

# Annual FY 2020 Financial Report



**Defense  
Nuclear Facilities  
Safety Board**



FY 2020  
 DEFENSE NUCLEAR FACILITIES SAFETY BOARD  
 Annual Financial Report

**TABLE OF CONTENTS**

**CHAPTER 1 - MANAGEMENT’S DISCUSSION, AND ANALYSIS..... 1**

1.1 ACTING CHAIRMAN’S MESSAGE .....1

1.2 INTRODUCTION.....2

1.3 PERFORMANCE GOALS, OBJECTIVES AND RESULTS .....6

1.4 ANALYSIS OF THE FINANCIAL STATEMENTS.....6

1.5 ANALYSIS OF SYSTEMS, CONTROLS, AND LEGAL COMPLIANCE.....20

1.6 FORWARD-LOOKING INFORMATION-FUTURE CHALLENGES.....24

1.7 OTHER MANAGEMENT INFORMATION.....25

**CHAPTER 2 – GENERAL MANAGER’S LETTER, AUDITORS’ REPORT, AND FINANCIAL STATEMENTS ..... 26**

2.1 GENERAL MANAGER’S LETTER.....26

2.2 FY 2020 AUDITOR’S REPORT.....28

2.3 FY 2020 FINANCIAL STATEMENTS AND NOTES.....40

**CHAPTER 3 – APPENDICES..... 59**

3.1 APPENDIX A - INSPECTOR GENERAL’S ASSESSMENT OF MANAGEMENT AND PERFORMANCE CHALLENGES.....59

3.2 APPENDIX B – SUMMARY OF FINANCIAL STATEMENT AUDIT AND MANAGEMENT ASSURANCES .....72

**TABLES**

TABLE 1 - BALANCE SHEET.....8

TABLE 2 – SIMPLIFIED STATEMENT OF NET COST.....12

TABLE 3 – SIMPLIFIED STATEMENT OF BUDGETARY RESOURCES .....16

**FIGURES**

FIGURE 1-END OF YEAR ASSETS .....9

FIGURE 2-LIABILITIES .....10

FIGURE 3-NET POSITION .....11

FIGURE 4-COMPARATIVE EXPENSES BY SUMMARIZED EXPENDITURE OBJECT .....13

FIGURE 5-STATEMENT OF CHANGES IN NET POSITION.....14

FIGURE 6-SCNP CHANGE IN UNEXPENDED APPROPRIATIONS .....15

FIGURE 7-SBR SOURCES OF FUNDS .....17

FIGURE 8 – SBR STATUS OF FUNDS .....18

FIGURE 9 – SBR OUTLAYS.....19

## Chapter 1 - Management's Discussion, and Analysis

### 1.1 Acting 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) 2020. The report presents the FY 2020 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 2020, the Board communicated draft and final recommendations to the Secretary of Energy for Recommendation 2020-1, *Nuclear Safety Requirements*. The Board also held two public meetings to address Recommendation 2019-1, *Uncontrolled Hazard Scenarios and 10 CFR 830 Implementation at the Pantex Plant*, and Recommendation 2019-2, *Safety of the Savannah River Site Tritium Facilities*.

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, with the exception of a material weakness in the operational controls over contracting documentation, and that 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.

*Thomas A. Summers*

Thomas A. Summers  
Acting Chairman  
December 16, 2020

## 1.2 Introduction

This AFR summarizes the Board's oversight activities and associated resource expenditures for the period from October 1, 2019, through September 30, 2020 (FY 2020). 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 2020 Annual Performance Report (APR) will be published with the Board's FY 2022 Congressional Budget Justification in February 2021 and will align with the Board's FY 2020 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 2021 and FY 2022, as well as accomplishments for FY 2015 through FY 2020, will be included in its FY 2022 Budget Request to the Congress in accordance with the requirements of OMB Circular A-11. The Board also published its *Thirtieth Annual Report to Congress* on March 16, 2020, available at <https://www.dnfsb.gov/documents/reports/reports-congress/thirtieth-annual-report-congress> which highlighted achievements of the Board from Calendar Year 2019.

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

- *1.1 Chairman's Message;*
- *1.2 Introduction* summarizes the Board's mission, mandate, strategic plan, and organization;
- *1.3 Performance Goals, Objectives and Results* summarizes the Board's success in accomplishing its performance goals;
- *1.4 Analysis of the Financial Statements* summarizes the Board's financial results, position, and condition;
- *1.5 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;
- *1.6 Forward-Looking Information-Future Challenges* describes anticipated future challenges and initiatives for the Defense Nuclear Facilities Safety Board.
- *1.7 Other Management Information* describes the Board performance on payment integrity.

### 1.2.1 Mission Statement

The mission of the Board shall be 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

FY 2020

DEFENSE NUCLEAR FACILITIES SAFETY BOARD

Annual Financial Report

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, including with respect to the health and safety of employees and contractors at such facilities. 42 U.S.C. § 2286a(a)

### **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 Department of Energy (including all applicable Department of Energy orders, regulations, and requirements) at each Department of Energy 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 Department of Energy 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 Department of Energy defense nuclear facility.
- The Board shall review the design of a new Department of Energy 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 Department of Energy 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 FY 2018 – 2022 Strategic Plan (Revised)**

The Board published an updated FY 2018–2022 agency Strategic Plan that established the strategic goals and objectives below in December 2019.

**Strategic Goal 1**

Provide proactive and independent oversight of the defense nuclear complex.

Strategic Objective 1.1 – Complete timely, high-quality safety reviews that identify and analyze safety issues and best practices, and search for similar challenges complex-wide.

Strategic Objective 1.2 – Develop and issue advice and recommendations designed to ensure safety and employ best practices within the defense nuclear complex.

Strategic Objective 1.3 – Provide robust field oversight of facilities and projects across the defense nuclear complex.

**Strategic Goal 2**

Enhance transparency of ongoing Agency initiatives and the state of safety within the defense nuclear complex.

Strategic Objective 2.1 – Proactively sustain sound working relationships with relevant government and non-governmental entities.

Strategic Objective 2.2 – Improve timely dissemination of information about the Board priorities and conclusions regarding the state of safety at Defense Nuclear Facilities.

**Strategic Goal 3**

Develop and maintain an outstanding workforce to achieve the Agency’s mission.

Strategic Objective 3.1 – Cultivate an agile workforce with the skills necessary to meet the mission.

Strategic Objective 3.2 – Use professional development and training to efficiently and effectively accomplish the mission.

**Strategic Goal 4**

Maximize the DNFSB’s performance by pursuing excellence in our Agency culture and operations.

Strategic Objective 4.1 – Pursue efficiency through continuous improvement of internal policies and procedures through testing and evaluation.

Strategic Objective 4.2 – Establish and maintain a culture that encourages teamwork and innovation across the Agency in accordance with core values.

Strategic Objective 4.3 – Strengthen operational performance by modernizing Agency processes and associated infrastructure.

**1.2.4 Organizational Structure**

The five-member Board<sup>1</sup> leads the agency in accomplishing its mission and determines actions regarding the safety aspects of the design, construction, operation, and decommissioning of the Department of Energy’s (DOE) defense nuclear facilities.

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<sup>1</sup> There are currently two vacancies on the Board.

FY 2020  
DEFENSE NUCLEAR FACILITIES SAFETY BOARD  
Annual Financial Report



**VICE CHAIRMAN**

Mr. Thomas Summers

**CHAIRMAN**

Vacant



**Board Member**

Ms. Jessie Hill Roberson



**Board Member**

Ms. Joyce L. Connery

**Board Member**

Vacant

### 1.2.5 Organizational Chart

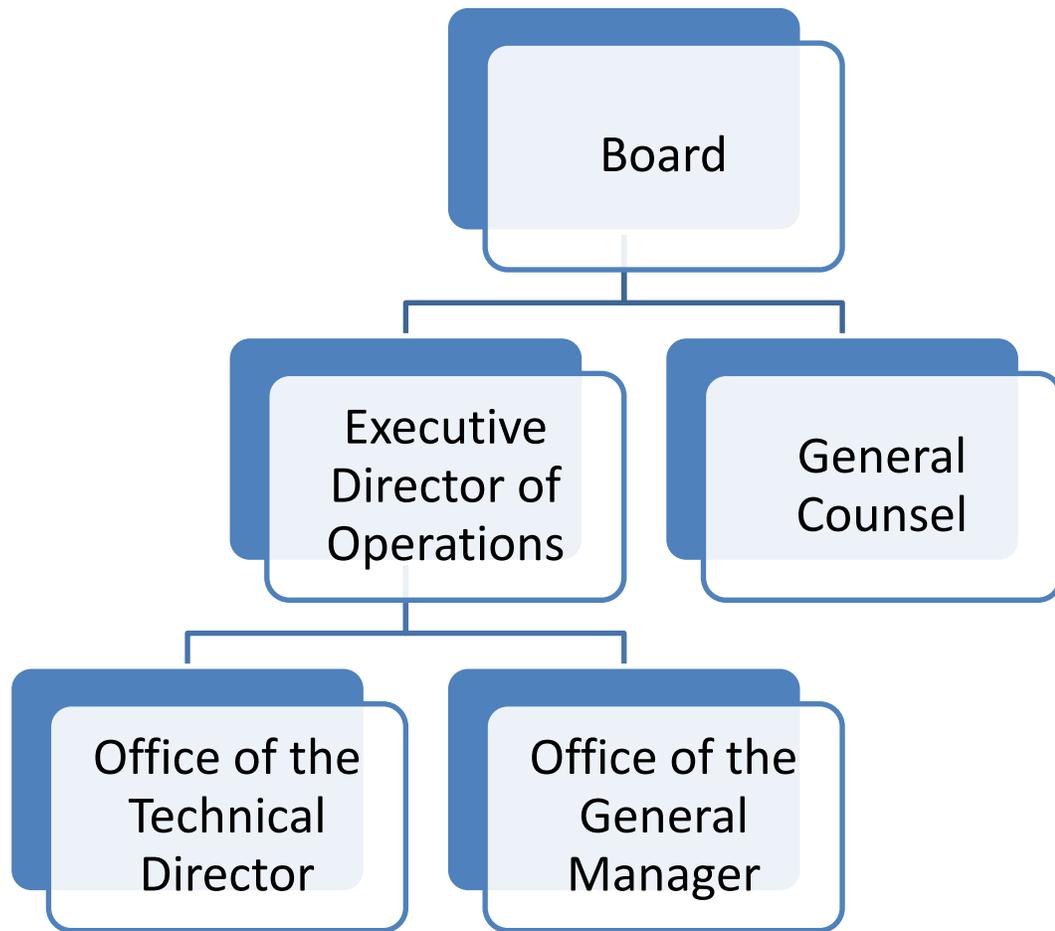
The Board is statutorily capped at 130 federal FTEs and is currently arranged in three offices under the five-member board. The majority of FTEs are assigned to the Office of the Technical Director (OTD), where they directly carry out the mission of the Board, supported by the Office of the General Manager (OGM) and the Office of the General Counsel (OGC). The National Defense Authorization Act for FY 2020 included direction that the Chairman delegate the administrative functions of the Board, appointment, and supervision of employees other than the

FY 2020

DEFENSE NUCLEAR FACILITIES SAFETY BOARD

Annual Financial Report

General Counsel, and other specified business functions to an Executive Director of Operations (EDO). The Board's first EDO is slated to join the Board in FY 2021.



