behalf. During FY 2019 The Board's finance staff identified four improper payments made in FY 2019, totaling \$485.32. To help assure accurate payments the finance staff records all voucher payment requests in its Financial Tracking System before sending them to USDA for payment. USDA reports back monthly on all payments that they have made and the finance staff compare the tracking system payments and invoices with the USDA payment reports and notifies USDA of all differences, including improper payments. The four improper payments found in FY 2019 were corrected before year-end.

Chapter 2 – General Manager’s Letter, Auditors’ Report, and Financial Statements

2.1 General Manager’s Letter

I am pleased to report that the Board’s FY 2019 financial statements received an unmodified opinion from its independent auditors, the Board’s fourteenth consecutive “clean” opinion since its FY 2004 financial statements were initially audited pursuant to the Accountability of Tax Dollars Act of 2002 (ATDA). FY 2019 marked the twelfth consecutive year that the Board’s unmodified opinion was coupled with no instances of non-compliance with laws and regulations and no material financial internal control weaknesses. The auditor did identify a significant deficiency related to timely de-obligation that we will rectify in FY 2020.

The financial statements that follow were prepared and audited as part of this Annual Financial Report. Publication of this AFR was delayed until December 18, 2019, due to circumstances unrelated to the condition of the Board’s financial statements. The Board has “contracts” (through Interagency Agreements) with USDA to act as its accounting services provider. The Board’s financial staff worked diligently with its USDA accountants in preparing our FY 2019 financial statements and providing the necessary supporting documentation to its auditors, and credit should be given to both those organizations for achieving these accomplishments.

Compliance with Laws and Regulations

The auditors tested the Board’s compliance with certain provisions of laws and regulations, non-compliance with which could have a direct and material effect on the determination of financial statement amounts, and certain other laws in regulations specified in OMB Bulletin 19-03, *Audit Requirements for Federal Financial Statements*. For the thirteenth consecutive year, the auditors found no instances of non-compliance with such laws or regulations.

Internal Controls

In planning and performing the financial statements audit, the independent auditors considered the Board’s internal control over financial reporting by obtaining an understanding of the Board’s internal controls, determining if internal controls had been placed in operation, assessing controls risk, and performing tests of controls. Testing of internal controls was limited to those controls necessary to achieve objectives described in OMB Bulletin 19-03. The auditors noted no internal control material weaknesses for the twelfth consecutive year.

The auditor’s report is included in its entirety in this Chapter.



Glenn Sklar, General Manager

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2.2 FY 2019 Auditor's Report



**DEFENSE NUCLEAR FACILITIES
SAFETY BOARD**
WASHINGTON, D.C. 20004-2901

OFFICE OF THE
INSPECTOR GENERAL

December 18, 2019

MEMORANDUM TO: Chairman Hamilton

FROM: David C. Lee *R/A*
Deputy Inspector General

SUBJECT: RESULTS OF THE AUDIT OF THE UNITED STATES
NUCLEAR REGULATORY COMMISSION'S FINANCIAL
STATEMENTS FOR FISCAL YEAR 2019 (DNFSB-20-A-03)

The Accountability for Tax Dollars Act of 2002 (ATDA) requires the Inspector General (IG) or an independent external auditor, as determined by the IG, to annually audit the Defense Nuclear Facilities Safety Board's (DNFSB) financial statements in accordance with applicable standards. In compliance with this requirement, the Office of the Inspector General (OIG) retained CliftonLarsonAllen (CLA) to conduct this annual audit. Transmitted with this memorandum is CLA's audit report. CLA examined DNFSB's Fiscal Year (FY) 2019 Agency Financial Report, which includes financial statements for FY 2019. CLA's audit report contains the following reports:

- Opinion on the Financial Statements.
- Opinion on Internal Control over Financial Reporting.
- Report on Compliance with Laws, Regulations, Contracts, and Grant Agreements.

Objective of a Financial Statement Audit

The objective of a financial statement audit is to determine whether the audited entity's financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

CLA's audit included, among other things, obtaining an understanding of DNFSB and its operations, including internal control over financial reporting; evaluating the design and operating effectiveness of internal control and assessing risk; and testing relevant internal

controls over financial reporting. Because of inherent limitations in internal controls, misstatements due to error or fraud may occur and not be detected. Also, projections of any evaluation of any internal control to future periods are subject to the risk that the internal control may become inadequate because of changes in conditions or that the degree of compliance with the policies or procedures may deteriorate.

FY 2019 Audit Results

The results are as follows:

Financial Statements

- Unmodified opinion.

Internal Control over Financial Reporting

- Unmodified opinion with significant deficiency

Compliance with Laws and Regulations

- No instances of noncompliance noted.

OIG Oversight of CLA's Performance

To fulfill our responsibilities under the *CFO Act* and related legislation for ensuring the quality of the audit work performed, we monitored CLA's audit of DNFSB's FY 2019 financial statements by:

- Reviewing CLA's audit approach and planning.
- Evaluating the qualifications and independence of CLA's auditors.
- Monitoring audit progress at key points.
- Examining the working papers related to planning and performing the audit and assessing DNFSB's internal controls.
- Reviewing CLA's audit report to ensure compliance with Government Auditing Standards and Office of Management and Budget Bulletin No. 19-03.
- Coordinating the issuance of the audit report.
- Performing other procedures deemed necessary.

CLA is responsible for the attached auditor's report, dated December 17, 2019, and the conclusions expressed therein. OIG is responsible for technical and administrative oversight regarding the firm's performance under the terms of the contract. Our oversight,

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as differentiated from an audit in conformance with Government Auditing Standards, was not intended to enable us to express an opinion, and accordingly we do not express an opinion on:

- DNFSB's financial statements.
- Effectiveness of DNFSB's internal control over financial reporting.
- DNFSB's compliance with laws, regulations, contracts, and grant agreements.

However, our monitoring review, as described above, disclosed no instances where CLA did not comply, in all material respects, with applicable auditing standards.

Meeting with the Chief Financial Officer

At the exit conference on December 16, 2019, representatives of the Office of the Chief Financial Officer, OIG, and CLA discussed the results of the audit.

Comments of the Chief Financial Officer

In his response, the General Manager agreed with the report. The full text of his response follows this report.

We appreciate the DNFSB staff's cooperation.

Attachment: As stated

cc: Board Member Roberson
Board Member Connery
G. Sklar, General Manager



CliftonLarsonAllen LLP
CLAconnect.com

INDEPENDENT AUDITORS' REPORT

To: Inspector General
United States Nuclear Regulatory Commission

Chairman
Defense Nuclear Facilities Safety Board

In our audit of the fiscal year 2019 financial statements of the Defense Nuclear Facilities Safety Board (DNFSB), we found

- DNFSB's financial statements as of and for the fiscal year ended September 30, 2019, are presented fairly, in all material respects, in accordance with U.S. generally accepted accounting principles;
- Although internal controls could be improved, DNFSB maintained, in all material respects, effective internal control over financial reporting as of September 30, 2019; and
- No reportable noncompliance for fiscal year 2019 with provisions of applicable laws, regulations, contracts, and grant agreements we tested.

The following sections discuss in more details (1) our report on the financial statements and on internal control over financial reporting, required supplementary information (RSI)¹, and other information (OI)² included with the financial statements; (2) our report on internal control over financial reporting; (3) our report on compliance with laws, regulations, contracts, and grants agreements; and (4) agency comments.

Report on the Financial Statements and on Internal Control over Financial Reporting

In accordance with our contract with the United States Nuclear Regulatory Commission's Office of Inspector General, we have audited DNFSB's financial statements. DNFSB's financial statements comprise of the balance sheet as of September 30, 2019; the related statement of net cost, changes in net position, and budgetary resources for the fiscal year ended; and the related notes to the financial statements. We also audited DNFSB's internal control over financial reporting as of September 30, 2019, based on criteria established under 31 U.S.C. § 3512(c), (d), commonly known as the Federal Managers' Financial Integrity Act (FMFIA).

