

Annual FY 2018 Financial Report



**Defense
Nuclear Facilities
Safety Board**



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Chapter 1 - Management's Discussion, and Analysis

1.1 Chairman's Message



I am pleased to submit the Annual Financial Report (AFR) for the Defense Nuclear Facilities Safety Board (Board) for Fiscal Year (FY) 2018. The report presents the FY 2018 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, 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.

Among its activities this year, the Board held a public hearing on August 28, 2018, on the topic of DOE Order 140.1. The Board's goal was to gather information on the objectives of DOE Order 140.1; the Board's access to information, facilities, and personnel; and potential impacts to the DNFSB resident inspector program.

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

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

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

Bruce Hamilton
Chairman
November 15, 2018

1.2 Introduction

This AFR summarizes the Board's oversight activities and associated resource expenditures for the period from October 1, 2017, through September 30, 2018 (FY 2018). 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. For the previous 14 years, the Board prepared and published a Performance and Accountability Report (PAR) and this is the first year that the Board has prepared and published an AFR. The FY 2018 Annual Performance Report (APR) will be published with the Board's FY 2020 Congressional Budget Justification on February 4, 2019, and will align with the agency's FY 2018 Annual Report to Congress.

The Government Performance and Results Act of 1993 (GPRA) and the GPRA Modernization Act of 2010 require each agency to prepare and submit a strategic plan establishing long-term programmatic, policy, and management goals. The Board's Strategic Plan for FYs 2018-2022 is available on the Board's website at <https://www.dnfsb.gov/about/strategic-goals>. 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 2019 and FY 2020, as well as accomplishments for FY 2014 through FY 2018, will be included in its FY 2020 Budget Request to the Congress in accordance with the requirements of OMB Circular A-11. The Board also published its *Twenty-Eighth Annual Report to Congress* on March 23, 2018, which highlighted achievements of the Board from Calendar Year 2017.

This chapter of the AFR provides an overview of Board's operations and is divided into five main sections:

- *About the Defense Nuclear Facilities Safety Board* describes the agency's mission and organizational structure;
- *Performance Goals, Objectives and Results* summarizes the Board's success in accomplishing its performance goals;
- *Analysis of the Financial Statements* summarizes the Board's financial results, position, and condition;
- *Management Assurance and Internal Control* provides assurances related to the FMFIA and the Federal Financial Management Improvement Act (FFMIA), including efforts to comply with the Anti-Deficiency Act and the Digital Accountability and Transparency Act of 2014 (DATA Act); and,
- *Forward-Looking Information - Future Challenges* includes a review of upcoming issues.

1.3 About the Defense Nuclear Facilities Safety Board

1.3.1 Mission Statement and Organizational Structure

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

1.3.2 The Board's Legislative Mandate

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

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

1.3.3 Strategic Plan

The Strategic Plan for FY 2018–2022 sets forth a broad vision of how the Board will fulfill its statutory mission to “provide independent analysis, advice, and recommendations to the Secretary of Energy to inform the Secretary, in the role of the Secretary as operator and regulator of the defense nuclear facilities of the Department of Energy, in providing adequate protection of public health and safety at such defense nuclear facilities.”

DOE’s defense nuclear complex presents a dynamic environment for safety oversight. The initiatives described in this strategic plan will position the Board for the developments expected during the five year period while maintaining the agility to respond to unanticipated safety issues and events.

Principles

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

Goal 1

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

Goal 2

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

Goal 3

Systematic analysis of design and operational data.

Goal 4

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

Goal 5

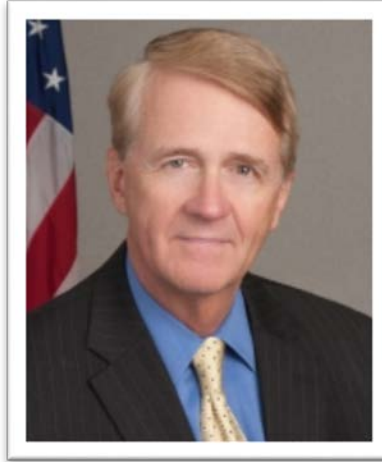
Proposal of recommendations to the Secretary of Energy when determined necessary to ensure adequate protection of health and safety.