**1.3 Performance Goals, Objectives and Results**

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 2020 Annual Performance Report to be issued with the FY 2022 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**

<b>Simplified Balance Sheet</b>		
<b>Whole Dollars</b>		
	<b><u>FY 2020</u></b> <b><u>as of</u></b> <b><u>September 30, 2020</u></b>	<b><u>FY 2019</u></b> <b><u>as of</u></b> <b><u>September 30, 2019</u></b>
	-	-
Total Assets	\$18,388,470	\$20,421,414
Total Liabilities	\$3,163,959	\$2,866,531
Unexpended Appropriations	\$16,506,626	\$18,577,918
Cumulative Results of Operations	(\$1,282,115)	(\$1,023,035)
Net Position	\$15,224,511	\$17,554,883
Total Liabilities and Net Position	\$18,388,470	\$20,421,414

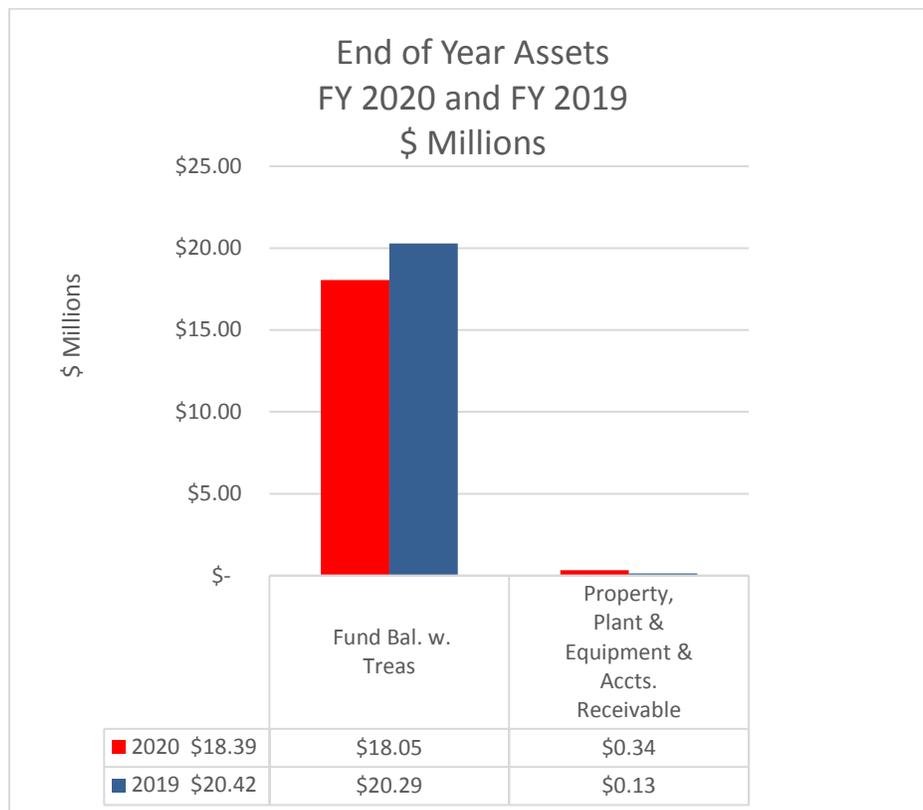
FY 2020  
 DEFENSE NUCLEAR FACILITIES SAFETY BOARD  
 Annual Financial Report

**Assets:**

Fund Balance with Treasury (FBWT) (analogous to cash) comprises virtually all 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 chart, "**Figure 1-END OF YEAR ASSETS,**" the asset balances, mainly cash, were \$18.39 million as of September 30, 2020, a decrease of \$2.03 million from the total of \$20.42 million as of the end of FY 2019. The decrease in end of year cash was due to increased Personnel outlays and Other Service costs, partially offset by reduced Travel outlays in FY 2020 that left less cash remaining at Treasury at the end of the FY 2020 than at the end of FY 2019.

**FIGURE 1-END OF YEAR ASSETS**

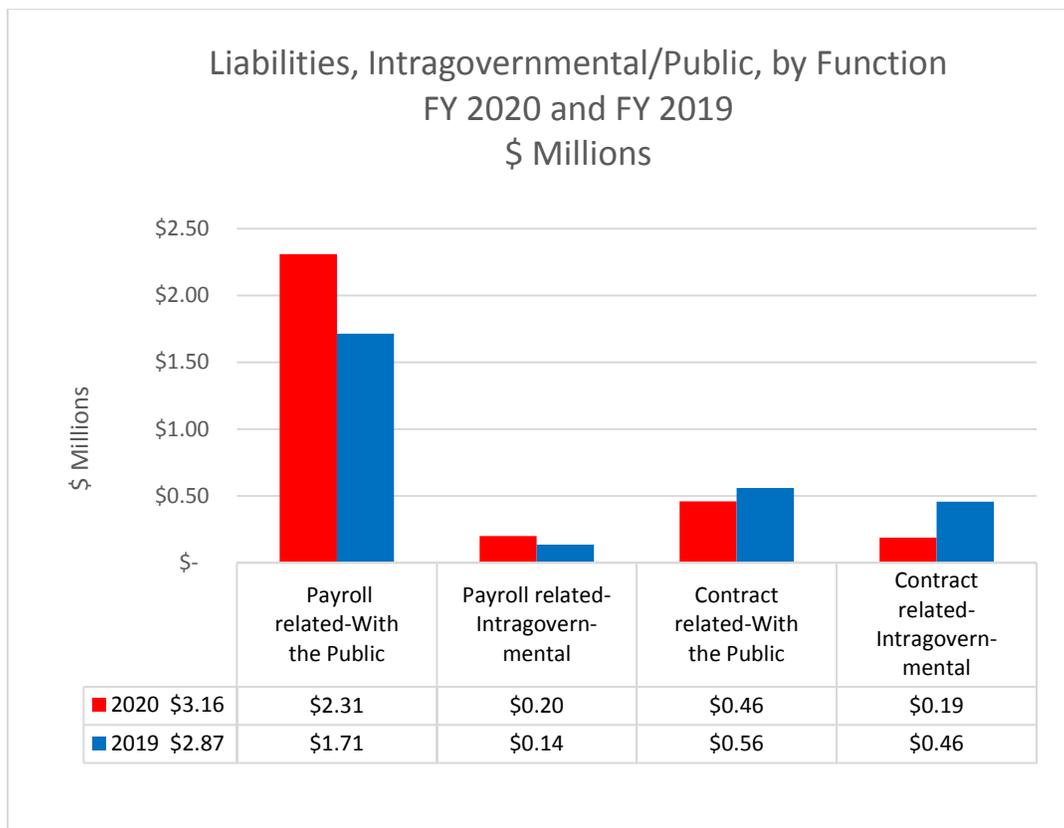


**Liabilities:**

At the end of FY 2020, payroll-related liabilities (that include Withheld Taxes Payable, Accrued Payrolls and Unfunded Leave) made up approximately 79 percent of the Board's liabilities. The remaining 21 percent was made up of payables related to contractual obligations.

As shown in the chart, "**Figure 2-Liabilities**," at the end of FY 2020 the balance of payroll-related liabilities was \$2.51 million (including both payroll related liabilities with the public, \$2.31 million, and payroll related intragovernmental liabilities, \$0.20 million), an increase of \$0.66 million from the total of \$1.85 million at the end of FY 2019. The increase was due to larger payrolls resulting from hiring in FY 2020. Contractual obligation-related payables decreased from \$1.02 million at the end of FY 2019 to \$0.65 million at the end of FY 2020 due to faster billing by federal vendors and a decrease in invoices received but not yet paid.

**FIGURE 2-LIABILITIES**

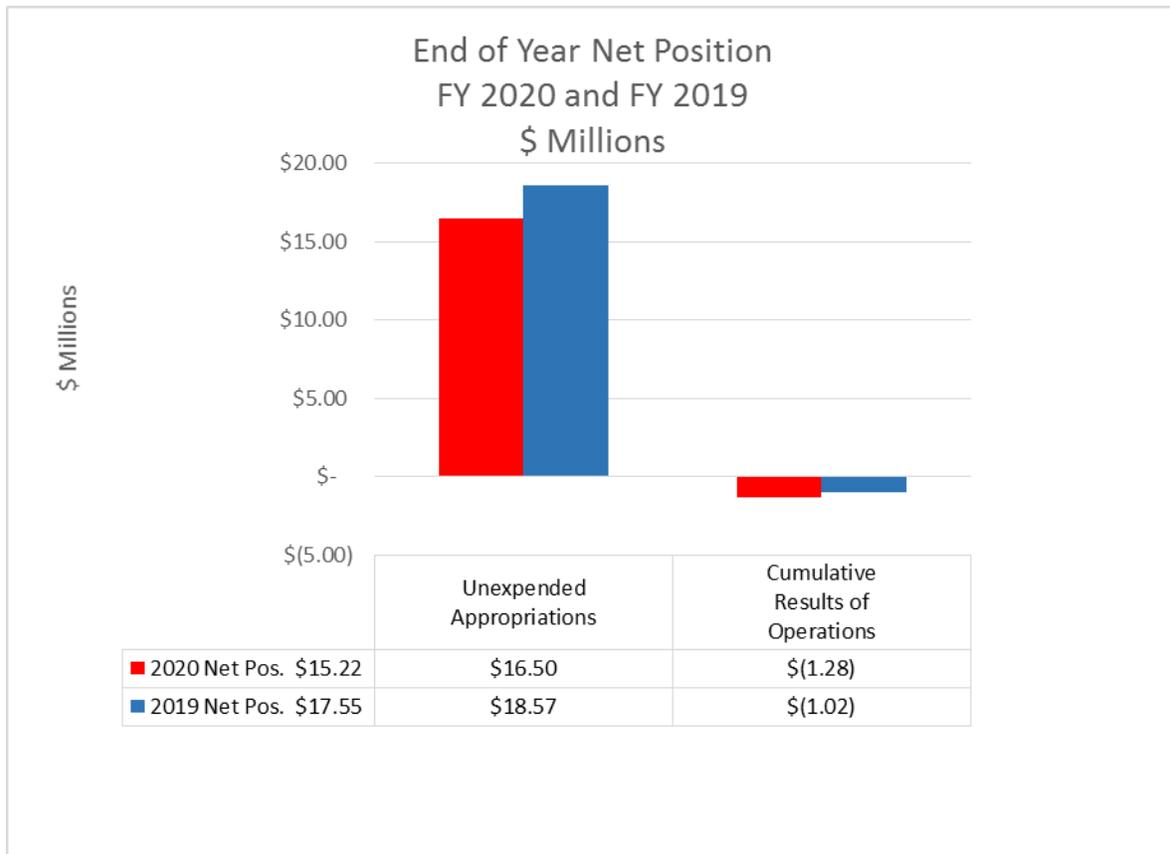


**Net Position:**

Net Position, **Figure 3**, on Government balance sheets is analogous to Equity on private sector balance sheets. However, it is not a 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 2020 by \$(1.28) million.

**FIGURE 3-NET POSITION**



**1.4.3.2 Statement of Net Cost**

The Simplified Statement of Net Cost, **Table 2**, shows the comparative net cost of operations between FY 2020 and FY 2019.

**Table 2 – Simplified Statement of Net Cost**

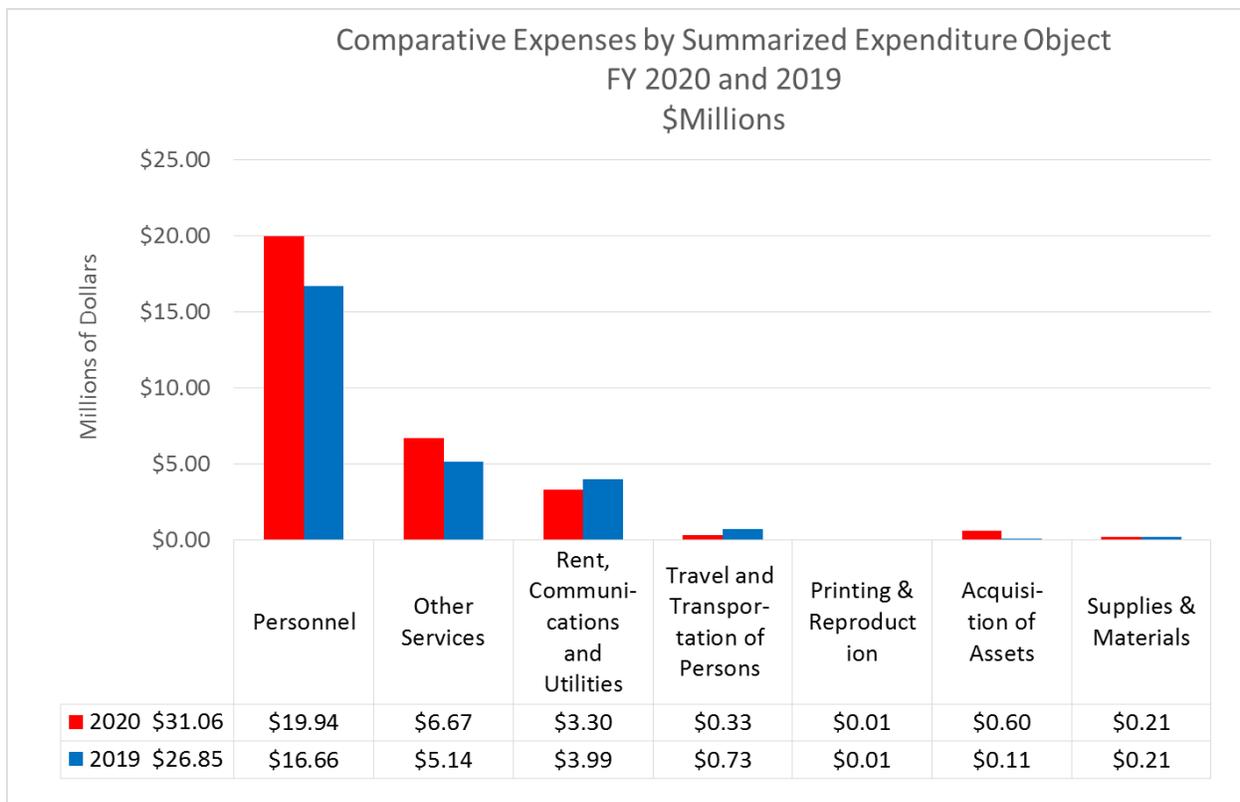
<b>Simplified Statement of Net Cost</b>		
<b>Whole Dollars</b>		
	<b>FY 2020</b>	<b>FY 2019</b>
Net Cost of Operations	\$31,061,671	\$26,853,937

The Board's net cost of operations for the year ending September 30, 2020, was \$31.06 million, an increase of \$4.21 million or 16 percent from FY 2019 costs. The increase in net cost was primarily due to higher costs for Personnel, and Other Services, partially offset by lower costs for Travel.