We conducted our audits in accordance with U.S. generally accepted government auditing standards and OMB Bulletin No. 19-03, *Audit Requirements for Federal Financial Statements* (OMB 19-03). We believe the audit evidence we obtained is sufficient and appropriate to provide a basis for our opinions.

¹ The RSI consists of Management's Discussion and Analysis (MD&A) and the Combined Statement of Budgetary Resources, which are included with the financial statements.

² Other Information consists of information included with the financial statements, other than RSI and the auditors' report.



Management's Responsibility

DNFSB management is responsible for (1) the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; (2) preparing, measuring, and presenting the RSI in accordance with U.S. generally accepted accounting principles; (3) preparing and presenting other information included in documents containing the audited financial statements and auditors' report, and ensuring the consistency of that information with the audited financial statements and the RSI; (4) maintaining effective internal control over financial reporting, including the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; (5) evaluating the effectiveness of internal control over financial reporting based on the criteria established under FMFIA; and (6) its assessment about the effectiveness of internal control over financial reporting as of September 30, 2019, included in the MD&A.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements and an opinion on DNFSB's internal control over financial reporting based on our audits. U.S. generally accepted government auditing standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement, and whether effective internal control over financial reporting was maintained in all material respects. We are also responsible for applying certain limited procedures to RSI and OI included with the financial statements.

An audit of financial statements involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the auditors' assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances. An audit of financial statements also involves evaluating the appropriateness of the accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

An audit of internal control over financial reporting involves performing procedures to obtain evidence about whether a material weakness³ exists. The procedures selected depend on the auditor's judgement, including the assessment of the risk that a material weakness exists. An audit of internal control over financial reporting also includes obtaining an understanding of internal control over financial reporting, and evaluating and testing the design and operating effectiveness of internal control over financial reporting based on the assessed risk. Our audit of internal control also considered DNFSB's process for evaluating and reporting on internal control over financial reporting based on criteria established under FMFIA. Our audits also included performing such other procedures as we considered necessary in the circumstances.

³ A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A 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.

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We did not evaluate all internal controls relevant to operating objectives as broadly established under FMFIA, such as those controls relevant to preparing performance information and ensuring efficient operations. We limited our internal control testing to testing controls over financial reporting. Our internal control testing was for the purpose of expressing an opinion on whether effective internal control over financial reporting was maintained, in all material respects. Consequently, our audit may not identify all deficiencies in internal control over financial reporting that are less severe than a material weakness.

Definition and Inherent Limitations of Internal Control over Financial Reporting

An entity's internal control over financial reporting is a process effected by those charged with governance, management, and other personnel, the objectives of which are to provide reasonable assurance that (1) transactions are properly recorded, processed, and summarized to permit the preparation of financial statements in accordance with U.S. generally accepted accounting principles, and assets are safeguarded against loss from unauthorized acquisition, use, or disposition, and (2) transactions are executed in accordance with provisions of applicable laws, including those governing the use of budget authority, regulations, contracts, and grant agreements, noncompliance with which could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent, or detect and correct, misstatements due to fraud or error. We also caution that projecting any evaluation of effectiveness to future periods is 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.

Opinion on Financial Statements

In our opinion, DNFSB's financial statements present fairly, in all material respects, DNFSB's financial position as of September 30, 2019, and its net cost of operations, changes in net position, and budgetary resources for the fiscal year then ended in accordance with U.S. generally accepted accounting principles.

Opinion on Internal Control over Financial Reporting

In our opinion, although certain internal controls could be improved, DNFSB maintained, in all material respects, effective internal control over financial reporting as of September 30, 2019, based on criteria established under FMFIA.

As discussed below and in more detail in Exhibit A, our 2019 audit identified a deficiency in DNFSB's controls in monitoring and adjusting obligations for undelivered orders that were no longer valid, that represents a significant deficiency in DNFSB's internal control over financial reporting⁴. We considered this significant deficiency in determining the nature, timing, and extent of our audit procedures on DNFSB's fiscal year 2019 financial statements.

⁴ A significant deficiency is a deficiency or a combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit attention by those charged with governance

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Although the significant deficiency in internal control did not affect our opinion on DNFSB's fiscal year 2019 financial statements, misstatements may occur in unaudited financial information reported internally and externally by DNFSB because of this significant deficiency.

In addition to the significant deficiency in internal control discussed above, we also identified deficiencies in DNFSB's internal control over financial reporting that we do not consider to be material weaknesses or significant deficiencies. Nonetheless, these deficiencies warrant DNFSB's management attention. We have communicated these matters to DNFSB management and, where appropriate, will report on them separately.

Other Matters

Fiscal year 2018 financial statements

The accompanying fiscal year 2018 financial statements of DNFSB were audited by other auditors whose report thereon dated November 13, 2018, expressed an unmodified opinion on the financial statements and internal control over financial reporting.

Required Supplementary Information

U.S. generally accepted accounting principles issued by the Federal Accounting Standards Advisory Board (FASAB) require that the RSI be presented to supplement the financial statements. Although the RSI is not a part of the financial statements, FASAB considers this information to be an essential part of financial reporting for placing the financial statements in appropriate operational, economic, or historical context. We have applied certain limited procedures to the RSI in accordance with U.S. generally accepted government auditing standards, which consisted of inquiries of management about the methods of preparing the RSI and comparing the information for consistency with management's responses to the auditor's inquiries, the financial statements, and other knowledge we obtained during the audit of the financial statements, in order to report omissions or material departures from FASAB guidelines, if any, identified by these limited procedures. We did not audit and we do not express an opinion or provide any assurance on the RSI because the limited procedures we applied do not provide sufficient evidence to express an opinion or provide any assurance.

Other Information

DNFSB's other information contains a wide range of information, some of which is not directly related to the financial statements. This information is presented for purposes of additional analysis and is not a required part of the financial statements or the RSI. We read the other information included with the financial statements in order to identify material inconsistencies, if any, with the audited financial statements. Our audit was conducted for the purpose of forming an opinion on DNFSB's financial statements. We did not audit and do not express an opinion or provide any assurance on the other information.

Report on Compliance with Laws, Regulations, Contracts, and Grant Agreements

In connection with our audit of DNFSB's financial statements, we tested compliance with selected provisions of applicable laws, regulations, contracts, and grant agreements consistent with our auditors' responsibility discussed below. We caution that noncompliance may occur and not be detected by these tests. We performed our tests of compliance in accordance with U.S. generally accepted government auditing standards and OMB 19-03.

Management's Responsibility

DNFSB management is responsible for complying with laws, regulations, contracts, and grant agreements applicable to DNFSB.

Auditors' Responsibility

Our responsibility is to test compliance with selected provisions of applicable laws, regulations, contracts, and grant agreements applicable to DNFSB that have a direct effect on the determination of material amounts and disclosures in DNFSB's financial statements, and perform certain other limited procedures. Accordingly, we did not test compliance with all laws, regulations, contracts, and grant agreements applicable to DNFSB.

Results of Our Tests for Compliance with Laws, Regulations, Contracts, and Grant Agreements

Our tests for compliance with selected provisions of applicable laws, regulations, contracts, and grant agreements disclosed no instances of noncompliance for fiscal year 2019 that would be reportable under U.S. generally accepted government auditing standards and OMB 19-03. However, the objective of our tests was not to provide an opinion on compliance with laws, regulations, contracts, and grant agreements applicable to DNFSB. Accordingly, we do not express such an opinion.

Intended Purpose of Report on Compliance with Laws, Regulations, Contracts, and Grant Agreements

The purpose of this report is solely to describe the scope of our testing of compliance with selected provisions of applicable laws, regulations, contracts, and grant agreements, and the results of that testing, and not to provide an opinion on compliance. This report is an integral part of an audit performed in accordance with U.S. generally accepted government auditing standards in considering compliance. Accordingly, this report on compliance with laws, regulations, contracts, and grant agreements is not suitable for any other purpose.