Goal 6

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

1.3.4 Organization

The five-member Board leads the agency in defining actions regarding the safety aspects of the design, construction, operation, and decommissioning of DOE's defense nuclear facilities. As of November 15, 2018, one of the five Board positions was vacant.



CHAIRMAN

Mr. Bruce Hamilton



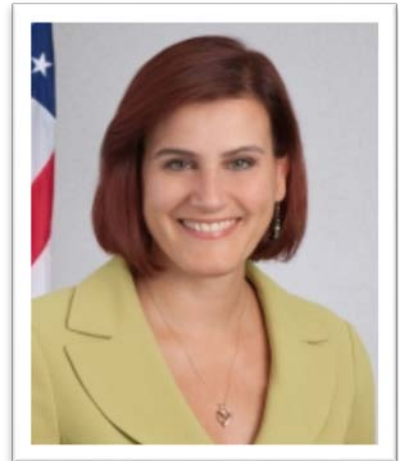
Board Member

Ms. Jessie Hill Roberson



Board Member

Mr. Daniel J. Santos



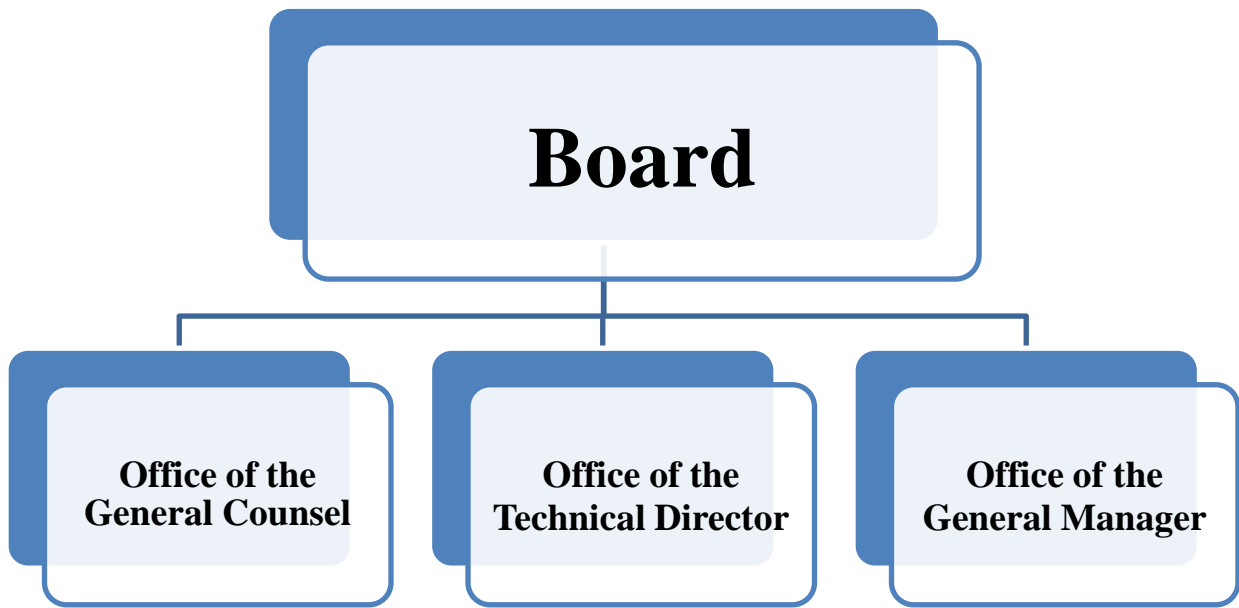
Board Member

Ms. Joyce L. Connery

1.3.5 Organizational Chart

The Board is currently composed of approximately 100 federal FTEs arranged in three offices under the five-member board. The majority of FTEs are assigned to the Office of the Technical Director (OTD), where they directly carry out the mission of the Board, supported by the Office of the General Manager (OGM) and the Office of the General Counsel (OGC). See: **FIGURE 1**.