FY 2020  
 DEFENSE NUCLEAR FACILITIES SAFETY BOARD  
 Annual Financial Report

The chart **“Figure 4, Comparative Expenses by Summarized Expenditure Object,”** 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 2020 made up approximately 64 percent of all costs (\$19.94 million/\$31.06 million). The summary cost of Other Services made up approximately 21 percent (\$6.67 million/\$31.06 million). Thus, the \$3.28 million increase in Personnel costs, plus the \$1.53 million increase in Other Services costs, plus the \$0.49 million increase in Acquisition of Assets costs, minus the \$(1.09) million combined decrease in Rent Communications and Utilities, and Travel and Transportation accounted for the total net cost increase of \$4.21 million.

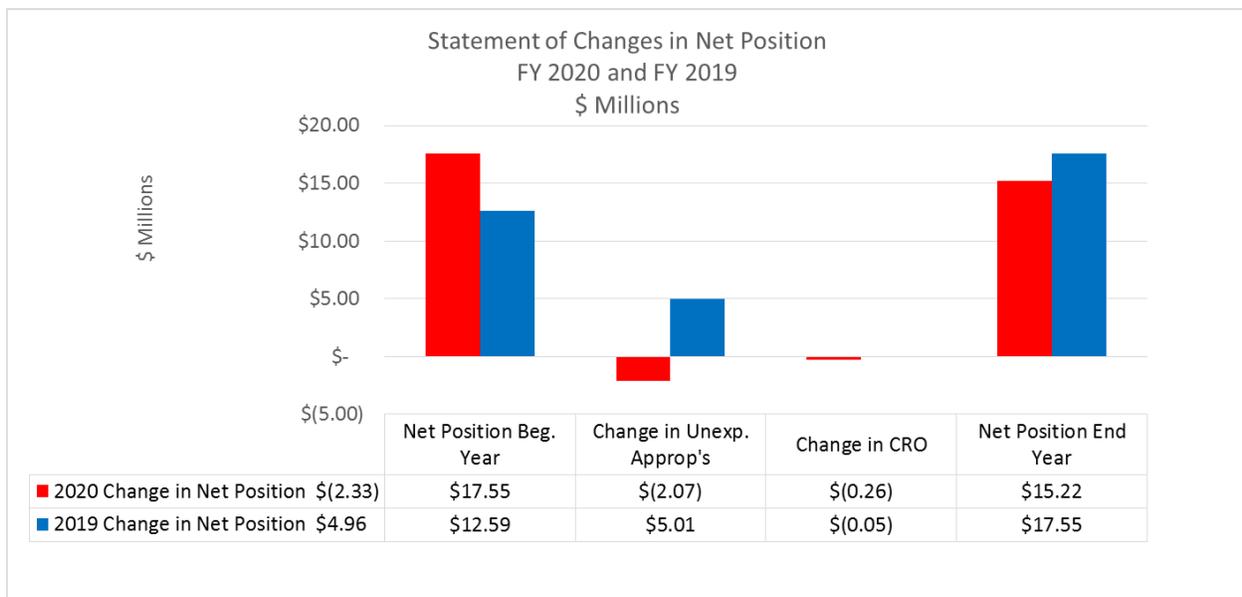
**FIGURE 4-COMPARATIVE EXPENSES BY SUMMARIZED EXPENDITURE OBJECT**



**1.4.3.3 Statement of Changes in Net Position (SCNP)**

The chart showing the SCNP, Figure 5, shows the factors that caused the Net Position to decrease by \$(2.33) million during the FY 2020. We decreased our unexpended appropriations by \$(2.07) million. This was primarily due to increased expenses for Personnel, Other Services, and Asset Acquisitions, partially offset by reduced expenses for Travel, Rent, Communications, and Utilities. CRO decreased by \$0.26 million.

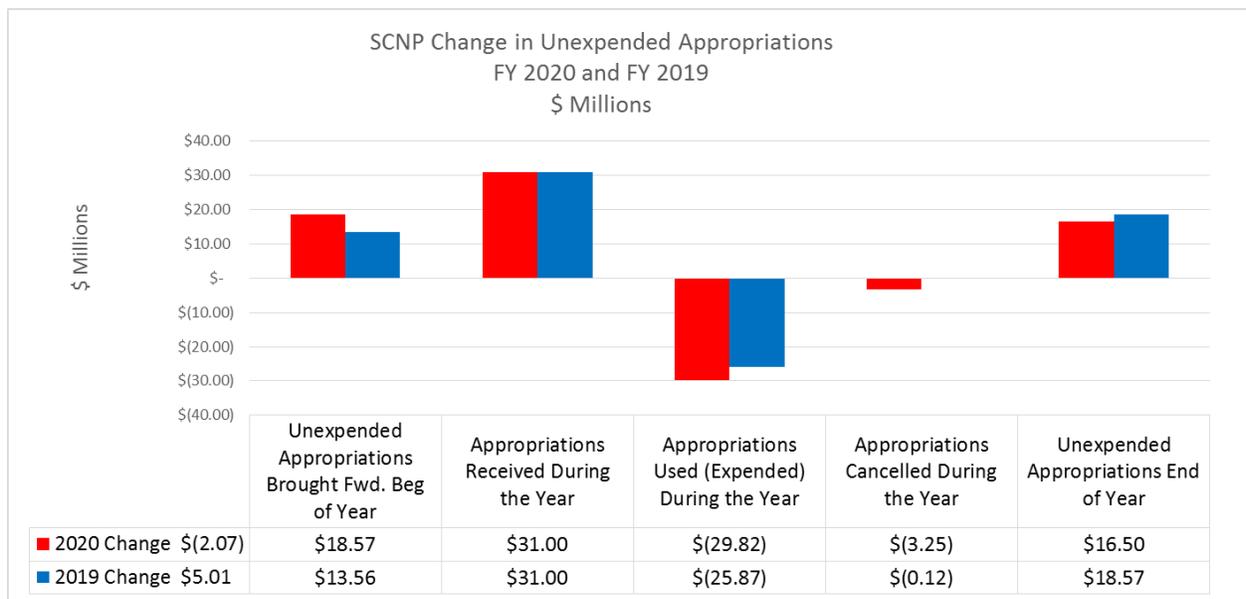
**FIGURE 5-STATEMENT OF CHANGES IN NET POSITION**



FY 2020  
 DEFENSE NUCLEAR FACILITIES SAFETY BOARD  
 Annual Financial Report

As shown in **Figure 6**, during FY 2020 the Board used or cancelled \$33.07 million of its appropriations. This is an increase of \$7.08 million over the \$25.99 million that it used or cancelled in FY 2019. Higher expenditures were due mainly to increased Personnel and Other Services costs, partially offset by decreased Travel costs. The Board received \$31.00 million in appropriations in both FY 2020 and FY 2019. As a result of these factors the Board’s end of FY 2020 Unexpended Appropriations decreased by \$(2.07) million from \$18.57 million at the end of FY 2019 to \$16.50 million at the end of FY 2020.

**FIGURE 6-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**

<b>Simplified Statement of Budgetary Resources Whole Dollars</b>		
	<b>FY 2020 as of September 30 (Whole Dollars)</b>	<b>FY 2019 as of September 30 (Whole Dollars)</b>
<b>Budgetary Resources</b>		
Unobligated balance from prior year budget authority	\$ 10,297,821	\$ 9,986,424
Appropriations	\$ 31,000,000	\$ 31,000,000
<b>Total Budgetary Resources</b>	<b>\$ 41,297,821</b>	<b>\$ 40,986,424</b>
<b>Status of Budgetary Resources</b>		
New obligations and upward adjustments (total)	\$ 27,332,199	\$ 28,408,804
<b>Unobligated balance, end of year:</b>		
Unexpired unobligated balance, end of year	\$ 12,636,474	\$ 8,339,328
Expired unobligated balance, end of year	\$ 1,329,148	\$ 4,238,292
Unobligated balance, end of year (total)	\$ 13,965,622	\$ 12,577,620
<b>Total Budgetary Resources</b>	<b>\$ 41,297,821</b>	<b>\$ 40,986,424</b>
<b>Outlays, net (total)</b>	<b>\$ 29,991,735</b>	<b>\$ 25,959,009</b>

FY 2020  
 DEFENSE NUCLEAR FACILITIES SAFETY BOARD  
 Annual Financial Report

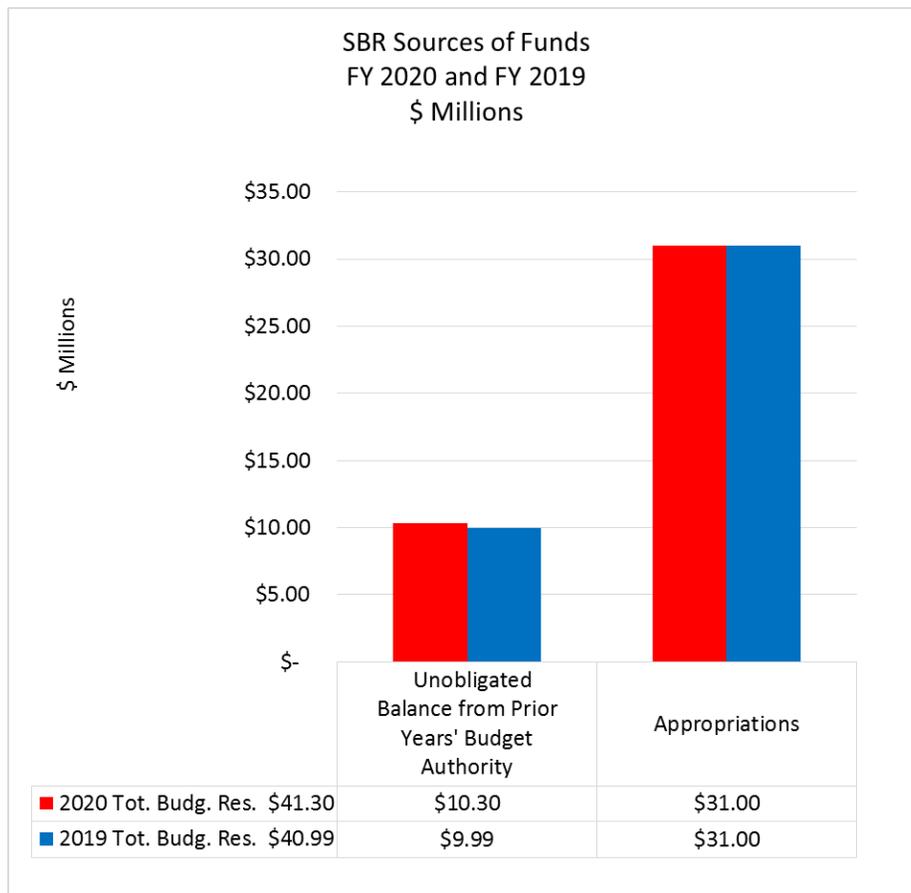
**Budgetary Resources**

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 2020, \$10.30 million; FY 2019, \$9.99 million.
- New appropriations received during the year: FY 2020, \$31.0 million; FY 2019, \$31.0 million.

As shown in the “SBR Sources of Funds” chart, **Figure 7**, Total Budgetary Resources available were \$41.30 million in FY 2020 compared to \$40.99 million in FY 2019.