DNFSB Management's Comments

DNFSB management, in its response to the discussion draft report we provided for comment, stated that it was in agreement with the draft report. The complete text of DNFSB's response is reprinted in the Agency Financial Report.



CliftonLarsonAllen LLP

Arlington, Virginia
December 17, 2019

EXHIBIT A
Significant Deficiency

DEOBLIGATE AGED UNDELIVERED ORDERS ON A TIMELY BASIS

Criteria:

DNFSB Work Practice: Guidance for Division of Acquisition and Finance (DAF) Staff on De-obligating Excess Funds, WP-211.1-1 (approved 4/10/15 and reviewed 4/10/18), Section 6A:

- (6) Contracts - The de-obligation of remaining funds for firm fixed price and labor-hour contracts should occur once the contract is closed out in accordance with FAR 4.804-5 "Procedures for closing out contract files". Such procedures shall begin within 45 days of the contract period of performance ending and receipt by the contracting officer of evidence of physical completion. The complete closeout process should normally occur within six months of the process beginning. The contracting officer shall make every effort to close out all contracts and de-obligate remaining funds as expeditiously as possible. Once the closeout documents are completed, DAF will de-obligate any remaining funds.

B. Review. The DAF staff will review the monthly "Aging Report" and then discuss with the Director, within 5 work days of receipt, the status of open ACT Numbers in which funds appear to be ready to be de-obligated. The General Manager will also be briefed quarterly (June, Sept, December, March) by the Director within 10 work days of the receipt of the Aging Report.

Condition:

Aged undelivered orders (UDOs) or obligations that were no longer valid were not deobligated timely. Our test disclosed 11 UDOs, totaling \$404 thousand with no recent activity and a period of performance end date ranging from 2009 to 2018, were not deobligated until the independent financial statement auditors inquired of the status.

Cause:

Requests for deobligation were not processed timely in accordance with applicable agency policies and procedures.

Effect:

By not ensuring timely review and deobligation of aged UDOs, the agency is unnecessarily tying up funds that could be used for other mission critical activities. UDOs were overstated by \$404 thousand throughout fiscal year 2019, although corrected at yearend, and \$397 thousand of this amount should have been deobligated in 2018 or prior.

Recommendation:

CLA recommends that DNFSB develop a plan to ensure funds are deobligated timely.

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SAFETY BOARD

Washington, DC 20004-2901



December 17, 2019

Dr. Brett M. Baker
Assistant Inspector General for Audits
11555 Rockville Pike
Rockville, MD 20852

Dear Dr. Baker:

I appreciate the opportunity to respond to the Independent Auditor's Report of the Defense Nuclear Facilities Safety Board (Board) Fiscal Years 2019 financial statements. I agree with the results of the audit.

I am pleased that the auditors rendered an unmodified or "clean" audit opinion, which means that they found that the Board's financial statements are presented fairly, in all material respects, and in accordance with the U.S. generally accepted accounting principles; that the Board maintained, in all material respects, effective internal controls over financial reporting; and that there were no instances of reportable noncompliance with laws and regulations.

I want to thank you, your staff, and your contractors for working collaboratively with the Board's staff to meet the requirements.

Respectfully,

A handwritten signature in black ink, appearing to read "Glenn Sklar".

Glenn Sklar
General Manager

2.3 FY 2019 Financial Statements and Notes
2.3.1 Financial Statements



DEFENSE NUCLEAR FACILITIES SAFETY BOARD
GENERAL FUND

FINANCIAL STATEMENTS

As Of And For The Years Ended September 30, 2019 and 2018

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 Annual Financial Report

Defense Nuclear Facilities Safety Board
BALANCE SHEET

As Of September 30, 2019 and 2018

		<u>2019</u>	<u>2018</u>
Assets:			
Intragovernmental:			
Fund Balance With Treasury	(Note 2)	\$ 20,290,799.53	\$ 15,367,997.45
Total Intragovernmental		<u>20,290,799.53</u>	<u>15,367,997.45</u>
Accounts Receivable, net	(Note 3)	21,117.22	-
General Property, Plant and Equipment, Net	(Note 4)	<u>109,496.90</u>	<u>153,553.85</u>
Total Assets		<u>\$ 20,421,413.65</u>	<u>\$ 15,521,551.30</u>
Liabilities:			
Intragovernmental:			
Accounts Payable	(Note 5)	\$ 457,972.49	\$ 258,454.12
Other:	(Note 8)		
Employer Contributions and Payroll Taxes Payable		136,147.94	124,010.72
Other Unfunded Employment Related Liability		-	762.00
Total Intragovernmental		<u>594,120.43</u>	<u>383,226.84</u>
Accounts Payable		558,575.17	597,531.11
Other:	(Note 8)		
Accrued Funded Payroll and Leave		534,616.92	803,593.65
Employer Contributions and Payroll Taxes Payable		25,569.01	22,475.35
Unfunded Leave		1,153,649.53	1,124,542.24
Total Liabilities		<u>\$ 2,866,531.06</u>	<u>\$ 2,931,369.19</u>
Net Position:			
Unexpended Appropriations - All Other Funds (Consolidated)		18,577,918.00	13,561,932.50
Cumulative Results of Operations - All Other Funds (Consolidated Totals)		\$ (1,023,035.41)	\$ (971,750.39)
Total Net Position - All Other Funds (Consolidated Totals)		<u>17,554,882.59</u>	<u>12,590,182.11</u>
Total Net Position		<u>\$ 17,554,882.59</u>	<u>\$ 12,590,182.11</u>
Total Liabilities and Net Position		<u>\$ 20,421,413.65</u>	<u>\$ 15,521,551.30</u>

The accompanying notes are an integral part of these statements.

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 DEFENSE NUCLEAR FACILITIES SAFETY BOARD
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Defense Nuclear Facilities Safety Board
STATEMENT OF NET COST
 As Of And For The Years Ended September 30, 2019 and 2018

	2019	2018
Program Costs:		
DNFSB:		
Gross Costs	\$ 26,853,936.69	\$ 29,395,946.23
Net Program Costs	(Note 11) 26,853,936.69	29,395,946.23
Net Cost of Operations	\$ 26,853,936.69	\$ 29,395,946.23

The accompanying notes are an integral part of these statements.

FY 2019
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Defense Nuclear Facilities Safety Board
 STATEMENT OF CHANGES IN NET POSITION
 As of and for the Years Ended September 30, 2019 and 2018

	FY 2019 (Current Year) <u>Total</u>	FY 2018 (Prior Year) <u>Total</u>
Unexpended Appropriations:		
Beginning Balance	\$ 13,561,932.50	\$ 11,301,724.56
Beginning balance, as adjusted	\$ 13,561,932.50	\$ 11,301,724.56
Budgetary Financing Sources:		
Appropriations received	\$ 31,000,000.00	\$ 31,000,000.00
Other Adjustments (+/-)	\$ (118,188.55)	\$ (110,791.14)
Appropriations used	\$ (25,865,825.95)	\$ (28,629,000.92)
Total Budgetary Financing Sources	\$ 5,015,985.50	\$ 2,260,207.94
Total Unexpended Appropriations	\$ 18,577,918.00	\$ 13,561,932.50
Cumulative Results from Operations		
Beginning Balances	\$ (971,750.39)	\$ (1,100,288.71)
Beginning balances, as adjusted	\$ (971,750.39)	\$ (1,100,288.71)
Budgetary Financing Sources:		
Appropriations used	\$ 25,865,825.95	\$ 28,629,000.92
Other Financing Sources (Nonexchange):		
Imputed Financing	\$ 936,825.72	\$ 895,483.63
Total Financing Sources	\$ 26,802,651.67	\$ 29,524,484.55
Net Cost of Operations	\$ 26,853,936.69	\$ 29,395,946.23
Net Change	\$ (51,285.02)	\$ 128,538.32
Cumulative Results of Operations	\$ (1,023,035.41)	\$ (971,750.39)
Net Position	\$ 17,554,882.59	\$ 12,590,182.11