FIGURE 1 - ORGANIZATIONAL CHART



1.4 Performance Goals, Objectives and Results

In FY 2018, the Board has met or exceeded nearly all of the objective targets in support of its strategic plan goals. Regular information sharing among the Board's matrixed technical staff supports the interrelationship of all strategic goals. The Board's technical staff has been organized specifically to achieve the agency's performance goals and to execute its Strategic Plan and Annual Performance Plans. Using a matrix form of organization, the Board gains management flexibility and avoids the need to establish layers of middle management that divert staff resources from performing health and safety reviews. The Board utilizes the interrelated technical groups staffed with technical specialists having both the education and work experience commensurate with their designated oversight assignments. Depending on the urgency of an issue, the Board's flexibility enables reassignment of resources among these groups as necessary. Details and further discussion will be published in the FY 2018 Annual Performance Report to be issued with the FY 2020 President's Budget.

1.5 Analysis of the Financial Statements

1.5.1 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.

1.5.2 Relevance of Balances and Amounts in the Principal Financial Statements

1.5.2.1 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 - SIMPLIFIED BALANCE SHEET

Simplified Balance Sheet Whole Dollars		
	<u>FY 2018</u> <u>as of</u> <u>September 30, 2018</u>	<u>FY 2017</u> <u>as of</u> <u>September 30, 2017</u>
Total Assets	\$15,521,551	\$13,788,228
Total Liabilities	\$2,931,369	\$3,586,792
Unexpended Appropriations	\$13,561,933	\$11,301,725
Cumulative Results of Operations	(\$971,750)	(\$1,100,289)
Net Position	\$12,590,182	\$10,201,436
Total Liabilities and Net Position	\$15,521,551	\$13,788,228

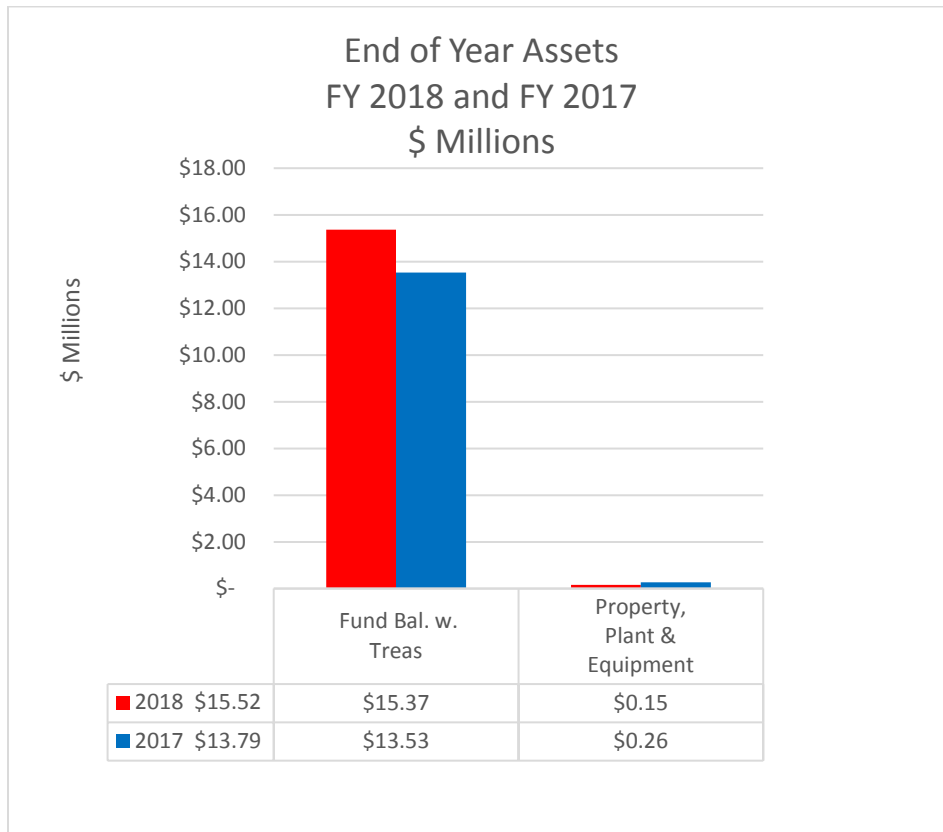
Assets:

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

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As shown in the “End of Year Assets” chart, **FIGURE 2**, the asset balances were \$15.52 million as of September 30, 2018, an increase of \$1.73 million from the total of \$13.79 million as of the end of FY 2017. The increase in end of year cash was due to lower personnel expenses in FY 2018 that left more cash remaining at Treasury at the end of the year.