**FIGURE 7-SBR SOURCES OF FUNDS**

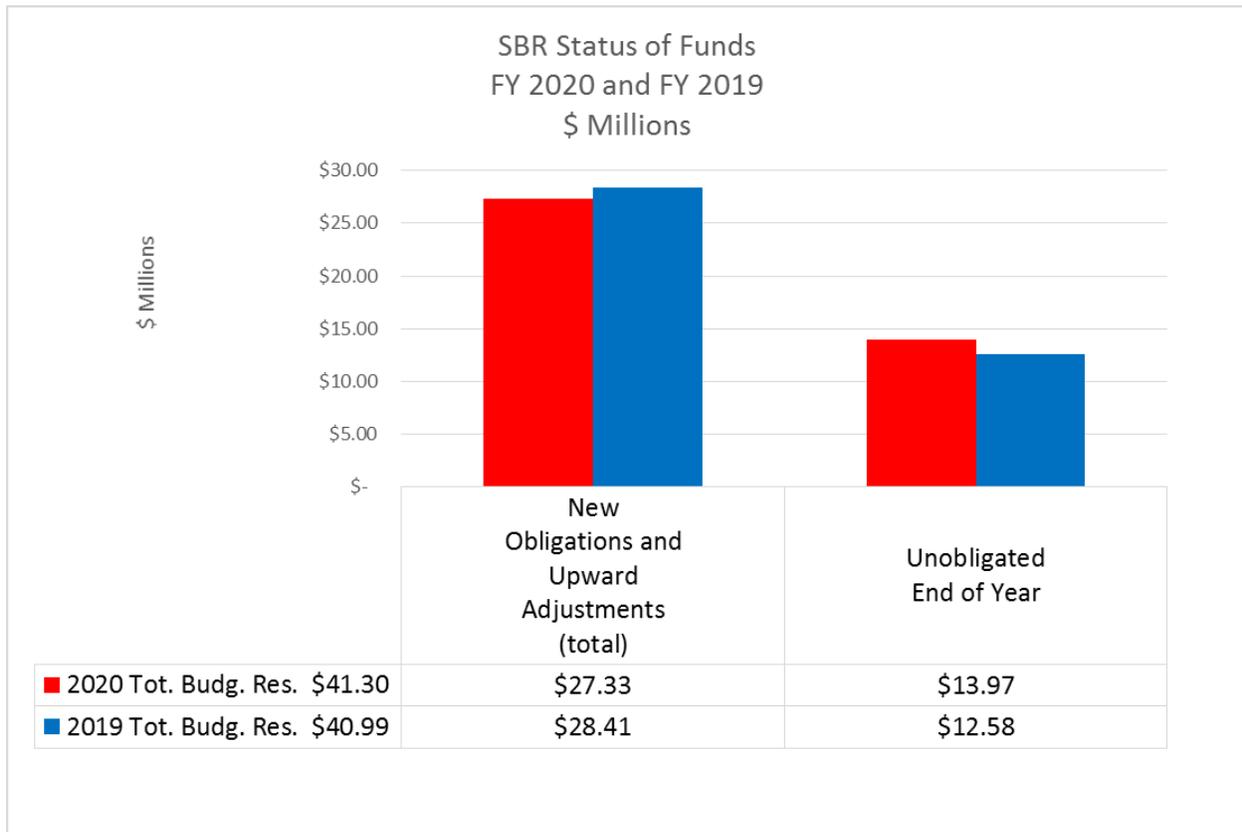


**Status of Budgetary Resources**

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 2019 as expired and, therefore, the Board could not obligate them.

As shown in **FIGURE 8**, the main difference between FY 2020 and FY 2019 is that FY 2020 obligations, \$27.33 million, were slightly less, \$(1.08) million than FY 2019 obligations, \$28.41 million. This is because obligations for Other Services, Acquisition of Assets, Travel, and other were about \$(3.10) million less in FY 2020 and obligations for direct-hire personnel were about \$2.02 million more (not shown). Given that FY 2020's Total Budgetary Resources were a little more, \$0.31 million, and that FY 2020 obligations were less, \$(1.08) million, the FY 2020's End of Year Unobligated balance was \$1.39 million more than it was in FY 2019.

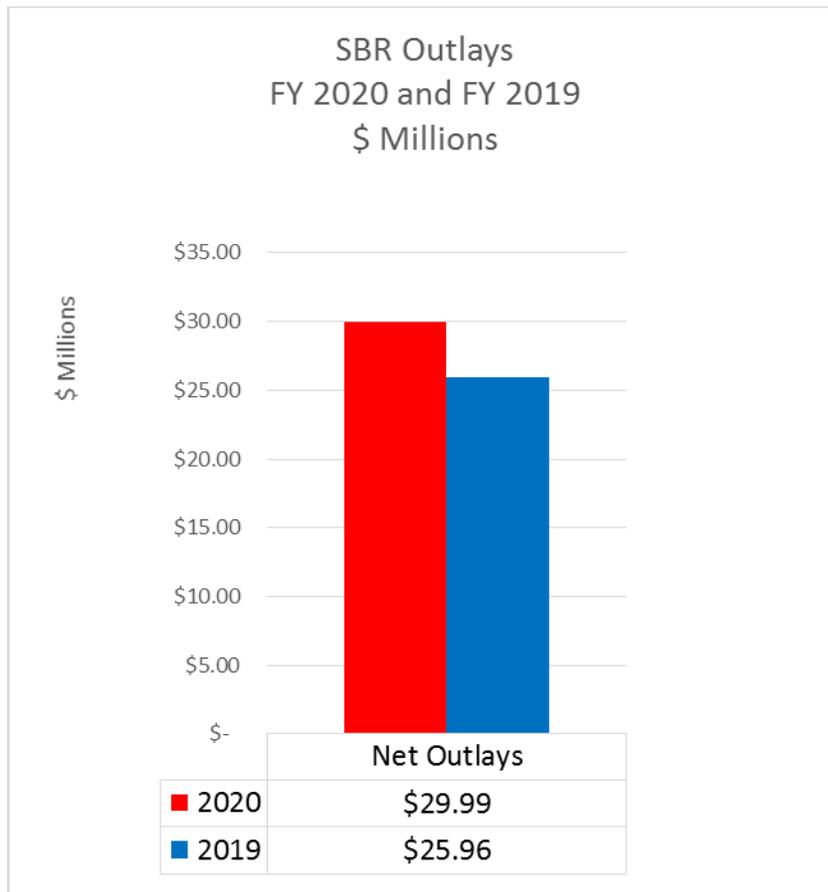
**Figure 8 – SBR Status of Funds**



**Outlays, Net**

Figure 9-SBR Outlays shows cash outlays for FY 2020 and FY 2019. FY 2020 outlays, \$29.99 million, were \$4.03 million more than FY 2019 outlays, \$25.96 million. This was primarily because of higher FY 2020 outlays for Personnel, and Other Services, offset in part by a decrease in FY 2020 outlays for Travel.

**Figure 9 – SBR Outlays**



**1.4.4 Overall financial condition and financial management**

As of September 30, 2020, 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 2019 nor have any anticipated or unanticipated financial risks occurred during FY 2020.

### **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, 2020. 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. The results of that review are described in the FMFIA Statement of Assurance, Section 1.5.1, below.

### 1.5.1 FMFIA Statement of Assurance

#### Qualified 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, 2020. The only exception was operations controls related to Federal contracting.

On September 30, 2020, our Executive Committee for Internal Controls (ECIC) identified one FY 2020 internal control deficiency that the ECIC deemed serious enough to report to me as a material weakness in internal controls, as of September 30, 2020. The deficiency involved Federal contracting.

In response, a corrective action plan was immediately put in place in October 2020. The ECIC met on December 7, 2020, to determine whether sufficient progress had been made to remove the characterization of "material weakness" in internal controls for Federal contracting. At the December 7 meeting, the ECIC was briefed by Deputy General Manager, Toni Reddish, who explained that the following corrective actions had taken place since September 30, 2020: (1) all appropriate contracting officer representative (COR) certifications were put in place; (2) Contracting Performance Assessment Reporting System (CPARS) and Federal Procurement Data System (FPDS) accounts were established for all relevant contracting personnel; (3) appropriate General Services Administration accounts and accesses were put in place for relevant personnel; and (4) contract officer training at the relevant level was completed by all approved contracting officers. The Deputy General Manager also explained that several other corrective actions were still ongoing. This included, among other things, the development of agency-wide acquisitions processes and procedures, documentation of all current processes as a baseline, initiation of an interagency procurement workgroup, and extensive reviews of older contract files. These activities will be ongoing activities throughout FY 2021 and FY 2022.

After the December 7 briefing, the ECIC agreed that sufficient progress had been made to downgrade the material weakness for internal controls on Federal contracting to a significant internal control deficiency. That said, the ECIC was clear that this downgrade would not erase the prior status of material weakness in internal controls for Federal contracting, as of September 30, 2020, and that the status downgrade only applied prospectively, commencing December 8, 2020.

*Thomas A. Summers*

\_\_\_\_\_  
Thomas A. Summers  
Acting Chairman

December 16, 2020

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 FFMIA § 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 August 25, 2020. 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, 2019, to June 30, 2020, if complementary 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 7, 2020, 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 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 2020, the Board certified on time all its DATA Act reports that were due.

#### **1.5.3.2 Federal Information Security Modernization Act**

FY 2020

## DEFENSE NUCLEAR FACILITIES SAFETY BOARD

### Annual Financial Report

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 2019 OIG independent FISMA evaluation as of September 30, 2020. This report was delayed due to the COVID-19 pandemic. The Board continues to update polices and information system contingency plans for continued compliance with our 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. 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 examined the Department of Energy's Order 140.1, the May 2018 order that governs DOE's interface with the DNFSB, and its (1) effect on DNFSB's ability to meet its statutory responsibilities, and (2) impact on public and worker safety and DNFSB's access to information required to carry out its congressionally-mandated responsibilities. GAO made four recommendations in its report, NUCLEAR SAFETY: DOE and the Safety Board Should Collaborate to Develop a Written Agreement to Enhance Oversight, (GAO-21-141). The specific recommendation for Board action (Recommendation 2) requires that the Board and DOE collaborate to develop a written agreement that outlines how DOE will provide the Board access to information, and clarify procedures for regular interactions between DOE and the Board to ensure the adequacy of safety protections at DOE's defense nuclear facilities. DNFSB concurs with this recommendation and will provide a written statement of action to the appropriate congressional committees within 180 days from the date of the report.

#### **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.

FY 2020  
DEFENSE NUCLEAR FACILITIES SAFETY BOARD  
Annual Financial Report

The Board reports as follows for FY 2020:

- (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 Office of Inspector General (OIG) completed eight (8) assessments on Board programs during FY 2020, including the Inspector General’s Assessment of the Most Serious Management and Performance Challenges Facing the DNFSB in FY2020, (DNFSB-20-A-01); the Audit of DNFSB's Compliance with the Digital Accountability and Transparency Act of 2014 (DATA Act), (DNFSB-20-A-02); Results of the Audit of the Defense Nuclear Facilities Safety Board’s Financial Statements for Fiscal Year 2019, (DNFSB-20-A-03); the Audit of DNFSB's Human Resources Program, (DNFSB-20-A-04); the Independent Evaluation Report of DNFSB's Implementation of FISMA 2014 For Fiscal Year 2019, (DNFSB-20-A-05); the Audit of DNFSB'S Fiscal Year 2019 Compliance with Improper Payment Laws, (DNFSB-20-A-06); the Independent Evaluation of DNFSB's Potential Compromise of Systems (Social Engineering), (DNFSB-20-A-07); and the Audit of the DNFSB COVID-19 Re-Entry Plan, (DNFSB-20-A-08).
- (C) The OIG has initiated but not yet completed the Independent Evaluation of DNFSB’s Implementation of the Federal Information Security Modernization Act (FISMA) of 2014 for FY 2020.

Regarding 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, recordkeeping for the Telework Program. The Board also has one remaining recommendation to implement from the Audit of DNFSB’s IACTS and Its Related Processes, (DNFSB-19-A-02), to implement a policy to consistently track requests for board actions (RFBA).

- (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 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 was again an area of emphasis in FY 2020. The Board’s efforts yielded a

FY 2020

DEFENSE NUCLEAR FACILITIES SAFETY BOARD

Annual Financial Report

Memorandum of Understanding between DOE and DNFSB that jump-started a joint Working Group. The Working Group will collaborate to develop a broader MOU between DNFSB and DOE to provide a foundation for mutual communication, transparency and information sharing to promote operational and interface efficiencies.

**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. To comply with Circular A-123, *Requirements for Payment Integrity Improvement*, Appendix C, Part 1.C.2.d., DNFSB performed a qualitative risk assessment during FY 2020. The recommendations were as follows: “Add a reconciliation process to credit card purchases and conduct a full-scale review of improper payments in FY 2023 as required by OMB A-123 Appendix C.”

During FY 2020, the National Finance Center (for payroll) and the USDA (for all other payments) made total payments of approximately \$30 million on the Board’s behalf. During FY 2020 the Board’s finance staff did not identify any improper payments. 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 compares the tracking system payments and invoices with the USDA payment reports and notifies USDA of all differences, including improper payments.

## **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 2020 financial statements received an unmodified opinion from its independent auditors, the Board’s fifteenth consecutive “clean” opinion since its FY 2004 financial statements were initially audited pursuant to the Accountability of Tax Dollars Act of 2002 (ATDA). FY 2020 marked the fourteenth consecutive year that the Board’s unmodified opinion was coupled with no instances of non-compliance with laws and regulations and no material weaknesses in control over financial reporting.

The financial statements that follow were prepared and audited as part of this Annual Financial Report (AFR). Publication of this AFR was delayed 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 2020 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 fourteenth 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. Although the auditors noted no internal control material weaknesses for the thirteenth consecutive year, they did identify a significant deficiency related to internal controls over financial reporting. This weakness arose because of vacancies in two accounting positions. The candidate for one of the vacancies has accepted an offer from the Board and will start by early January 2021. The Board is recruiting for the second position and plans to fill it early in 2021.

As described in Section 1.5, above, the ECIC had determined that there were material operational weaknesses in the contracting process as of September 30, 2020. On December 7, 2020, considering corrective actions that had taken place, it determined that the weaknesses were significant but no longer material. Corrective actions are continuing and

FY 2020

DEFENSE NUCLEAR FACILITIES SAFETY BOARD

Annual Financial Report

include, among other things, development of agency-wide acquisitions processes and procedures, documenting all current processes as a baseline, initiating an interagency procurement workgroup, and extensive reviews of older contract files. These activities will be ongoing activities throughout FY 2021 and FY 2022.