The accompanying notes are an integral part of these statements

FY 2019
 DEFENSE NUCLEAR FACILITIES SAFETY BOARD
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Defense Nuclear Facilities Safety Board
STATEMENT OF BUDGETARY RESOURCES
 As Of And For The Years Ended September 30, 2019 and 2018

	<u>2019</u> <u>Budgetary</u>	<u>2018</u> <u>Budgetary</u>
Budgetary resources:		
Unobligated balance from prior year budget authority, net (discretionary and mandatory)	\$ 9,986,424.38	\$ 8,140,499.59
Appropriations (discretionary and mandatory)	<u>31,000,000.00</u>	<u>31,000,000.00</u>
Total budgetary resources	<u>\$ 40,986,424.38</u>	<u>\$ 39,140,499.59</u>
Status of budgetary resources:		
New obligations and upward adjustments (total)	(Note 12) \$ 28,408,803.95	\$ 29,805,491.70
Unobligated balance, end of year:		
Apportioned, unexpired account	7,996,075.65	5,156,144.35
Unapportioned, unexpired accounts	<u>343,252.58</u>	<u>-</u>
Unexpired unobligated balance, end of year	8,339,328.23	5,156,144.35
Expired unobligated balance, end of year	<u>4,238,292.20</u>	<u>4,178,863.54</u>
Unobligated balance, end of year (total)	<u>12,577,620.43</u>	<u>9,335,007.89</u>
Total budgetary resources	<u>\$ 40,986,424.38</u>	<u>\$ 39,140,499.59</u>
Outlay, net:		
Outlays, net (total) (discretionary and mandatory)	<u>\$ 25,959,009.37</u>	<u>\$ 29,048,492.22</u>
Agency outlays, net (discretionary and mandatory)	<u>\$ 25,959,009.37</u>	<u>\$ 29,048,492.22</u>

The accompanying notes are an integral part of these statements.

2.3.2 Financial Statement Notes

DEFENSE NUCLEAR FACILITIES SAFETY BOARD

GENERAL FUND

Note 1 – Significant Accounting Policies

(a) Reporting Entity

The Board is an independent Federal government agency with responsibility for the oversight of DOE’s defense nuclear facilities located throughout the United States. The Board is directed by a Chairman and four other members appointed by the President. The Board’s mission as described by the Atomic Energy Act of 1954, as amended, is to “provide independent analysis, advice, and recommendations to the Secretary of Energy to inform the Secretary, in the role of the Secretary as operator and regulator of the defense nuclear facilities of the Department of Energy (DOE), in providing adequate protection of public health and safety at such defense nuclear facilities.”

(b) Basis of Presentation

These financial statements have been prepared from the accounting records of the Board in accordance with generally accepted accounting principles (GAAP) as promulgated by the Federal Accounting Standards Advisory Board (FASAB) and Office of Management and Budget (OMB) Circular A-136, *Financial Reporting Requirements*. GAAP for Federal entities is the hierarchy of accounting principles prescribed in the American Institute of Certified Public Accountants’ (AICPA) Statement on Auditing Standards No. 91, *Federal GAAP Hierarchy*.

Circular A-136 requires agencies to prepare principal statements, which include a Balance Sheet, a Statement of Net Cost, a Statement of Changes in Net Position, and a Statement of Budgetary Resources. The balance sheet presents, as of September 30, 2019, amounts of future economic benefits owned or managed by the Board (assets), amounts owed by the Board (liabilities), and amounts, which comprise the difference (net position). The Statement of Net Cost reports the full cost of the Board’s operations and the Statement of Budgetary Resources reports Board’s budgetary activity.

(c) Basis of Accounting

Transactions are recorded on the accrual accounting basis in accordance with OMB Circular A-136. Under the accrual basis of accounting, revenues are recognized when earned, and expenses are recognized when a liability is incurred, without regard to receipt or payment of cash. The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from those estimates.

(d) Revenues and Other Financing Sources

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DEFENSE NUCLEAR FACILITIES SAFETY BOARD
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The Board receives its funding needed to support its activities through annual congressional appropriations. FY 2019 and FY 2018 appropriated funds are available for obligation until September 30, 2020 and September 30, 2019, respectively (i.e., two year funds). None of the appropriations is a “funds from dedicated collections” fund. An imputed financing source is recognized to offset costs incurred by the Board and funded by another Federal source (see Notes 1(i), 7 and 8).

(e) Assets and Liabilities

Intra-governmental assets and liabilities arise from transactions between the Board and other Federal entities.

Funds with the U.S. Treasury compose the majority of assets on the Board’s balance sheet. All other assets result from activity with non-federal sources.

Liabilities represent amounts that are likely to be paid by the Board as a result of transactions that have already occurred. The accounts payable portion of liabilities consist of amounts owed to federal agencies and commercial vendors for goods, services, and other expenses received but not yet paid.

Liabilities covered by budgetary or other resources are those liabilities of the Board for which Congress has appropriated funds, or funding is otherwise available to pay amounts due. Liabilities not covered by budgetary or other resources represent amounts owed in excess of available congressionally appropriated funds or other amounts. The liquidation of liabilities not covered by budgetary or other resources is dependent on future congressional appropriations or other funding.

(f) Fund Balance with the U.S. Treasury

The U.S. Treasury processes the Board’s receipts and disbursements. Funds with the U.S. Treasury are cash balances from appropriations as of the fiscal year-end from which the Board is authorized to make expenditures and pay liabilities resulting from operational activity.

(g) Property, Plant, and Equipment (PPE)

PPE consists of capitalized equipment, furniture and fixtures, and software. There are no restrictions on the use or convertibility of property, plant, or equipment.

The Board capitalizes PPE with a useful life of at least two years and individually costing more than \$10,000 (\$25,000 for leasehold improvements). Bulk purchases of lesser value items are capitalized when the cost is \$25,000 or greater.

Assets are depreciated on a straight-line basis over the estimated used life of the property. Information Technology (IT) equipment and software is depreciated over a useful life of three years. All other equipment is depreciated over a five year useful life. Furniture and fixtures are depreciated over a seven year useful life and leasehold improvements over a ten year useful life.

The Board owns no land and leases its office space via the General Services Administration (GSA). The lease costs approximate commercial lease rates for similar properties.

(h) Annual, Sick, and Other Leave

Annual leave is recognized as an expense and a liability as it is earned; the liability is reduced as leave is taken. The accrued leave liability is principally long-term in nature. Sick leave and other types of leave are expensed as leave is taken.

(i) Federal Employee Benefits

The Board recognizes its share of the cost of providing future pension benefits to eligible employees over the period of time that they render service to the Board. The pension expense recognized in the financial statement equals the current service cost for the Board's employees for the accounting period less the amount contributed by the employees. The Office of Personnel Management (OPM), the administrator of the plan, supplies the Board with factors to apply in the calculation of the service cost. These factors are derived through actuarial cost methods and assumptions. The excess of the recognized pension expense represents the amount being financed directly by OPM. This amount is considered imputed financing to the Board (see Note 7).

The Board recognizes a current-period expense for the future cost of post-retirement health benefits and life insurance for its employees while they are still working. The Board accounts for and reports this expense in a manner similar to that used for pensions, with the exception that employees and the Board do not make current contributions to fund these future benefits.

Federal employee benefit costs paid by OPM and imputed to the Board are reported as a resource on the Statement of Changes in Net Position.

(j) Contingencies

The Board has no material pending claims or lawsuits against it. Management believes that losses from other claims or lawsuits, not yet known to management, are possible, but would not likely be material to the fair presentation of the Board's financial statements. Thus, there is no provision for such losses in its statements. The Board has not entered into any contractual arrangements which may require future financial obligations.