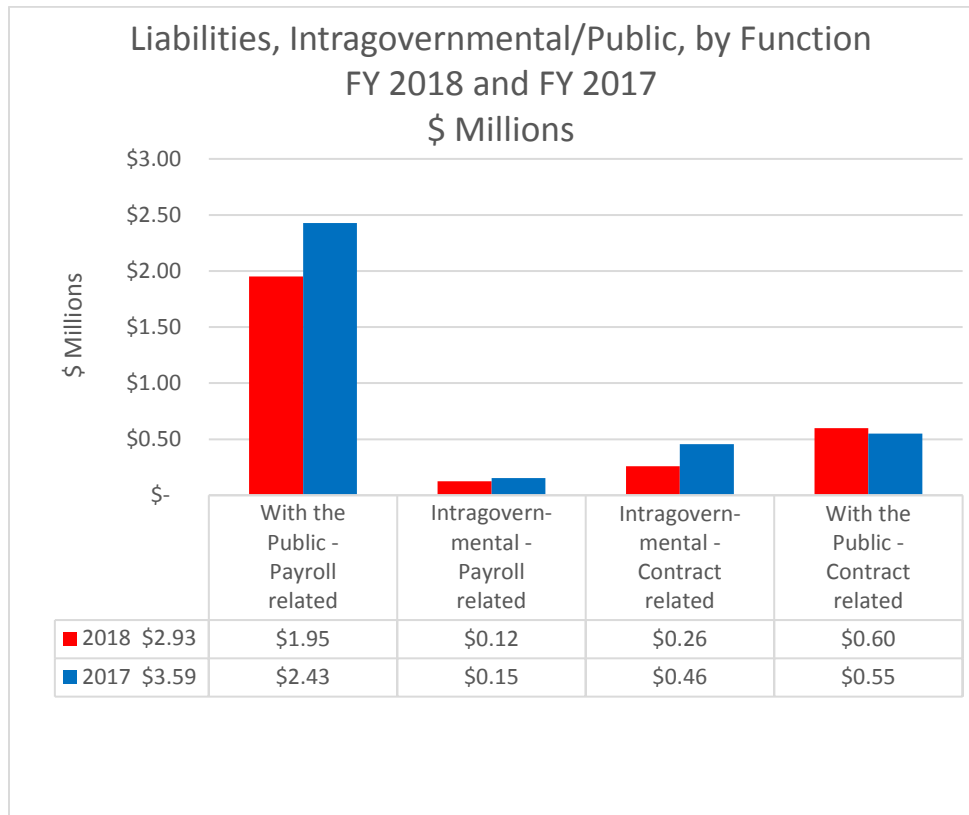
FIGURE 2 - END OF YEAR ASSETS



Liabilities:

As shown in the “Liabilities” chart, **FIGURE 3**, payroll-related liabilities (that include Withheld Taxes Payable, Accrued Payrolls and Unfunded Leave) made up approximately 71 percent of the Board’s liabilities at the end of FY 2108. The remaining 29 percent was made up of payables related to contractual obligations. The balance of payroll-related liabilities was \$2.07 million (including both payroll related liabilities with the public, \$1.95 million, and payroll related intragovernmental liabilities, \$0.12 million) as of September 30, 2018, a decrease of \$0.51 million (rounded) from the total at the end of FY 2017. The decrease was due to reduced payrolls resulting from hiring lag in FY 2018. Contractual obligation-related payables decreased from \$1.01 million at the end of FY 2017 to \$0.86 million at the end of FY 2018 due to faster billing by vendors and a decrease in invoices received but not paid.