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

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

Glenn Sklar, General Manager  
December 16, 2020



FY 2020  
DEFENSE NUCLEAR FACILITIES SAFETY BOARD  
Annual Financial Report

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 2020 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 2020 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 16, 2020, 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,

FY 2020  
DEFENSE NUCLEAR FACILITIES SAFETY BOARD  
Annual Financial Report

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 17, 2020, 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  
T. Reddish, Deputy General Manager



CliftonLarsonAllen LLP  
CLAconnect.com

## INDEPENDENT AUDITORS' REPORT

To: Inspector General  
United States Nuclear Regulatory Commission

Acting Chairman  
Defense Nuclear Facilities Safety Board

In our audit of the fiscal years (FYs) 2020 and 2019 financial statements of the Defense Nuclear Facilities Safety Board (DNFSB), we found:

- DNFSB's financial statements as of and for the fiscal years ended September 30, 2020 and 2019, are presented fairly, in all material respects, in accordance with United States of America (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, 2020; and
- No reportable noncompliance for FY 2020 with provisions of applicable laws, regulations, contracts, and grant agreements we tested and no other matters.

The following sections discuss in more detail (1) our report on the financial statements and on internal control over financial reporting, required supplementary information (RSI)<sup>1</sup>, and other information (OI)<sup>2</sup> included in the financial statements; (2) our report on compliance with laws, regulations, contracts, and grant agreements and other matters; and (3) DNFSB management's response to the findings and recommendations.

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

In accordance with our contract with NRC's Office of Inspector General, we have audited DNFSB's financial statements in accordance with U.S. generally accepted auditing standards; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 19-03, *Audit Requirements for Federal Financial Statements* (OMB Bulletin 19-03). DNFSB's financial statements comprise the balance sheets as of September 30, 2020, and 2019; the related statements of net cost, changes in net position, and budgetary resources for the years then ended; and the related notes to the financial statements. We also have audited DNFSB's internal control over financial reporting as of September 30, 2020, based on criteria established under 31 U.S.C. § 3512(c), (d), commonly known as the Federal Managers' Financial Integrity Act (FMFIA). We believe that the audit evidence we obtained is sufficient and appropriate to provide a basis for our audit opinions.

<sup>1</sup> The RSI consists of Management's Discussion and Analysis (MD&A), which is included with the financial statements.

<sup>2</sup> Other Information consists of all the other information included in the DNFSB agency financial report except for the financial statements, the auditors' report, and the RSI.

### Independent Auditors' Report (Continued)

#### 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 included in the MD&A about the effectiveness of internal control over financial reporting as of September 30, 2020.

#### 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. *Government Auditing Standards* require that we plan and perform the audits 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 auditors consider 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 weakness exists. The procedures selected depend on the auditor's judgment, 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.

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.

**Independent Auditors' Report (Continued)**

A *deficiency* in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control 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.

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, 2020 and 2019, and its net cost of operations, changes in net position, and budgetary resources for the FYs then ended in accordance with U.S. generally accepted accounting principles.

However, misstatements may nevertheless occur in unaudited financial information reported internally or externally by the DNFSB as a result of the internal control deficiencies described in this report.

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, 2020, based on criteria established under FMFIA.

As discussed below and in more detail in Exhibit A, our 2020 audit identified a significant deficiency in DNFSB's internal control over financial reporting<sup>3</sup>. We considered this significant deficiency in determining the nature, timing, and extent of our audit procedures on DNFSB's FY 2020 financial statements.

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<sup>3</sup> 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

FY 2020  
DEFENSE NUCLEAR FACILITIES SAFETY BOARD  
Annual Financial Report

**Independent Auditors' Report (Continued)**

Although the significant deficiency in internal control did not affect our opinion on DNFSB's FY 2020 financial statements, misstatements may occur in unaudited financial information reported internally and externally by DNFSB because of this significant deficiency.

During our FY 2020 audits, we also identified other 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 management's attention. We have communicated these matters to DNFSB management and, where appropriate, will report on them separately.

Other Matters

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 *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 audits 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. In addition, management has included references to information on websites or other data outside of the Annual Management Report. 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 and Other Matters**

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 *Government Auditing Standards*. However, providing an opinion on compliance was not an objective of our audit, and accordingly, we do not express such an opinion.

FY 2020  
DEFENSE NUCLEAR FACILITIES SAFETY BOARD  
Annual Financial Report

**Independent Auditors' Report (Continued)**

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 and Other Matters

Our tests for compliance with selected provisions of applicable laws, regulations, contracts, and grant agreements disclosed no instances of noncompliance or other matters for FY 2020 that would be reportable under *Government Auditing Standards*. 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.

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

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 *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.

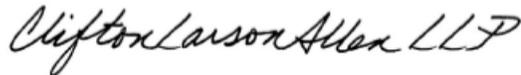
**DNFSB Management's Response to the Findings and Recommendations**

DNFSB's response to the finding and recommendations identified in our report is included in Exhibit C. In their response DNFSB concurs with the deficiencies in financial reporting. We did not audit NRC's response, and accordingly, we express no opinion on it.

**Status of Prior Year's Control Deficiency**

We have reviewed the status of DNFSB's corrective actions with respect to the finding and recommendation included in the prior year's Independent Auditors' Report, dated December 17, 2019. The status of the prior year finding is presented in Exhibit B.

**CliftonLarsonAllen LLP**



Arlington, Virginia  
December 16, 2020

**Independent Auditors' Report (Continued)**  
**Exhibit A**  
**Significant Deficiency**

**Improve Controls over Financial Reporting**

**Criteria**

1. OMB Circular A-136, *Financial Reporting Requirements*, revised on August 27, 2020, Section I.5, Submission Deadlines, states the following:

Interim Financial Statements. Agencies must submit unaudited interim financial statements 21 business days after the end of the third quarter of the fiscal year and unaudited interim notes 45 business days after the end of the third quarter.

2. Government Accountability Office's (GAO's) Standard for Internal Control in the Federal Government (Green Book), section 0V4.08, Documentation Requirements, states, in part:

Documentation is a necessary part of an effective internal control system...Documentation is required for the effective design, implementation, and operating effectiveness of an entity's internal control system...

3. GAO's Standard for Internal Control in the Federal Government (Green Book), section 10.10, Design of Appropriate Types of Control Activities, states, in part:

Transaction control activities are actions built directly into operational processes to support the entity in achieving its objectives and addressing related risks. 'Transactions' tends to be associated with financial processes (e.g., payable transactions), while 'activities' is more generally applied to operational or compliance processes. For the purposes of this standards, "transactions" covers both definitions. Management may design a variety of transaction control activities for operational processes, which may include verifications, reconciliations, authorizations and approvals, physical control activities, and supervisory control activities.

**Condition**

Review and reconciliation controls and tasks over financial reporting were deficient resulting in financial statements and notes not completed accurately and timely. We noted the following:

1. Notes to the financial statements were not prepared as part of the June 30, 2020 (interim) reporting.
2. The June 30, 2020 Fund Balance with Treasury Governmentwide Accounting (GWA) to general ledger reconciliation was not prepared.
3. The June 30, 2020 capitalized assets to general ledger reconciliation was not performed adequately as it was missing the FY 2019 and FY 2020 Property Plant and Equipment (PP&E) additions.
4. The September 30, 2020 capitalized assets to general ledger reconciliation included all PP&E additions but did not include depreciation expense or accumulated depreciation for FY20 additions.
5. A significant reconciling item on the September 30, 2020 unfunded leave liability reconciliation was not resolved on a timely basis. DNFSB did not request a detailed leave accrual list from the Department of Agriculture National Finance Center service provider as of September 30, 2020 and as a result the leave accrual was estimated to meet the Governmentwide Treasury Account Symbol Adjusted Trial Balance System (GTAS) reporting deadline and finish the financial statements. The estimate was determined to be significantly understated when the detail list was later provided and a top side entry was

**Independent Auditors' Report (Continued)**  
**Exhibit A**  
**Significant Deficiency**

required to properly state unfunded leave liability and expense when CLA brought the significance of the amount to DNFSB management's attention.

6. The September 30, 2020 financial statements and notes provided by DNFSB were not adequately reviewed by DNFSB on a timely basis as the financial statements did not properly account for prior year audit adjustments, had footing and rounding errors, and other errors which CLA communicated to DNFSB and DNFSB corrected. Furthermore, there were multiple versions of the financials provided and the agency financial report (AFR) was not provided until December 2, 2020 which delayed the audit.

**Cause**

Some critical financial reporting tasks and reconciliation controls were not completed accurately or timely due to personnel resource challenges and employee turnover.

**Effect**

The risk of material misstatement of the financial statements is increased when key reconciliation controls are not performed on a monthly basis and financial statements and related notes are not properly reviewed. The review process surrounding the reconciliations of Fund Balance with Treasury, capitalized assets, and unfunded leave liability, as well as, the preparation of financial statements and notes were inadequate as the controls were not performed sufficiently and errors were not detected and corrected timely. FY 2020 expense was understated and unexpended appropriations-cumulative was overstated by \$30 thousand because DNFSB did not properly account for a FY 2019 prior year on top adjustment in the general ledger until CLA brought the issue to management's attention. Additionally, unfunded leave liability for FY 2020 was understated by approximately \$260 thousand based on the reconciliation of the detail list of accrued leave and the general ledger balance and was not adjusted until CLA brought the significance of the amount to DNFSB management's attention.

**Recommendations**

CLA recommends that the DNFSB:

1. Develop a plan to improve the financial reporting controls and process, including identifying and training back up staff, so that financial statements and the related notes are properly prepared and reviewed at interim and year-end on a timely basis; and
2. Prepare and review all key financial statement reconciliations and resolve significant reconciling items on a monthly basis.

FY 2020  
DEFENSE NUCLEAR FACILITIES SAFETY BOARD  
Annual Financial Report

Independent Auditors' Report (Continued)  
Exhibit B  
Status of Prior Year Finding

Prior Finding	Recommendation	Current Status
Deobligate Aged Undelivered Orders on a Timely Basis (Significant Deficiency)	1. Develop a plan to ensure funds are de-obligated timely.	Progress was made and the finding was classified as a management letter comment in FY 2020.

FY 2020  
DEFENSE NUCLEAR FACILITIES SAFETY BOARD  
Annual Financial Report

**Independent Auditors' Report (Continued)**  
**Exhibit C**  
**Management's Response to Findings and Recommendations**

**DEFENSE NUCLEAR FACILITIES  
SAFETY BOARD**  
Washington, DC 20004-2901



December 16, 2020

MEMORANDUM TO: Brett M. Baker  
Assistant Inspector General for Audits  
Office of the Inspector General  
Nuclear Regulatory Commission

FROM: Glenn Sklar *Glenn Sklar*  
General Manager

SUBJECT: Audit of the Fiscal Years' 2020 and 2019 Financial Statements

This memorandum responds to the audit report of the Defense Nuclear Facilities Safety Board's (DNFSB) fiscal years' 2020 and 2019 financial statements, provided on December 16, 2020.

DNFSB concurs with the findings and we are working to implement the recommendations.

We appreciate the work of the auditors, CliftonLarsonAllan LLP (CLA), who worked under contract to the Nuclear Regulatory Commission's Office of Inspector General.

FY 2020  
DEFENSE NUCLEAR FACILITIES SAFETY BOARD  
Annual Financial Report

**2.3 FY 2020 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, 2020 and 2019**



FY 2020  
 DEFENSE NUCLEAR FACILITIES SAFETY BOARD  
 Annual Financial Report

**Defense Nuclear Facilities Safety Board**  
**STATEMENT OF NET COST**  
 As Of And For The Years Ended September 30, 2020 and 2019

	2020	2019
<b>Program Costs:</b>		
<b>DNFSB:</b>		
Gross Costs	\$ 31,061,671.12	\$ 26,853,936.69
Net Program Costs (Note 11)	31,061,671.12	26,853,936.69
<b>Net Cost of Operations</b>	\$ 31,061,671.12	\$ 26,853,936.69

The accompanying notes are an integral part of these statements.