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 DEFENSE NUCLEAR FACILITIES SAFETY BOARD
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Note 2 – Funds Balance with the U.S. Treasury

The Board’s funds with the U.S. Treasury consist only of appropriated funds. The status of these funds as of September 30, 2019 and 2018 are as follows:

A. Fund Balance with Treasury	<u>2019</u>	<u>2018</u>
General Fund	<u>\$ 20,290,799.53</u>	<u>\$ 15,367,997.45</u>
B. Status of Fund Balance with Treasury		
1) Unobligated Balance		
a) Available	7,996,075.65	5,156,144.35
b) Unavailable	4,581,544.78	4,178,863.54
2) Obligated Balance not yet Disbursed	<u>7,713,179.10</u>	<u>6,032,989.56</u>
Total	<u>\$ 20,290,799.53</u>	<u>\$ 15,367,997.45</u>

Note 3 – Accounts Receivable, Net

This FY2019 line item represents Accounts Receivable for refund received from vendors and not deposited until FY2020. The direct write-off method is used for uncollectible receivables.

	<u>2019</u>	<u>2018</u>
Accounts Receivable	<u>\$ 21,117.22</u>	<u>\$ -</u>
	<u>\$ 21,117.22</u>	<u>\$ -</u>

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Note 4 - General Property, Plant and Equipment, Net

The Board's total cost, accumulated depreciation, and net book value for PPE for the years ending September 30, 2019 and 2018 are as follows.

2019	Equipment	Furniture & Fixtures	Software	Software in Development	Total
Cost	944,744.61	116,832.25	356,658.21	-	1,418,235.07
Accum. Depr.	(871,408.45)	(80,671.51)	(356,658.21)	-	(1,308,738.17)
Net Book Value	73,336.16	36,160.74	0.00	0.00	109,496.90

2018	Equipment	Furniture & Fixtures	Software	Software in Development	Total
Cost	1,053,331.18	116,832.25	356,658.21	-	1,526,821.64
Accum. Depr.	(961,467.36)	(55,142.22)	(356,658.21)	-	(1,373,267.79)
Net Book Value	91,863.82	61,690.03	-	-	153,553.85

Note 5 – Liabilities Not Covered by Budgetary Resources

The liabilities on the Board’s Balance Sheets as of September 30, 2019 and 2018 include liabilities not covered by budgetary resources, which are liabilities for which congressional action is needed before budgetary resources can be provided. Although future appropriations to fund these liabilities are likely and anticipated, it is not certain that appropriations will be enacted to fund these liabilities. The composition of liabilities not covered by budgetary resources as of September 30, 2019 and 2018 is as follows:

	2019	2018
Intragovernmental		
Accounts Payable	\$ 457,972.49	\$ 258,454.12
Employer Contributions and Payroll Taxes Payable	\$ 136,147.94	\$ 124,010.72
Worker's Compensation	\$ -	\$ 762.00
Total Intragovernmental	<u>594,120.43</u>	<u>383,226.84</u>
With the Public		
Accounts Payable	558,575.17	597,531.11
Accrued Funded Payroll and Leave	534,616.92	803,593.65
Employer Contributions and Payroll Taxes Payable	25,569.01	22,475.35
Unfunded Leave	1,153,649.53	1,124,542.24
Total With the Public	<u>2,272,410.63</u>	<u>2,548,142.35</u>
Total Liabilities	<u>\$ 2,866,531.06</u>	<u>\$ 2,931,369.19</u>
Total liabilities not covered by budgetary resources	\$ 1,153,649.53	\$ 1,125,304.24
Total liabilities covered by budgetary resources	<u>1,712,881.53</u>	<u>1,806,064.95</u>
Total Liabilities	<u>\$ 2,866,531.06</u>	<u>\$ 2,931,369.19</u>

Note 6 - Intragovernmental Liabilities

Intragovernmental liabilities arise from transactions with other federal entities. As of September 30, 2019, the Board had accounts payable intragovernmental liabilities of \$457,972.49: With the Department of Agriculture (\$52,851.73), GSA (\$189,113.74), Federal Mediation and Conciliation Service (\$15,000) and the Department of Homeland Security (\$201,007.02). As of September 30, 2018, the Board had accounts payable intragovernmental liabilities of \$258,454.12: With the Department of Agriculture (\$17,194.70), GSA (\$213,963.92) and the Department of Homeland Security (\$27,295.50). Employee benefits are the amounts owed to OPM and Treasury as of September 30, 2019 and 2018 for Federal Employees Health Benefits Program (FEHBP), Federal Employees’ Group Life Insurance Program (FEGLIP), Federal Insurance Contributions Act (FICA), Federal Employees Retirement System (FERS), and Civil Service Retirement System (CSRS) contributions (reference Note 7).

Note 7 – Federal Employee Benefits

All permanent employees participate in the contributory CSRS or FERS. FERS employees are covered under FICA. To the extent that employees are covered by FICA, the taxes they pay to the program and the benefits they will eventually receive are not recognized by the Board's financial statements. The Board makes contributions to CSRS, FERS, and FICA and matches certain employee contributions to the thrift savings component of FERS. All of these payments are recognized as operating expenses.

In addition, all permanent employees are eligible to participate in the contributory FEHBP and FEGLIP and may continue to participate after retirement. The Board makes contributions through OPM to FEHBP and FEGLIP for active employees to pay for current benefits; these contributions are recognized as operating expenses. The Board does not report on its financial statements these programs' assets, accumulated plan benefits, or unfunded liabilities, if any, applicable to its employees. Reporting such amounts is the responsibility of OPM; however, the financing of these costs by OPM and imputed to the Board are reported on the Statement of Changes in Net Position.

Employee benefits liabilities are current (versus non-current liabilities).

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Note 8– Other Liabilities

Other liabilities with the public for the year ended September 30, 2019 and 2018 consist of Accrued Funded Payroll and Leave, Employer Contributions and Payroll Taxes Payable, and Unfunded Leave in the amounts shown below. Other Intragovernmental liabilities consist of Employer Contributions and Payroll Taxes Payable and Worker’s Compensation Liability.

	FY 2019		
	Non-Current	Current	Total
Intragovernmental			
Employer Contributions and Payroll Taxes Payable	\$ -	\$ 136,147.94	\$ 136,147.94
Worker's Compensation Liability		\$ -	\$ -
Total Intragovernmental	-	136,147.94	136,147.94
Liabilities with the Public			
Accrued Funded Payroll & Leave		534,616.92	534,616.92
Employer Contributions and Payroll Taxes Payable		25,569.01	25,569.01
Unfunded Leave	1,153,649.53		1,153,649.53
Total Liabilities with the Public	1,153,649.53	560,185.93	1,713,835.46
Total Other Liabilities	<u>\$ 1,153,649.53</u>	<u>\$ 696,333.87</u>	<u>\$ 1,849,983.40</u>

	FY 2018		
	Non-Current	Current	Total
Intragovernmental			
Employer Contributions and Payroll Taxes Payable	\$ -	\$ 124,010.72	\$ 124,010.72
Worker's Compensation Liability		\$ 762.00	\$ 762.00
Total Intragovernmental	-	124,772.72	124,772.72
Liabilities with the Public			
Accrued Funded Payroll & Leave		803,593.65	803,593.65
Employer Contributions and Payroll Taxes Payable		22,475.35	22,475.35
Unfunded Leave	1,124,542.24		1,124,542.24
Total Liabilities with the Public	1,124,542.24	826,069.00	1,950,611.24
Total Other Liabilities	<u>\$ 1,124,542.24</u>	<u>\$ 950,841.72</u>	<u>\$ 2,075,383.96</u>

Note 9 – Workers’ Compensation

The Federal Employees’ Compensation Act (FECA) provides income and medical cost protection to covered federal civilian employees injured on the job, employees who have incurred a work-related disease, and beneficiaries of employees whose death is attributable to a job-related injury or occupational disease. Claims incurred for benefits for Board employees under FECA are administered by the Department of Labor and are paid, ultimately, by the Board.