FIGURE 3 - LIABILITIES



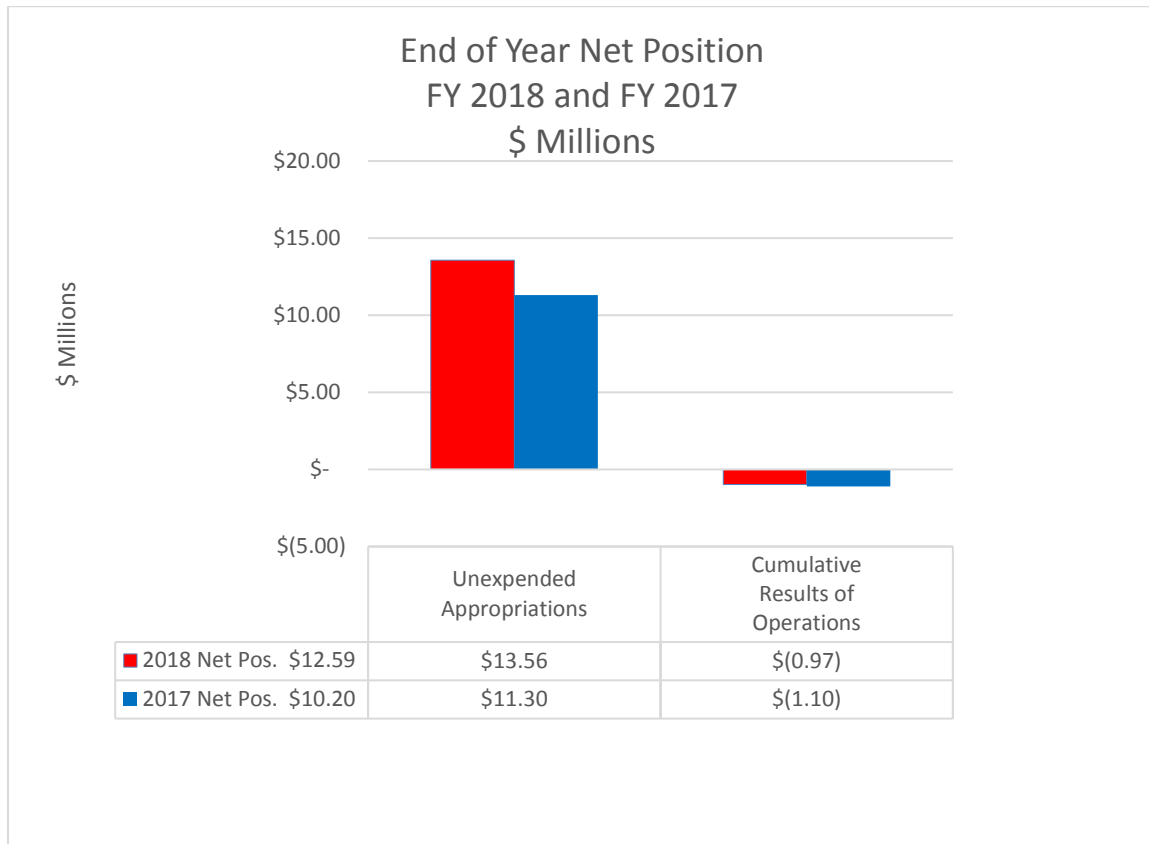
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Net Position:

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

Net Position is calculated as Unexpended Appropriations plus Cumulative Results of Operations (CRO). CRO, which for the Board consists almost entirely of accumulated employee leave, reduced the Board’s Net Position at the end of FY 2018 by \$0.97 million. The Board pays for leave when taken as salaries and the Board had sufficient funds for salaries.

FIGURE 4 - END OF YEAR NET POSITION



1.5.2.2 Statement of Net Cost

The Summary Statement of Net Cost, **TABLE 2**, shows the comparative net cost of operations between FY 2018 and FY 2017.