FY 2020  
 DEFENSE NUCLEAR FACILITIES SAFETY BOARD  
 Annual Financial Report

**Defense Nuclear Facilities Safety Board**  
 STATEMENT OF CHANGES IN NET POSITION  
 As Of And For The Years Ended September 30, 2020 and 2019

FY 2020 (Current Year)

	Funds From Dedicated Collections (Consolidated Totals)	All Other Funds (Consolidated Totals)	Eliminations	Consolidated Total
<b>Unexpended Appropriations:</b>				
Beginning Balance		\$ 18,577,918.00		\$ 18,577,918.00
Beginning balance, as adjusted		18,577,918.00		18,577,918.00
<b>Budgetary Financing Sources:</b>				
Appropriations received		31,000,000.00		31,000,000.00
Other Adjustments (+/-)		(3,245,975.12)		(3,245,975.12)
Appropriations used		(29,825,316.50)		(29,825,316.50)
Total Budgetary Financing Sources		(2,071,291.62)		(2,071,291.62)
<b>Total Unexpended Appropriations</b>		<b>16,506,626.38</b>		<b>16,506,626.38</b>
<b>Cumulative Results from Operations</b>				
Beginning Balances		\$ (1,023,035.41)		\$ (1,023,035.41)
Beginning balances, as adjusted		(1,023,035.41)		(1,023,035.41)
<b>Budgetary Financing Sources:</b>				
Appropriations used		29,825,316.50		29,825,316.50
<b>Other Financing Sources (Nonexchange):</b>				
Imputed Financing		977,274.96		977,274.96
Total Financing Sources		30,802,591.46		30,802,591.46
Net Cost of Operations		31,061,671.12		31,061,671.12
Net Change		(259,079.66)		(259,079.66)
<b>Cumulative Results of Operations</b>		<b>(1,282,115.07)</b>		<b>(1,282,115.07)</b>
<b>Net Position</b>		<b>\$ 15,224,511.31</b>		<b>\$ 15,224,511.31</b>

The accompanying notes are an integral part of these statements.

FY 2020  
 DEFENSE NUCLEAR FACILITIES SAFETY BOARD  
 Annual Financial Report

**Defense Nuclear Facilities Safety Board**  
 STATEMENT OF CHANGES IN NET POSITION  
 As Of And For The Years Ended September 30, 2020 and 2019

FY 2019 (Prior Year)

	Funds From Dedicated Collections (Consolidated Totals)	All Other Funds (Consolidated Totals)	Eliminations	Consolidated Total
<b>Unexpended Appropriations:</b>				
Beginning Balance		\$ 13,561,932.50		\$ 13,561,932.50
Beginning balance, as adjusted		13,561,932.50		13,561,932.50
<b>Budgetary Financing Sources:</b>				
Appropriations received		31,000,000.00		31,000,000.00
Other Adjustments (+/-)		(118,188.55)		(118,188.55)
Appropriations used		(25,865,825.95)		(25,865,825.95)
Total Budgetary Financing Sources		5,015,985.50		5,015,985.50
<b>Total Unexpended Appropriations</b>		<b>18,577,918.00</b>		<b>18,577,918.00</b>
<b>Cumulative Results from Operations</b>				
Beginning Balances		\$ (971,750.39)		\$ (971,750.39)
Beginning balances, as adjusted		(971,750.39)		(971,750.39)
<b>Budgetary Financing Sources:</b>				
Appropriations used		25,865,825.95		25,865,825.95
<b>Other Financing Sources (Nonexchange):</b>				
Imputed Financing		936,825.72		936,825.72
Total Financing Sources		26,802,651.67		26,802,651.67
Net Cost of Operations		26,853,936.69		26,853,936.69
Net Change		(51,285.02)		(51,285.02)
<b>Cumulative Results of Operations</b>		<b>(1,023,035.41)</b>		<b>(1,023,035.41)</b>
<b>Net Position</b>		<b>\$ 17,554,882.59</b>		<b>\$ 17,554,882.59</b>

The accompanying notes are an integral part of these statements.

FY 2020  
 DEFENSE NUCLEAR FACILITIES SAFETY BOARD  
 Annual Financial Report

**Defense Nuclear Facilities Safety Board**  
**STATEMENT OF BUDGETARY RESOURCES**

As Of And For The Years Ended September 30, 2020 and 2019

	<u>2020</u> <u>Budgetary</u>	<u>2019</u> <u>Budgetary</u>
<b>Budgetary resources:</b>		
Unobligated balance from prior year budget authority, net (discretionary and mandatory)	\$ 10,297,820.84	\$ 9,986,424.38
Appropriations (discretionary and mandatory)	31,000,000.00	31,000,000.00
<b>Total budgetary resources</b>	<u>\$ 41,297,820.84</u>	<u>\$ 40,986,424.38</u>
<b>Status of budgetary resources:</b>		
New obligations and upward adjustments (total) (Note 12)	27,332,198.95	\$ 28,408,803.95
Unobligated balance, end of year:		
Apportioned, unexpired account	12,423,989.82	7,996,075.65
Unapportioned, unexpired accounts	212,484.58	343,252.58
Unexpired unobligated balance, end of year	12,636,474.40	8,339,328.23
Expired unobligated balance, end of year	1,329,147.49	4,238,292.20
Unobligated balance, end of year (total)	13,965,621.89	12,577,620.43
<b>Total budgetary resources</b>	<u>\$ 41,297,820.84</u>	<u>\$ 40,986,424.38</u>
<b>Outlay, net:</b>		
Outlays, net (total) (discretionary and mandatory)	\$ 29,991,735.34	\$ 25,959,009.37
<b>Agency outlays, net (discretionary and mandatory)</b>	<u>\$ 29,991,735.34</u>	<u>\$ 25,959,009.37</u>

The accompanying notes are an integral part of these statements.

## **2.3.2 Financial Statement Notes**

### **DEFENSE NUCLEAR FACILITIES SAFETY BOARD**

#### **GENERAL FUND**

### **2.3.2.1 Note 1 – Significant Accounting Policies**

#### **2.3.2.1.1 (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.”

#### **2.3.2.1.2 (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, 2020, 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.

#### **2.3.2.1.3 (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

FY 2020  
DEFENSE NUCLEAR FACILITIES SAFETY BOARD  
Annual Financial Report

statements, and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from those estimates.

#### **2.3.2.1.4 (d) Revenues and Other Financing Sources**

The Board receives its funding needed to support its activities through annual congressional appropriations. FY 2020 and FY 2019 appropriated funds are available for obligation until September 30, 2021 and September 30, 2020, 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).

#### **2.3.2.1.5 (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 most 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 because 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.

#### **2.3.2.1.6 (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.

#### **2.3.2.1.7 (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.

FY 2020

## DEFENSE NUCLEAR FACILITIES SAFETY BOARD

### Annual Financial Report

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 five-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.

#### **2.3.2.1.8 (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.

#### **2.3.2.1.9 (i) Federal Employee Benefits**

The Board recognizes its share of the cost of providing future pension benefits to eligible employees over the period 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 like 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.

#### **2.3.2.1.10 (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 any contractual arrangements which may require future financial obligations.

FY 2020  
 DEFENSE NUCLEAR FACILITIES SAFETY BOARD  
 Annual Financial Report

**2.3.2.2 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, 2020 and 2019 are as follows:

A. Fund Balance with Treasury	2020	2019
General Fund	\$ 18,053,089.07	\$ 20,290,799.53
B. Status of Fund Balance with Treasury		
1) Unobligated Balance		
a) Available	\$ 12,423,989.82	\$ 7,996,075.65
b) Unavailable	\$ 1,541,632.07	\$ 4,581,544.78
2) Obligated Balance not yet disbursed	\$ 4,087,467.18	\$ 7,713,179.10
Total	\$ 18,053,089.07	\$ 20,290,799.53

FY 2020  
 DEFENSE NUCLEAR FACILITIES SAFETY BOARD  
 Annual Financial Report

**2.3.2.3 Note 3 – Accounts Receivable, Net**

The direct write-off method is used for uncollectible receivables.

	2020	2019
Accounts Receivable	\$ 65,716.00	\$21,117.22

**2.3.2.4 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, 2020 and 2019 are as follows.

2020	Equipment	Furniture & Fixtures	Software	Software in Development	Total
Cost	\$1,226,563.41	\$ 116,832.25	\$ 356,658.21	\$ -	\$ 1,700,053.87
Accum. Depr.	\$ (967,459.49)	\$(106,270.75)	\$(356,658.21)	\$ -	\$(1,430,388.45)
Net Book Value	\$ 259,103.92	\$ 10,561.50	\$ -	\$ -	\$ 269,665.42

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	\$ -	\$ -	\$ 109,496.90

**2.3.2.5 Note 5 – Liabilities Not Covered by Budgetary Resources**

The liabilities on the Board’s Balance Sheets as of September 30, 2020 and 2019 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, 2020 and 2019 is as follows:

	2020	2019
Intragovernmental		
Accounts Payable	\$ 187,991.10	\$ 457,972.49
Employer Contributions and Payroll Taxes Payable	\$ 200,665.79	\$ 136,147.94
Total Intragovernmental	\$ 388,656.89	\$ 594,120.43
With the Public		
Accounts Payable	\$ 459,098.22	\$ 558,575.17
Accrued Funded Payroll and Leave	\$ 725,858.94	\$ 534,616.92
Employer Contributions and Payroll Taxes Payable	\$ 34,384.64	\$ 25,569.01
Unfunded Leave	\$ 1,555,960.49	\$ 1,153,649.53
Total With the Public	\$ 2,775,302.29	\$ 2,272,410.63
Total Liabilities	\$ 3,163,959.18	\$ 2,866,531.06
Total Liabilities not covered by budgetary resources	\$ 1,555,960.49	\$ 1,153,649.53
Total Liabilities covered by budgetary resources	\$ 1,607,998.69	\$ 1,712,881.53
Total Liabilities	\$ 3,163,959.18	\$ 2,866,531.06

**2.3.2.6 Note 6 - Intragovernmental Liabilities**

Intragovernmental liabilities arise from transactions with other federal entities. As of September 30, 2020, the Board had accounts payable intragovernmental liabilities of \$187,991.10: With GSA (\$34,582.41), the Department of Homeland Security (\$135,508.69), and DOD (\$17,900.00). As of September 30, 2019, the Board had accounts payable intragovernmental liabilities \$457,972.49: With the Department of Agriculture (\$52,851.73), GSA (\$189,113.74), Federal Mediation and Conciliation Service (\$15,000.00) and the Department of Homeland Security (\$201,007.02). Employee benefits are the amounts owed to OPM and Treasury as of September 30, 2020 and 2019 for Federal Employees Health Benefits Program (FEHBP), Federal Employees’ Group Life Insurance Program (FEGSIP), Federal Insurance Contributions Act (FICA), Federal Employees Retirement System (FERS), and Civil Service Retirement System (CSRS) contributions (reference Note 7).

FY 2020

DEFENSE NUCLEAR FACILITIES SAFETY BOARD

Annual Financial Report

**2.3.2.7 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 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).

FY 2020  
 DEFENSE NUCLEAR FACILITIES SAFETY BOARD  
 Annual Financial Report

**2.3.2.8 Note 8– Other Liabilities**

Other liabilities with the public for the years ended September 30, 2020 and 2019 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 2020		
	Non-Current	Current	Total
<b>Intragovernmental</b>			
Employer Contributions and Payroll Taxes Payable	\$ -	\$200,665.79	\$ 200,665.79
<b>Total Intragovernmental</b>	\$ -	\$200,665.79	\$ 200,665.79
<b>Liabilities with the Public</b>			
Accrued Funded Payroll & Leave	\$ -	\$725,858.91	\$ 725,858.91
Employer Contributions and Payroll Taxes Payable	\$ -	\$ 34,384.64	\$ 34,384.64
Unfunded Leave	\$ 1,555,960.49	\$ -	\$ 1,555,960.49
<b>Total Liabilities with the Public</b>	\$ 1,555,960.49	\$760,243.55	\$ 2,316,204.04
<b>Total Other Liabilities</b>	\$ 1,555,960.49	\$960,909.34	\$ 2,516,869.83

	FY 2019		
	Non-Current	Current	Total
<b>Intragovernmental</b>			
Employer Contributions and Payroll Taxes Payable	\$ -	\$136,147.94	\$ 136,147.94
<b>Total Intragovernmental</b>	\$ -	\$136,147.94	\$ 136,147.94
<b>Liabilities with the Public</b>			
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
<b>Total Liabilities with the Public</b>	\$ 1,153,649.53	\$560,185.93	\$ 1,713,835.46
<b>Total Other Liabilities</b>	\$ 1,153,649.53	\$696,333.87	\$ 1,849,983.40

**2.3.2.9 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

FY 2020

DEFENSE NUCLEAR FACILITIES SAFETY BOARD

Annual Financial Report

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, 2020, and 2019, respectively, as follows:

	FY 2020	FY 2019
Worker's Compensation	\$0.00	\$0.00

**2.3.2.10 Note 10 – Leases**

The Board has not entered 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 2020 and FY 2019 amounted to \$2,923,380.02, and \$2,951,294.92, 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
2021	\$ 3,189,085.00
2022	\$ 3,236,889.00
2023	\$ 3,286,123.00
2024	\$ 3,336,831.00
2025	\$ 3,389,056.00
2026 until March 7, 2026	\$ 1,328,624.00
Total Estimated Future Lease Payments	\$ 17,766,608.00

**2.3.2.11 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 2020	\$9,146,338.18	\$21,915,332.94	\$31,061,671.12
FY 2019	\$8,135,888.58	\$18,718,048.11	\$26,853,936.69

FY 2020

DEFENSE NUCLEAR FACILITIES SAFETY BOARD

Annual Financial Report

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

OC	Description	FY 2020	FY 2019
11	Personnel Compensation	\$13,963,643.90	\$12,545,197.00
12	Personnel Benefits	\$5,975,214.90	\$4,112,090.98
21	Travel & Transportation of Persons	\$303,495.86	\$705,482.80
22	Transportation of Things	\$26,100.66	\$28,591.74
23	Rent, Communications, & Utilities	\$3,299,313.48	\$3,988,075.18
24	Printing & Reproduction	\$8,852.85	\$22,895.40
25	Other Contractual Services	\$6,672,875.39	\$5,136,227.72
26	Supplies & Materials	\$210,744.50	\$210,278.62
31	Acquisition of Assets	\$601,429.58	\$105,097.25
	Total	\$31,061,671.12	\$26,853,936.69

**2.3.2.12 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 2020	FY 2019
Direct		
Category A	\$ 27,332,198.95	\$ 28,408,803.95

**2.3.2.13 Note 13 – Undelivered Orders at the End of the Period**

The amount of DNFSB's undelivered orders was \$2,479,468.49 and \$5,969,529.57 as of September 30, 2020 and 2019, respectively.