The Board recorded an estimated liability for claims incurred, but not paid as of September 30, 2018 as follows:

	FY 2019	FY 2018
Worker’s Compensation	\$0	\$762.00

Note 10 – Leases

The Board has not entered into any existing capital leases and thus has incurred no liability resulting from such leases. The Board has also not directly entered into any operating leases, but does have an occupancy agreement with GSA for its headquarters space (GSA has an operating lease with the building owner, the costs of which are billed to the Board). Annual lease costs for office space for FY 2019 and FY 2018 amounted to \$2,909,320, and \$2,990,183, respectively. The Board entered into a new ten year occupancy agreement effective March 8, 2016 which is due to expire on March 7, 2026. Estimated future lease payments under the terms of the occupancy agreement are as follows:

Fiscal Year Ending September 30	Payment
2020	\$3,142,672
2021	\$3,189,085
2022	\$3,236,889
2023	\$3,286,123
2024	\$3,336,831
2025 and thereafter until March 7, 2026	\$4,717,680
Total Estimated Future Lease Payments	\$20,909,280

Note 11 – Costs and Exchange Revenue

The portion of the Board’s program costs (note as the Board earns no revenue from its operations, gross and net costs are identical) related to Intragovernmental Costs and Costs with the Public are shown as follows. Intragovernmental Costs are costs incurred from exchange transactions with other federal entities (e.g., building lease payments to GSA). Costs with the Public are incurred from exchanged transactions with non-federal entities (i.e., all other program costs).

	Intragovernmental Costs	Costs with the Public	Total Program Costs
FY 2019	\$8,135,888.58	\$18,718,048.11	\$26,853,936.69
FY 2018	\$8,766,883.92	\$20,629,062.31	\$29,395,946.23

The Board’s program costs/net cost of operations by OMB Object Class (OC) are as follows:

OC	Description	FY 2019	FY 2018
11	Personnel Compensation	\$12,545,197.00	\$14,127,558.94
12	Personnel Benefits	\$ 4,112,090.98	\$5,318,801.47
13	Former Personnel Benefits		\$16.00
21	Travel & Transportation of Persons	\$ 705,482.80	\$836,656.99
22	Transportation of Things	\$ 28,591.74	\$4,147.60
23	Rent, Communications, & Utilities	\$ 3,988,075.18	\$3,413,515.95
24	Printing & Reproduction	\$ 22,895.40	\$5,351.61
25	Other Contractual Services	\$ 5,136,227.72	\$5,176,626.35
26	Supplies & Materials	\$ 210,278.62	\$221,023.95
31	Acquisition of Assets	\$ 105,097.25	\$292,247.37
	Total	\$26,853,936.69	\$29,395,946.23

Note 12 – Apportionment Categories of New Obligations and Upward Adjustments: Direct vs. Reimbursable Obligations

The Board is subject to apportionment. All obligations are incurred against Category A (budgetary resources are distributed by fiscal year quarter) amounts apportioned on the latest Standard Form (SF)-132, *Apportionment and Reapportionment Schedule*.

	FY 2019	FY 2018
Direct		
Category A	28,408,803.95	29,805,491.70

Note 13 – Undelivered Orders at the End of the Period

The amount of DNFSB’s undelivered orders was \$6,000,297.57 and \$4,226,924.61 as of September 30, 2019 and 2018, respectively.

	Unpaid Undelivered Orders		Paid Undelivered Orders		Total Undelivered Orders
2019	\$ 6,000,297.57		\$ -		\$ 6,000,297.57
2018	\$ 4,226,924.61		\$ -		\$ 4,226,924.61

Note 14 – Explanation of Differences between the Statement of Budgetary Resources and the Budget of the United States Government

SFFAS No. 7, *Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting*, requires an explanation of material differences between budgetary resources available, the status of those resources and outlays as presented in the Statement of Budgetary Resources to the related actual balances published in the *Budget of the United States Government* (Budget). The Budget that will include FY 2019 actual budgetary execution information is scheduled for publication in February 2020, which will be available through OMB’s website at <http://www.whitehouse.gov/omb>. Accordingly, information required for such disclosure is not available at the time of publication of these financial statements.

Balances reported in the FY 2018 SBR and the related President’s Budget reflected the following:

FY2018	Budgetary Resources	New Obligations & Upward Adjustments (Total)	Distributed Offsetting Receipts	Net Outlays
Statement of Budgetary Resources	\$ 39,140,499.59	\$ 29,805,491.37	\$ -	\$ 29,048,492.22
Expired Unobligated Balances	\$ (4,178,863.54)			
<i>Budget of the U.S. Government</i>	\$ 35,000,000.00	\$ 30,000,000.00	\$ -	\$ 30,000,000.00
Difference	\$ (38,363.95)	\$ (194,508.63)	\$ -	\$ (951,507.78)

The difference between the Statement of Budgetary Resources and the *Budget of the United States Government* for budgetary resources, obligations incurred and net outlays are primarily due to rounding.

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Note 15 – Reconciliation of Net Cost to Outlays

The Board has reconciled its budgetary obligations and non-budgetary resources available to its net cost of operations.

	Intragovernmental	With the Public	Total
Net Operating Cost (SNC)	26,853,936.69		26,853,936.69
Components of Net Operating Cost Not Part of the Budgetary Outlays			
Property, plant, and equipment depreciation		(92,767.53)	(92,767.53)
affecting Budget Outlays:			
Accounts receivable	-	21,117.22	21,117.22
(Increase)/Decrease in Liabilities not affecting Budget Outlays:			
Accounts payable	(168,750.37)	8,187.94	(160,562.43)
Salaries and benefits	(12,137.22)	265,883.07	253,745.85
Other liabilities (Unfunded leave, unfunded FECA, actuarial FECA)	762.00	(29,107.29)	(28,345.29)
Other financing sources			
Federal employee retirement benefit costs	(936,825.72)		(936,825.72)
Total Components of Net Operating Cost Not Part of the Budget Outlays	(1,116,951.31)	173,313.41	(943,637.90)
Components of the Budget Outlays That Are Not Part of Net Operating Cost			
Acquisition of capital assets	-	48,710.58	48,710.58
Total Components of the Budgetary Outlays That Are Not Part of Net Operating Cost	-	48,710.58	48,710.58
Net Outlays (Calculated Total)	25,736,985.38	222,023.99	25,959,009.37
Related Amounts on the Statement of Budgetary Resources			
Outlays, net (SBR Line 4190)			25,959,009.37
Agency Outlays, Net (SBR Line 4210)			25,959,009.37

Chapter 3 – Appendices

3.1 Appendix A - Inspector General's Assessment of Management and Performance Challenges

3.1.1 Inspector General's Assessment of Management and Performance Challenges.



OFFICE OF THE INSPECTOR GENERAL

U.S. NUCLEAR REGULATORY COMMISSION
DEFENSE NUCLEAR FACILITIES SAFETY BOARD

Inspector General's Assessment of the Most Serious Management and Performance Challenges Facing the Defense Nuclear Facilities Safety Board in Fiscal Year 2020

DNFSB-20-A-01
October 29, 2019



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AT A GLANCE

October 29, 2019

WHY WE DID THIS REPORT

The *Reports Consolidation Act of 2000* (Public Law 106-531) requires us to annually update our assessment of the Defense Nuclear Facilities Safety Board's (DNFSB) "... most serious management and performance challenges facing the agency ... and the agency's progress in addressing those challenges."