TABLE 2 - SIMPLIFIED STATEMENT OF NET COST

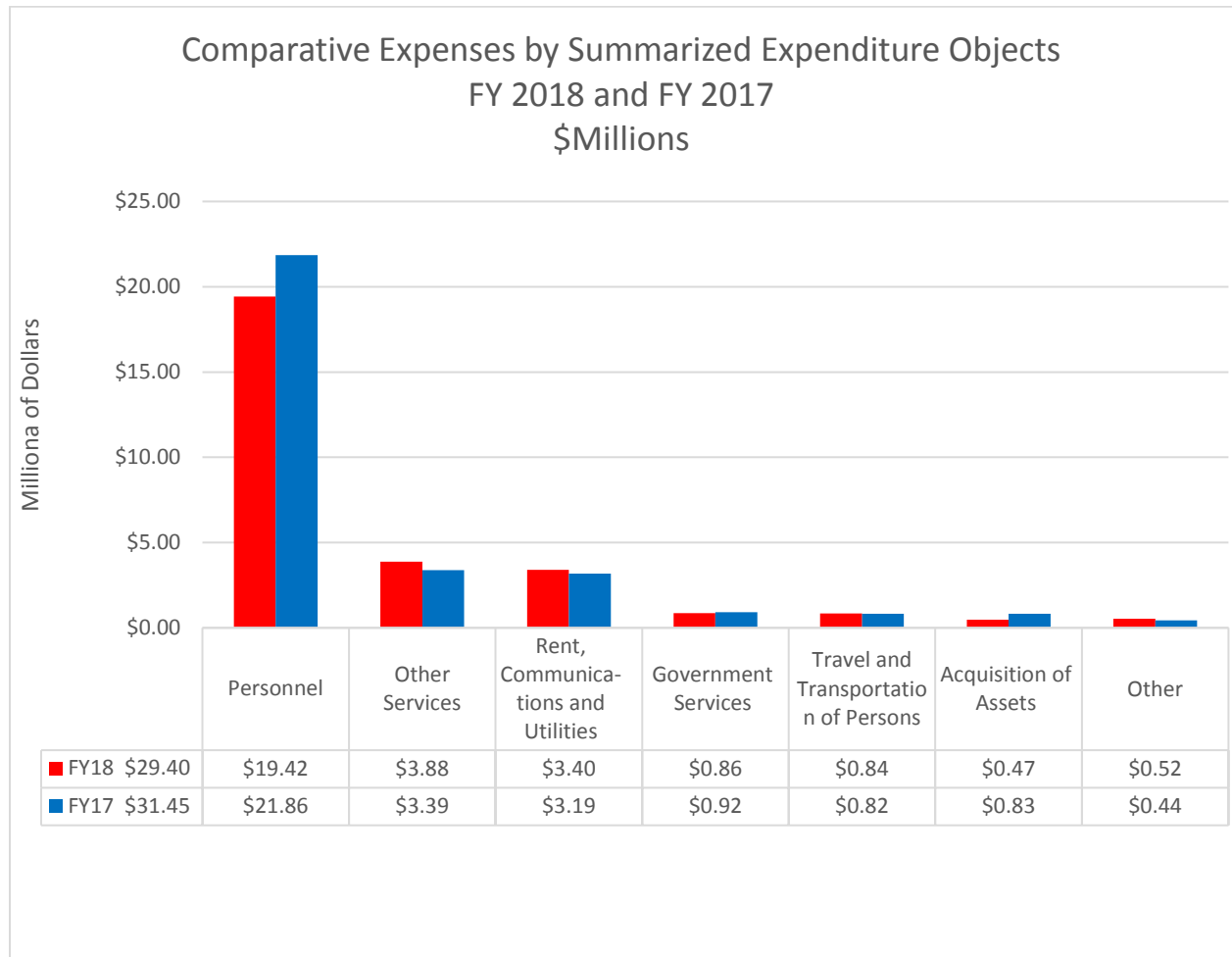
Simplified Statement of Net Cost Whole Dollars		
	FY 2018	FY 2017
Net Cost of Operations	\$29,395,946	\$31,447,587

The Board's net cost of operations for the year ending September 30, 2018, was \$29.40 million, a decrease of \$2.05 million or 7 percent from FY 2017 costs. The decrease in net cost was primarily due to lower personnel costs.