	Unpaid Undelivered Orders	Paid Undelivered Orders	Total Undelivered Orders
FY 2020	\$ 2,479,468.49	\$ -	\$ 2,479,468.49
FY 2019	\$ 5,969,529.57	\$ -	\$ 5,969,529.57

**2.3.2.14 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 2020 actual budgetary execution information is scheduled for publication in February 2021, which will be available through OMB’s website at <https://www.whitehouse.gov/omb/appendix/> under the "Other Independent Agencies" link. Accordingly, information required for such disclosure is not available at the time of publication of these financial statements.

Balances reported in the FY 2019 SBR and the related President’s Budget reflected the following:

FY 2019	Budgetary Resources	New Obligations & Upward Adjustments (Total)	Distributed Offsetting Receipts	Net Outlays
Statement of Budgetary Resources	\$ 40,986,424.38	\$ 28,408,803.95		\$ 25,959,009.37
Expired Unobligated Balances	\$ (4,248,292.20)			
<i>Budget of the U.S. Government</i>	\$ 36,000,000.00	\$ 28,000,000.00		\$ 26,000,000.00
Difference	\$ 738,132.18	\$ 408,803.95	\$ -	\$ (40,990.63)

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.

FY 2020  
 DEFENSE NUCLEAR FACILITIES SAFETY BOARD  
 Annual Financial Report

**2.3.2.15 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.

	<b>Intragovernmental</b>	<b>With the Public</b>	<b>Total</b>
<b>Net Operating Cost (SNC)</b>	\$ 9,146,338.18	\$ 21,915,332.94	\$ <b>31,061,671.12</b>
<b>Components of Net Operating Cost Not Part of the Budgetary Outlays</b>			
Property, plant, and equipment depreciation		\$ (121,650.28)	\$ (121,650.28)
<b>Increase/(Decrease) in Assets not affecting Budget Outlays:</b>			
Accounts receivable	\$ -	\$ 44,598.78	\$ 44,598.78
<b>(Increase)/Decrease in Liabilities not affecting Budget Outlays:</b>			
Accounts payable	\$ 269,981.39	\$ 99,476.95	\$ 369,458.34
Salaries and benefits	\$ (64,517.85)	\$ (200,057.65)	\$ (264,575.50)
Other liabilities (Unfunded leave, unfunded FECA, actuarial FECA)		\$ (402,310.96)	\$ (402,310.96)
<b>Other financing sources</b>			
Federal employee retirement benefit costs	\$ (977,274.96)		\$ (977,274.96)
<b>Total Components of Net Operating Cost Not Part of the Budget Outlays</b>	\$ <b>(771,811.42)</b>	\$ <b>(579,943.16)</b>	\$ <b>(1,351,754.58)</b>
<b>Components of the Budget Outlays That Are Not Part of Net Operating Cost</b>			
Acquisition of capital assets	\$ -	\$ 281,818.80	\$ 281,818.80
<b>Total Components of the Budgetary Outlays That Are Not Part of Net Operating Cost</b>	\$ -	\$ <b>281,818.80</b>	\$ <b>281,818.80</b>
<b>Net Outlays (Calculated Total)</b>	\$ <b>8,374,526.76</b>	\$ <b>21,617,208.58</b>	\$ <b>29,991,735.34</b>
<b>Related Amounts on the Statement of Budgetary Resources</b>			
<b>Outlays, net (SBR Line 4190)</b>			\$ 29,991,735.34
<b>Agency Outlays, Net (SBR Line 4210)</b>			\$ <b>29,991,735.34</b>

FY 2020  
DEFENSE NUCLEAR FACILITIES SAFETY BOARD  
Annual Financial Report

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**Chapter 3 – Appendices**

**3.1 Appendix A - 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 2021**

**DNFSB-21-A-01**  
**October 16, 2020**



All publicly available OIG Reports (including this report) are accessible through NRC's website at <http://www.nrc.gov/reading-rm/doc-collections/insp-gen>

FY 2020  
DEFENSE NUCLEAR FACILITIES SAFETY BOARD  
Annual Financial Report

**AT A GLANCE**

October 16, 2020

**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**

The DNFSB is an independent oversight organization within the Executive Branch created by Congress in 1988. The 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 \$28,836,000 and 114 full-time equivalents (FTEs) to carry out its mission in Fiscal Year (FY) 2021. This is a 7 percent decrease from the agency's FY 2020 appropriation level of \$31,000,000. The DNFSB achieved a staffing level of 97 by the end of FY 2020 and is planning to hire enough employees to reach a staffing level of 110 in FY 2021.

This year we have again used the new design for the Management Challenges report we developed last year, in which we identify each challenge, actions taken by the DNFSB, and continuing work applicable to the challenge. We list below the five key actionable challenges the 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)
3. Management of administrative functions
4. Management of technical programs
5. Management of the DNFSB's COVID-19 pandemic response

As it responds to these challenges, the DNFSB will strengthen progress towards the effective and efficient execution of its mission as well as achievement of its strategic goals and the highest level of accountability over taxpayer dollars.

**AGENCY RESPONSE TO MANAGEMENT CHALLENGES FOR FY 2020**

During FY 2020, the DNFSB completed actions in response to recommendations from three different audits: DNFSB-20-A-02: Audit of DNFSB's Compliance under the Digital Accountability and Transparency (DATA) Act of 2014; DNFSB-19-A-02: Audit of DNFSB's Issue and Commitment Tracking System (IACS) and its Related Processes; and DNFSB-17-A-05: Audit of DNFSB's Resident Inspector Program.

**FOR FURTHER INFORMATION, CONTACT US AT:**

U.S. Nuclear Regulatory Commission, Office of the Inspector General, Mail Stop O5-E13,  
11555 Rockville Pike, Rockville, MD 20852 Telephone: 301-415-5930 Fax: 301-415-5091  
For this and other OIG reports on the DNFSB, click [here](#).

FY 2020  
DEFENSE NUCLEAR FACILITIES SAFETY BOARD  
Annual Financial Report

**Table of Contents**

Introduction	1
Management of a healthy and sustainable organizational culture and climate	5
Management of security over internal infrastructure (personnel, physical, and cyber security)	6
Management of administrative functions	7
Management of technical programs	8
Management of the DNFSB's COVID-19 pandemic response	9
<i>To report fraud, waste or abuse</i>	10
<i>Comments and suggestions</i>	10

FY 2020  
DEFENSE NUCLEAR FACILITIES SAFETY BOARD  
Annual Financial Report

*Introduction*

*From the Inspector General:*

I am pleased to present our assessment of the most significant management and performance challenges facing the Defense Nuclear Facilities Safety Board (DNFSB) in FY 2021.

The *Reports Consolidation Act of 2001* requires us to annually update our assessment of the 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 the DNFSB, and we assess the agency's progress in addressing those challenges.

*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 the DNFSB's Inspector General (IG). The purpose of the 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, the 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 the DNFSB's progress in implementing such actions.

*About the Defense Nuclear Facilities Safety Board:*

The 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 the DOE was providing the public and workers at defense nuclear facilities. In doing so, Congress sought to provide the general public with added assurance that the DOE's defense nuclear facilities are being safely designed, constructed, operated, and decommissioned.

According to 42 U.S.C. § 2286a(a), the mission of the Board "...shall be 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, including with respect to the health and safety of employees and contractors at such facilities."

FY 2020  
DEFENSE NUCLEAR FACILITIES SAFETY BOARD  
Annual Financial Report

In addition to evaluating the content and implementation of health and safety standards, the DNFSB reviews other requirements relating to the design, construction, operation, and decommissioning of the DOE's defense nuclear facilities. Beyond its regulatory oversight mission, as a federal agency, the DNFSB must be a responsible steward of taxpayer dollars.

The decision-making body of the DNFSB is legislated to be composed of five Board Members. On August 27, 2020, Chairman Hamilton announced his resignation from the DNFSB, effective September 12, 2020 and Vice Chairman Thomas A. Summers, began serving as Acting Chairman the following day. Mr. Summers, of Rochester, Pennsylvania, was confirmed by the Senate on July 2, 2020 for service through October 18, 2025 and was appointed as Vice Chairman on August 17, 2020.

Mr. Summers previously served as the Senior Advisor and as the Deputy for Research, Development, Test, & Evaluation Office in Defense Programs for the National Nuclear Security Administration. At the close of FY 2020, the Board is composed of three respected experts in the field of nuclear safety with demonstrated competence and knowledge relevant to its independent investigative and oversight functions.

In August 2018, the then-Acting Chairman of the DNFSB had announced a plan to reorganize and reduce staff at the 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 Congress did not approve this action. The DNFSB's enabling legislation authorized a staff of up to 130 personnel in FY 2018.

In its most recent Congressional budget request, the Board requested \$28,836,000 and 114 full-time equivalents (FTEs) to carry out its mission in FY 2021. This is a 7 percent decrease from the agency's FY 2020 appropriation level of \$31,000,000. The DNFSB came close to reaching their staffing level target of 100 FTEs by the end of FY 2020, with 97 FTEs on board and the agency is planning to hire enough employees to reach a staffing level of 110 FTEs in FY 2021. The DNFSB staff submitted a proposed FY 2021 Work Plan and Staffing Plan to the Board on August 31, 2020.

The FY 2020 Office of the Technical Director (OTD) section of the Work Plan developed by the DNFSB in August 2019 and approved September 24, 2019, included a significant planned body of work: 48 new reviews and 37 FY 2019 carry-over reviews turned on to start (in) the year, including non-discretionary (ND) activities. The status of 137 total reviews in the FY 2020 Work Plan as of August 31, 2020, indicates 36 reviews were completed, 54 reviews were carried over into FY 2021 and 34 reviews were turned off (stopped/cancelled). There were 11 reviews projected to be completed by the end of FY 2020.

DNFSB staff stated the carry-over work and cancellations were due to several factors, including changes to DOE schedules, limitations on travel, and emergent high priority work, but acknowledged that work was also impacted by staff shortages the DNFSB had been experiencing. The DNFSB Work Plan contains a section titled FY 2020 Performance Goals, with the note that DNFSB Performance Goals would be developed upon completion of the FY 2020-2024 DNFSB Strategic Plan, which was approved at the end of FY 2020.

FY 2020  
DEFENSE NUCLEAR FACILITIES SAFETY BOARD  
Annual Financial Report

The DNFSB closed six OIG audit recommendations from three audit reports during FY 2020. Closing a recommendation means the Board has not only decided on an acceptable course of action to fulfill the intent of the recommendation, but also has documented its completion of the necessary work.

- DNFSB-20-A-02: Audit of DNFSB's Compliance under the Digital Accountability and Transparency (DATA) Act of 2014
- DNFSB-19-A-02: Audit of DNFSB's Issue and Commitment Tracking System (IACTS) and its Related Processes
- DNFSB-17-A-05: Audit of DNFSB's Resident Inspector Program

Along with the work to close OIG audit recommendations, the DNFSB made progress in several areas to strengthen the organization's ability to execute its mission. As noted by the Board in a recent annual report to Congress, the DNFSB "...continued to implement recommendations from a November 2018 report of the National Academy of Public Administration (NAPA) to improve agency operations and mission effectiveness. In December 2019, the Board approved a comprehensive revision to its 2018–2022 strategic plan as recommended by NAPA. The revised plan is designed to maintain the Board's technical excellence, foster continuous improvement, and enable nimble response to a challenging environment. The plan establishes goals and objectives aimed at providing high quality advice on the safety of the DOE defense nuclear complex efficiently, effectively, and transparently. Additionally, the plan will help cultivate a multitiered, dynamic staff that embodies the Board's core values, focuses on the mission, and continuously hones its skills through training and development. The Board engaged NAPA to develop a Communication and Change Management Implementation Strategy, delivered in November 2019, to inform its approach for engaging the Board's staff in implementing the revised plan."