WHAT WE FOUND

DNFSB is an independent oversight organization within the Executive Branch created by Congress in 1988. DNFSB is considered a critical oversight agency as it performs its mission to provide independent analysis, advice, and recommendations to the Secretary of Energy in providing adequate protection of public health and safety at defense nuclear facilities in the Department of Energy (DOE). The Board requested \$29,450,000 and 100 full-time equivalents (FTE) to carry out its mission in FY 2020. This is a 5 percent decrease from the agency's FY 2019 appropriation level of \$31,000,000. As of October 2019, DNFSB has 89 positions occupied. The Board unanimously approved an FY 2020 staffing plan totaling 115 employees. Based on hiring/attrition cycles, DNFSB expects to average 100 employees going forward.

This year we are introducing a new design for the Management Challenges report, in which we identify each challenge, actions taken, and work left to do. We identified 4 actionable challenges DNFSB must continue to address:

1. Management of a healthy and sustainable organizational culture and climate.
2. Management of security over internal infrastructure (personnel, physical, and cyber security) and nuclear security.
3. Management of administrative functions.
4. Management of technical programs.

Effective responses to these challenges will position DNFSB to work towards the effective and efficient execution of its mission, achievement of its strategic goals, and to achieve the highest level of accountability over taxpayer dollars.

AGENCY RESPONSE TO MANAGEMENT CHALLENGES FOR FY 2019

During FY 2019, DNFSB completed actions in response to recommendations from 4 different audits: *Audit of DNFSB Compliance with the Cybersecurity Act of 2015*, *Audit of DNFSB's Resident Inspector Program*, *Audit of DNFSB's Implementation of Its Governing Legislation*, and an *Independent Evaluation of DNFSB's Implementation of FISMA 2014 for FY 2017*.

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For this and other OIG reports on DNFSB, click [here](#).

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Introduction

From the Deputy Inspector General:

I am pleased to present our assessment of the most significant management and performance challenges facing Defense Nuclear Facilities Safety Board (DNFSB) in Fiscal Year (FY) 2020.

The *Reports Consolidation Act of 2001* requires us to annually update our assessment of DNFSB's "... most serious management and performance challenges facing the agency ... and the agency's progress in addressing those challenges." In this report, we summarize what we consider the most critical management and performance challenges to DNFSB, and we assess the agency's progress in addressing those challenges.

DNFSB (or the Board), an independent oversight organization within the Executive Branch, was created by Congress in 1988 to provide advice and recommendations to the Secretary of Energy regarding public health and safety at the defense nuclear facilities managed by the Department of Energy (DOE). Beyond its regulatory oversight mission, as a Federal agency, DNFSB must be a responsible steward of taxpayer dollars.

About the Office of the Inspector General:

In accordance with the 1988 amendment to the *Inspector General Act of 1978*, the Office of the Inspector General (OIG) was established on April 15, 1989, as an independent and objective unit to conduct and supervise audits and conduct investigations of the Nuclear Regulatory Commission. Pursuant to the *Consolidated Appropriations Act* for Fiscal Year 2014 (H.R. 3547), the Office of the Inspector General of the Nuclear Regulatory Commission was assigned to also serve as DNFSB's Inspector General (IG). The purpose of OIG's audits and investigations is to prevent and detect fraud, waste, abuse, and mismanagement, and promote economy, efficiency, and effectiveness in DNFSB programs and operations. In addition, OIG reviews existing and proposed regulations, legislation, and directives, and provides comments, as appropriate, regarding any significant concerns. The IG keeps the DNFSB Chairman and the Congress fully and currently informed about problems, recommends corrective actions, and monitors DNFSB's progress in implementing such actions.

About the Defense Nuclear Facilities Safety Board:

DNFSB, an independent oversight organization within the Executive Branch, was created by Congress in September 1988 in response to growing concerns about the level of health and safety protection that DOE was providing the public and workers at defense nuclear facilities. In so doing, Congress sought to provide the general public with added assurance that DOE's defense nuclear facilities are being safely designed, constructed, operated, and decommissioned.

The mission of the Board is to provide independent analysis, advice, and recommendations to the Secretary of Energy to inform the Secretary, in support of DOE's responsibility to provide adequate protection of public health and safety at defense nuclear facilities.

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The Board is composed of five respected experts in the field of nuclear safety with demonstrated competence and knowledge relevant to its independent investigative and oversight functions. Currently three Board positions are filled.

DNFSB reviews and evaluates the content and implementation of health and safety standards, as well as other requirements, relating to the design, construction, operation, and decommissioning of DOE's defense nuclear facilities. In August 2018, the Acting Chairman of DNFSB announced a plan to reorganize and reduce staff at DNFSB, with a targeted increase of 80 percent in the number of on-site Resident Inspectors and an approximately 40 percent decrease in DNFSB headquarters staff to 79 employees, but Congressional approval will be needed before such an action is taken. DNFSB's enabling legislation authorized a staff of up to 130 personnel in FY 2018. In its most recent budget request, the Board requested \$29,450,000 and 100 full-time equivalents (FTE) to carry out its mission in FY 2020. This is a 5 percent decrease from the agency's FY 2019 appropriation level of \$31,000,000. On September 24, 2019, the Board unanimously approved an FY2020 staffing plan totaling 115 employees. As of October 2019, DNFSB has 89 positions occupied. The staffing plan recognizes that the time to post, hire, and on-board new employees, along with typical attrition, will translate to about 100 FTE, which is what is supported by the expected Congressional funding level for FY2020.

During FY 2019, DNFSB completed several actions on recommendations from the *Audit of DNFSB's Resident Inspector Program* (DNFSB-17-A-05), the *FISMA 2017 Evaluation* (DNFSB-18-A-02), all recommendations from DNFSB-18-A-03, *Audit of DNFSB Compliance with the DATA Act of 2014*, and the final recommendations from DNFSB-16-A-07, *Cybersecurity Act of 2015 Audit for DNFSB*, as well as recommendations from the *Audit of DNFSB's Implementation of Its Governing Legislation*. Specifically, listed below are the audits with recommendations closed by DNFSB between October 1, 2018 and September 30, 2019, along with the number of closed recommendations in brackets:

1. *Audit of DNFSB Compliance with the Cybersecurity Act of 2015* [2]
2. *Audit of DNFSB's Resident Inspector Program* [1]
3. *Audit of DNFSB's Implementation of Its Governing Legislation* [2]
4. *Independent Evaluation of DNFSB's Implementation of FISMA 2014 for FY 2017* [1]

There are four actionable challenges DNFSB must continue to address to accomplish its mission:

1. Management of a healthy and sustainable organizational culture and climate.
2. Management of security over internal infrastructure (personnel, physical, and cyber security) and nuclear security.
3. Management of administrative functions.
4. Management of technical programs.

Effective responses to these challenges will position DNFSB to work towards the effective and efficient execution of its mission, achievement of its strategic goals, and to achieve the highest level of accountability over taxpayer dollars.

Challenge 1: *Management of a healthy and sustainable organizational culture and climate*

Why is this a serious management and performance challenge?

This is a longstanding, systemic challenge that impinges effective and open communication between staff and Board Members, which adversely affects DNFSB's ability to fulfill its mission.

In recent years, DNFSB has experienced significant external and internal challenges that have affected its work culture and climate. For example, DNFSB has experienced: declining budgets, higher employee turnover, inadequate succession planning, lack of key competencies, gaps in agency leadership skills, and communication issues. These challenges have been further compounded by DNFSB's internal challenges, which include major reorganizations, and official Board communications expressing a desire to downsize. The Board had voted 3 to 1 to significantly reduce the size of the workforce to further its intention to make the organization more "lean and nimble," contrary to staff concerns for its ability to carry out the mission. Congress ordered a halt to this action. While the Board has subsequently taken some action to approve higher staffing levels, the challenges and changes experienced within DNFSB have negatively affected trust and employee engagement.