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The “Comparative Expenses by Summarized Expenditure Object” chart, **FIGURE 5**, groups expenses into a few summarized categories that include related expenditure object classes. For example, personnel salaries, 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 2018 made up approximately 66 percent of all costs (\$19.42 million/\$29.40 million). Thus, the \$2.44 million reduction in Personnel costs accounted for most of the total net cost decrease of \$2.05 million. Other Services increased by \$0.49 million, mainly due to increases in consulting and information technology services. There were no other significant cost changes in other categories.

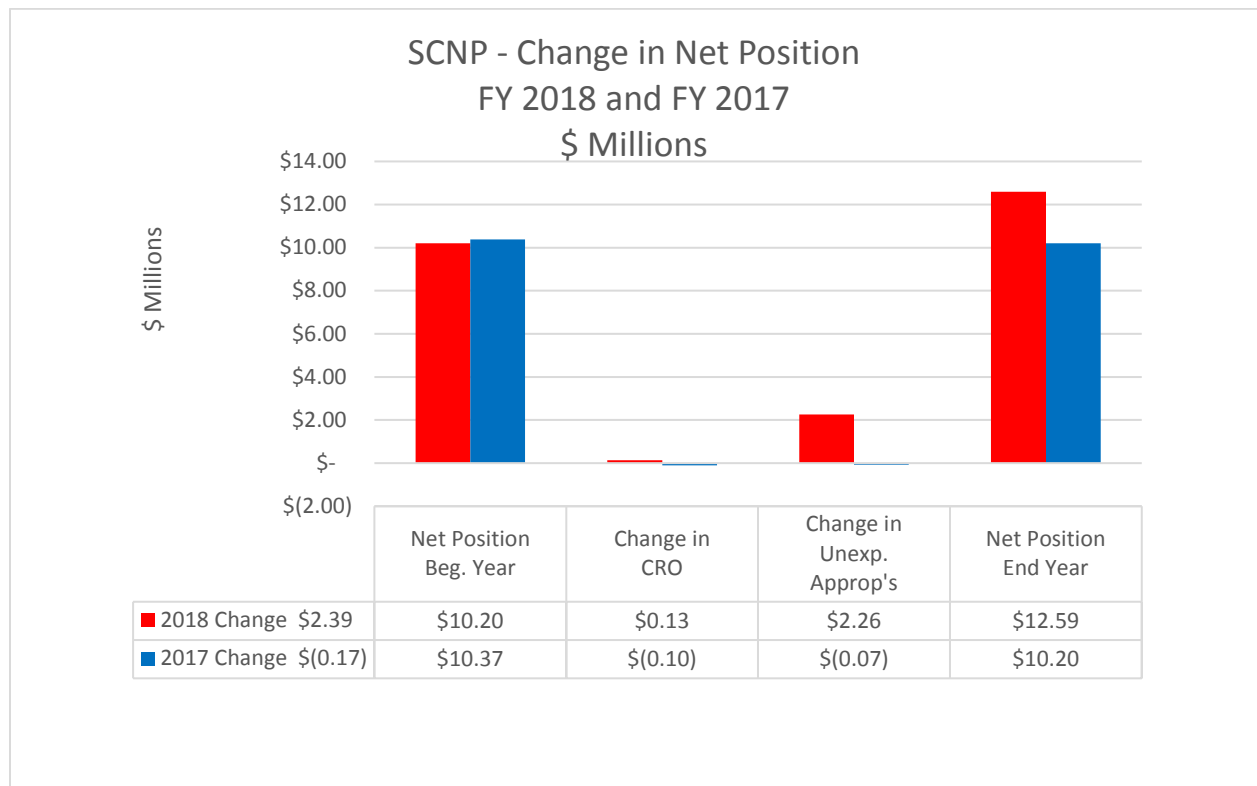
FIGURE 5 - COMPARATIVE EXPENSES BY SUMMARIZED EXPENDITURE OBJECT



1.5.2.3 Statement of Changes in Net Position (SCNP)

The chart showing the SCNP - Change in Net Position, **FIGURE 6**, shows the factors that caused the Net Position to increase by \$2.39 million during the FY 2018. There were two such factors: first, we decreased Accumulated Leave, the main component of Cumulative Results from Operations (CRO) by \$0.13 million. This made CRO a smaller negative number. Second, we increased our unexpended appropriations by \$2.26 million.