On January 9, 2020, Board Chairman Bruce Hamilton announced a new key position within the Agency's staff: Manager of Board Operations, as well as a selectee for this position. The Manager of Board Operations will centralize internal and external Board operations and communications. Responsibilities include the administration of external relations with the Board's Congressional oversight committees and other interested Congressional offices, the Nuclear Regulatory Commission's Inspector General (who serves as the DNFSB's Inspector General), the Government Accountability Office, the press, and interested members of the public. Management of the Board's internal deliberations and external correspondence processes will also be a principal responsibility of this position. The creation of the Manager of Board Operations position was a direct result of recommendations made in November 2018 by the NAPA Defense Nuclear Facilities Safety Board Organizational Assessment. The Board had engaged the Academy in early 2018 to study Board effectiveness and to recommend ways to improve staff consensus and communication.

At the direction of Congress, the Board has also initiated the process to establish and fill the new executive level position of Executive Director for Operations (EDO). The DNFSB has advertised the position, conducted interviews and anticipates hiring someone on board soon.

FY 2020  
DEFENSE NUCLEAR FACILITIES SAFETY BOARD  
Annual Financial Report

The DOE had initiated proposed rulemaking on August 8, 2018 to update Title 10, Code of Federal Regulations (CFR) Part 830, and the DNFSB has indicated it has serious concerns for the changes envisioned by the DOE in this part, which is titled "Nuclear Safety Management, Associated Orders and Standards, and Implementation Thereof." In keeping with its mission, the DNFSB published Recommendation 2020-1 to the Secretary of Energy on February 21, 2020. The DNFSB recommended the DOE revise its regulatory framework, to include requirements in 10 CFR 830. The Recommendation included specific concerns regarding the DOE's aging infrastructure, hazard categories, approvals process, and safety basis process and requirements. This recommendation is intended to strengthen the DOE's regulatory framework in its current form, including the DOE's orders, standards, and implementation. The Board noted that it agreed with the DOE that 10 CFR 830 requires an update, but it believes the Notice of Proposed Rulemaking on the subject would actually erode the regulatory framework. The DNFSB's recommendation analysis provided in the Federal Register (Federal Register / Vol. 85, No. 50 / Friday, March 13, 2020) expressed concern for the DOE's ability to maintain decades old infrastructure and facilities while also proposing in their rulemaking for 10 CFR 830 to remove the definitions of nuclear facility Hazard Categories. The DNFSB recommendation warned this proposed change would "fundamentally undermine" the important nuclear safety processes established in the rule.

A key DNFSB concern involved the combination of a lack of an aging management plan for DOE facilities and the proposed elimination of specific hazard category definitions from status as federal regulations. Such a reduction in regulatory requirements could give contractors the ability to increase the radiological hazards present in older buildings without adequately understanding the ability of the facilities' safety structures, systems and components to control the higher level of risk. Nonetheless, the DOE issued a Federal Register Notice (FRN) stating it accepted some of the recommendations in DNFSB recommendation 2020-1, but in effect rejected most of them. The FRN was published by the DOE June 19, 2020. The DOE response to the DNFSB said the Department looks forward to working with the Board and its staff as the DOE prepares the Implementation Plan.

*DNFSB FY 2021 Challenges:*

There are five ongoing actionable challenges the 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)
3. Management of administrative functions
4. Management of technical programs
5. Management of the DNFSB's COVID-19 pandemic response

**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 the DNFSB's ability to fulfill its mission.

In recent years, the DNFSB has experienced significant challenges that have affected its work culture and climate. For example, the DNFSB has experienced high employee turnover, inadequate succession planning, major reorganizations, and communication issues. These challenges have been further compounded by issues involving the Board Members themselves through a lack of collegiality. These challenges have negatively affected trust and employee engagement throughout the agency. In FY 2020, DNFSB began to address some of the issues by hiring more staff and developing a Board Policy Statement on Collegiality.

OIG audit work has identified instances wherein the efficiency and effectiveness of DNFSB processes have been impeded by its inadequate culture and climate. For example, in the audit of the DNFSB's human resources program (DNFSB 20-A-04), OIG concluded that the DNFSB's hiring process has been ineffective and inefficient as the DNFSB has suffered significant losses throughout the agency without sufficiently replacing those vacancies. This occurred because there is a lack of consensus and communication throughout the agency regarding the DNFSB's hiring practices. Furthermore, the DNFSB still has vacant Senior Executive Service (SES) positions and needs to continue to fill these important roles. As such, the OIG continues to see management of a healthy and sustainable organizational culture and climate as a serious challenge, and therefore initiated a review of the DNFSB's Safety Culture and Climate Survey in the fourth quarter of FY 2020.

**Completed Actions**

- The DNFSB created a new position of "Manager of Board Operations." This position is responsible for internal communications across the agency, including developing and implementing communication processes between all agency offices, the Chairman, General Manager, and Board Members.
- Board Members have met with facilitators from the Federal Mediation and Conciliation Service to help strengthen communication and trust within the Board and with the SES employees at DNFSB.

**Ongoing Actions**

- The DNFSB is working to develop a path forward to implement the OIG's six recommendations from the Audit of the DNFSB's Human Resources Program.
- The DNFSB has created and will execute an Employee Engagement Plan that includes a diverse set of trainings designed for all levels of the agency's staff.



**Looking Ahead:** The OIG will continue to monitor the 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 cybersecurity)*

**Why is this a serious management and performance challenge?**

Security over internal infrastructure is a continuing challenge for federal entities. In addition, cybersecurity threats are constantly evolving.

The DNFSB must continue to use robust, proactive measures to protect its infrastructure – the buildings, personnel, and information – from both internal and external threats. Criminals and foreign intelligence organizations pose continuous external threats, while trusted insiders who could maliciously or unintentionally compromise the security of its facilities and information systems pose internal threats. Information security presents unique challenges by virtue of the imperative to balance information safeguards while facilitating legitimate users' access to information. Cybersecurity threats are constantly evolving and take advantage of current trends such as the COVID-19 pandemic. DNFSB employees shifted to mandatory telework because of the pandemic and as a result, cybersecurity vulnerabilities increased.

Key security challenges for the DNFSB include the following:

- Ensuring that cybersecurity is a crucial aspect of the DNFSB's overall security posture and that cybersecurity protective measures keep pace with evolving threats, given the importance and sensitivity of the DNFSB's activities, and the current pandemic environment
- 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 in the current environment
- Maintaining IT equipment up to date and free of vulnerabilities in a remote environment

**Completed Actions**

- The DNFSB hired an independent contractor to review information technology infrastructure.
- The DNFSB made efforts to strengthen skills and qualifications of its IT staff.

**Ongoing Actions**

- The DNFSB continues to implement OIG recommendations from past FISMA reports.
- The DNFSB continues to make enhancements to its physical and cybersecurity infrastructure.



**Looking Ahead:** The 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 the DNFSB's management and staff to accomplish the agency mission and operate efficiently and effectively.

The DNFSB should continue exploring ways to improve its administrative functions. To support the technical staff, the DNFSB provides corporate support services such as contract support, human resources support, financial reporting, and information technology services. Although the DNFSB has established these administrative functions to support agency staff, there is still ongoing concern regarding employee morale, recruiting new hires, and retention. Over the years, one significant area of concern has been the provision of human resources support to the agency. Late in FY 2019, the Board approved a staffing plan to increase the number of staff. As of July 2020, the DNFSB has 97 positions occupied, an increase of 10 positions since October 2019, but still below the target of 115 FTEs documented in the FY 2020 staffing plan and the 114 FTEs documented in the FY 2021 Budget request. The DNFSB must continue 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 the 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

**Completed Actions**

- The DNFSB established a new key position within the Agency's staff in January 2020: Manager of Board Operations.
- The Manager of Board Operations was selected and will centralize internal and external Board operations and communications.

**Ongoing Actions**

- The Board continues to implement NAPA recommendations and the Board is taking steps to hire an Executive Director for Operations to address organizational and administrative challenges.
- The Board is pursuing hiring actions to achieve a staffing level of 110 employees in FY2021.



**Looking Ahead:** The OIG will continue to monitor the DNFSB's Human Resources systems to develop future audits and/or evaluations.

**Challenge 4: Management of technical programs**

**Why is this a serious management and performance challenge?**

The DNFSB's technical positions require highly qualified experts, yet staff turnover and the inability to quickly backfill these positions has reduced the overall experience level. The need for cooperation from the DOE is also extremely important, especially considering the DOE's recent rejection of a DNFSB recommendation.

OIG audit work has identified instances wherein the efficiency and effectiveness of the DNFSB's technical processes may have been impeded by insufficient hiring practices. For example, in the Audit of DNFSB's Human Resources Program (DNFSB 20-A-04), the OIG found that the DNFSB's human resources program is currently not designed and implemented to effectively support the execution of its mission. The DNFSB has suffered most of its staff turnover in the Office of the Technical Director (OTD). The OTD is the agency's sole technical office consisting primarily of technical experts and engineers.

In June 2019, the DNFSB issued three recommendations to the DOE regarding worker and public safety concerns connected to the tritium facilities at Savannah River Site. DOE rejected one of the recommendations in September 2019. After the DNFSB reaffirmed its recommendation upon further review in December 2019, the DOE again rejected the recommendation in January 2020. As a result, the DNFSB's recommendation has come to its conclusion without being implemented or amended. This was the first time this has occurred in the DNFSB's history. Additionally, the DNFSB made another recommendation in February 2020, of which the DOE rejected significant portions in June 2020. This recommendation and the DOE's response are currently under further Board evaluation.

**Completed Actions**

- Since the start of FY 2020, the DNFSB has hired several new staff in various positions including technical (engineers), IT, operations, budget, and legal.
- The DNFSB contracted with the NAPA to completely overhaul its strategic plan and help provide the agency a more unified direction relative to DOE safety oversight.
- The DNFSB updated its FY 2018-2022 Strategic Plan on December 10, 2019.

**Ongoing Actions**

- The DNFSB is updating and finalizing policies and procedures relative to determining the technical qualifications of OTD applicants. These are expected to be finalized by late FY 2020.
- Per the audit of the DNFSB's IACTS and its related processes, the DNFSB is currently developing a tracking system for Board actions. This was expected to be completed prior to FY 2021.



**Looking Ahead:** The OIG will continue to monitor the DNFSB's management of technical programs. This includes a planned audit of the DNFSB's work planning processes in FY 2021.

**Challenge 5: Management of the DNFSB's COVID-19 pandemic response**

**Why is this a serious management and performance challenge?** During the COVID-19 pandemic, in order to ensure the health and safety of staff, the DNFSB switched to widespread telework. Unprecedented actions were needed in order to allow the DNFSB's management and staff to continue to accomplish the agency mission and operate effectively.

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On March 13, 2020, the President of the United States declared a national emergency associated with the COVID-19 outbreak. Soon thereafter, the Office of Management and Budget issued mandatory telework orders to federal employees, resulting in implementation of the DNFSB Continuity of Operations (COOP) for COVID-19 Pandemic Response. This agency guidance directed most of its employees to work from home with agency-issued laptop computers to minimize "concerns for safety" leave claims or other disruptions to agency business.

In June 2020, DNFSB staff began to return to headquarters, starting with Office Directors and a "skeleton" support staff to be present at headquarters twice a week while other staff continued to telework 5 days a week. During the week of July 13, 2020, the DNFSB required more staff to return to headquarters. The DNFSB's Chairman provided staff updates via weekly emails that included information on employee re-entry. Key DNFSB COVID-19 challenges include the following:

- Achieving effective operation while under widespread telework status
- Ensuring health and safety standards
- Following government wide guidance for effective reopening

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**Completed Actions**

- The DNFSB activated its COOP plan and the Board approved the DNFSB Pandemic Response and Recovery Plan.
- The DNFSB started widespread telework and has allowed select staff to return to the office.

**Ongoing Actions**

- The DNFSB staff will implement the DNFSB Pandemic Response and Recovery Plan, as currently written.
- The DNFSB has continued to telework while adjusting resident inspectors' schedules in accordance with local conditions.



**Looking Ahead:** In FY 2020, the OIG issued the *Audit of DNFSB COVID-19 Re-Entry Plans* and will continue to monitor the actions the Board will take to address the report's findings and recommendations.

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## TO REPORT FRAUD, WASTE, OR ABUSE

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### Please Contact:

Email: [Online Form](#)

Telephone: 1-800-233-3497

TTY/TDD: 7-1-1, or 1-800-201-7165

Address: U.S. Nuclear Regulatory Commission  
Office of the Inspector General  
Hotline Program  
Mail Stop O5-E13  
11555 Rockville Pike  
Rockville, MD 20852

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## COMMENTS AND SUGGESTIONS

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If you wish to provide comments on this report, please email OIG using this [link](#).

In addition, if you have suggestions for future OIG audits, please provide them using this [link](#).

**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 ASSURANCES<sup>2</sup>

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	1	0	N/A	1

End of AFR

<sup>2</sup> 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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