OIG audit work has identified instances wherein the efficiency and effectiveness of DNFSB processes have been impeded by a lack of communication and cooperation between the staff and Board members. For example, in the *Audit of DNFSB's Issue and Commitment Tracking System (IACTS) and Its Related Processes*, (DNFSB-19-A-02) OIG found DNFSB's IACTS 3.0 and related processes are not always efficient or effective. This is due to a lack of effective communication within the agency, which has created a work culture that could compromise DNFSB's ability to successfully execute its mission. The Board's decision not to implement two of the eight report recommendations from DNFSB 19-A-02 related to communication with the staff, coupled with concerns identified in two prior engagements (DNFSB 18-A-05 *Audit of the DNFSB's Implementation of Its Governing Legislation* and DNFSB 15-A-06 *Culture and Climate Survey Executive Overview of Key Findings*) continues to indicate serious issues regarding communication and coordination. As such, OIG continues to see management of a healthy and sustainable organizational culture and climate as a serious challenge.

Completed Actions

- DNFSB developed and implemented one of the audit report recommendations from DNFSB-19-A-02.
- DNFSB contracted with the National Academy of Public Administration (NAPA) to perform a comprehensive organizational assessment in November 2018.

Ongoing Actions

- DNFSB is continuing to work with NAPA to provide strategic planning and employee engagement services to include a draft DNFSB strategic plan for the next 5 years and specific recommendations for improving employee engagement at the agency.
- DNFSB contracted with the Federal Mediation & Conciliation Service to work on communications among Board Members and with Senior Federal Staff.

 **Looking Ahead:** OIG will continue to monitor DNFSB's actions to improve culture and climate and the trend of available data in this area.

Challenge 2: Management of security over internal infrastructure (personnel, physical, and cyber security) and nuclear security

Why is this a serious management and performance challenge?

Security over internal infrastructure is a continuing challenge for Federal entities. In addition, nuclear security is also an important concern that will continue to be a key challenge for DNFSB.

DNFSB must take appropriate measures to secure its personnel, facilities, and information. Criminals and foreign intelligence organizations pose continuous external threats. In addition, DNFSB must also protect itself against trusted insiders who could maliciously or unintentionally compromise the security of its facilities and information systems. Additionally, information security presents unique challenges by virtue of the imperative to balance information safeguards while facilitating legitimate users' access to information.

Key security challenges for DNFSB include the following:

- Ensuring that cyber security has become a crucial aspect of DNFSB's overall security posture and that cyber security protective measures keep pace with evolving threats, given the importance and sensitivity of DNFSB's activities.
- Maintaining robust internal controls over classified information and the systems that process, store, and transmit it to protect against breaches of classified information by Federal employees and contractors.
- Implementing sound records management practices to ensure that DNFSB staff can respond effectively to information requests from external stakeholders and conduct agency business as transparently as possible.

Completed Actions

- The Board hired an independent contractor to review DNFSB's information technology infrastructure.
- DNFSB has made efforts to strengthen the skills and qualifications of their information technology staff.

Ongoing Actions

- DNFSB continues to implement OIG recommendations from several *Federal Information Security Modernization Act (FISMA)* evaluations.
- DNFSB continues to improve policies and procedures to make enhancements to its physical and cyber security infrastructure.



Looking Ahead: OIG will continue to work with the Board in conducting audits and evaluations that will enhance security over DNFSB internal infrastructure.

Challenge 3: Management of administrative functions

Why is this a serious management and performance challenge?

This challenge is important to provide centralized administrative functions in corporate support services and enable DNFSB's management and staff to accomplish the agency mission and operate efficiently and effectively.

DNFSB should continue exploring ways to improve its administrative functions. To support the technical staff, DNFSB provides corporate support services such as contract support, human resources support, financial reporting, and information technology services. Although DNFSB has established these administrative functions to support agency staff, there is still ongoing concern regarding employee morale, recruiting new hires, and retention. One significant area of concern is the provision of human resources support to the agency. As of October 2019, DNFSB has 89 positions occupied. As noted earlier in this report, late in FY 2019 the Board approved a staffing plan to increase the number of staff. DNFSB must be able to effectively recruit new hires, strengthen performance management and increase employee engagement and retention. This concern includes functions such as employee recognition and training new and current staff.

Key DNFSB administrative function challenges include the following:

- Continuing to improve internal control documentation and practices for DNFSB's financial and administrative functions.
- Implementing effective employee engagement and recognition techniques.
- Providing current staff with the training and tools to maintain and/or improve the skills needed to effectively perform their jobs.
- Continuing efforts to keep DNFSB policies and procedures current.

<p>Completed Actions</p> <p>On September 24, 2019, the Board unanimously approved an FY 2020 staffing plan totaling 115 employees.</p>	<p>Ongoing Actions</p> <ul style="list-style-type: none"> • The Board is implementing National Academy of Public Administration (NAPA) recommendations concerning its assessment of the Board's operations. • The Board is seeking Congressional change to its statute in order to hire an Executive Director for Operations to address organizational and administrative challenges.
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 **Looking Ahead:** OIG will continue to monitor DNFSB's Talent Management System to develop future audits and/or evaluations.

Challenge 4: Management of technical programs

Why is this a serious management and performance challenge?

DNFSB's technical positions require highly qualified experts, yet staff turnover has reduced the overall experience level significantly. The need for cooperation and coordination with DOE, in light of DOE Order 140.1, which potentially limits DNFSB access to technical information at DOE sites is a new challenge.

OIG audit work has identified instances wherein the efficiency and effectiveness of DNFSB's technical processes have been impeded by insufficient guidance, processes, and procedures as well as lack of communication and cooperation between the staff and Board members. For example, in the *Audit of DNFSB's Issue and Commitment Tracking System (IACS) and Its Related Processes*, (DNFSB 19-A-02) OIG found DNFSB's IACS 3.0 and related processes are not always efficient or effective.

Audit report DNFSB 19-A-02 made eight recommendations, with which DNFSB expressed agreement and elected not to provide formal comments. However, recent correspondence documenting DNFSB's actions on the recommendations now indicates Board disagreement with two of the eight recommendations. As such, those two recommendations have been closed by OIG without action from DNFSB and will be identified in OIG correspondence with Congress.

Completed Actions

- The Board has held three public hearings with DOE concerning DOE Order 140.1, which restricts the Board's access to information, and scope of its technical authority.
- DNFSB held a series of public meetings in December 2018, and January, February and April 2019, to review the recommendations from the IACS report.

Ongoing Actions

- DNFSB's Chairman noted that DNFSB is working diligently to develop a path forward to implement most of the recommendations for the *Audit of DNFSB's Issue and Commitment Tracking System (IACS)*.
- The Board is continuing to communicate with Congress its disagreement with DOE Order 140.1, which restricts the Board's access to information, meeting and scope of its technical oversight authority.

 **Looking Ahead:** OIG plans to audit DNFSB's work planning processes during the 4th quarter of FY 2020.

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COMMENTS AND SUGGESTIONS

If you wish to comment on the quality or usefulness of this report or suggest ideas for future audits please e-mail using this [link](#). Comments, suggestions, and requests can also be mailed to the attention of the Assistant Inspector General for Audits at the address listed above.

3.1.2 Management Response to IG assessment of Management and Performance Challenges.

3.2 Appendix B – Summary of Financial Statement Audit and Management Assurances

Summary of Financial Statement Audit

Audit Opinion	Unmodified				
Restatement	No				
Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Ending Balance
N/A	0	0	N/A	N/A	0

Summary of MANAGEMENT ASSURANCES²

Effectiveness of Internal Control over Financial Reporting (FMFIA § 2)

Audit Opinion	Unmodified				
Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Ending Balance
N/A	0	0	N/A	N/A	0

Effectiveness of Internal Control over Operations (FMFIA § 2)

Statement of Assurance	Unmodified				
Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Ending Balance
N/A	0	0	N/A	N/A	0

² The Board does not provide a management assurance related to FFMIA § 4 or Section 803(a) of the Federal Financial Management Improvement Act as it obtains accounting service from a federal service provider and thus does not operate a financial management system.

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End of AFR

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