FIGURE 6 - SCNP CHANGE IN NET POSITION

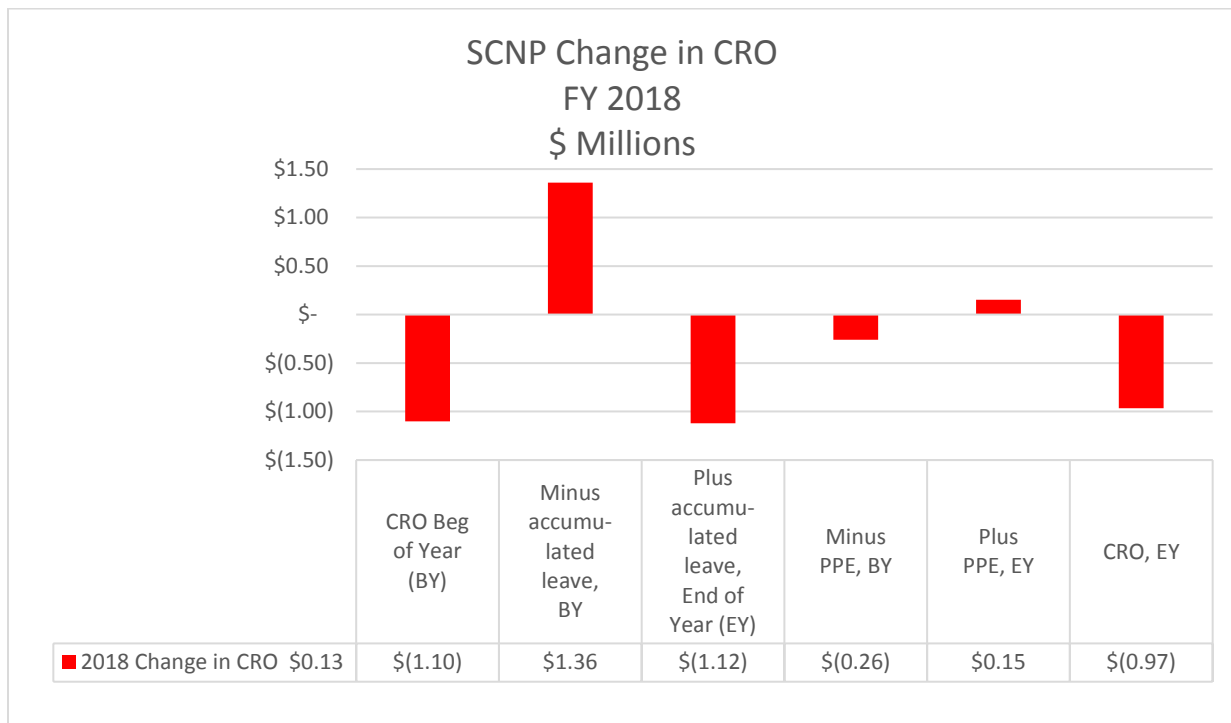


The CRO account keeps track of the part of Net Cost of Operations that is not charged to Financing Sources (appropriated funds). The only Net Costs that the Board does not charge to appropriated funds are the fiscal year's change in accumulated employee leave balances and the change in the book value of PPE. The change in the book value of PPE equals new purchases of PPE minus depreciation of PPE during the FY. The sum of these two items changed CRO by \$0.13 million during FY 2018.

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This \$0.13 million change was mainly caused by a reduction in accumulated leave balances caused by a reduced number of personnel on the payroll at the end of FY 2018 as compared to the beginning of FY 2018. As shown in the chart, SCNP - 2018 Change in CRO, **FIGURE 7**, accumulated leave changed by \$0.24 million from (\$1.36 million) at the beginning of FY 2018 to (\$1.12) million at the end of FY 2018. The book value of PPE decreased by (\$0.11 million) from \$0.26 at the beginning of FY 2018 to \$0.15 million at the end of FY 2018. All of this caused CRO to increase from (\$1.10) million at the beginning of FY 2018 to (\$0.97) million at the end of FY 2018.

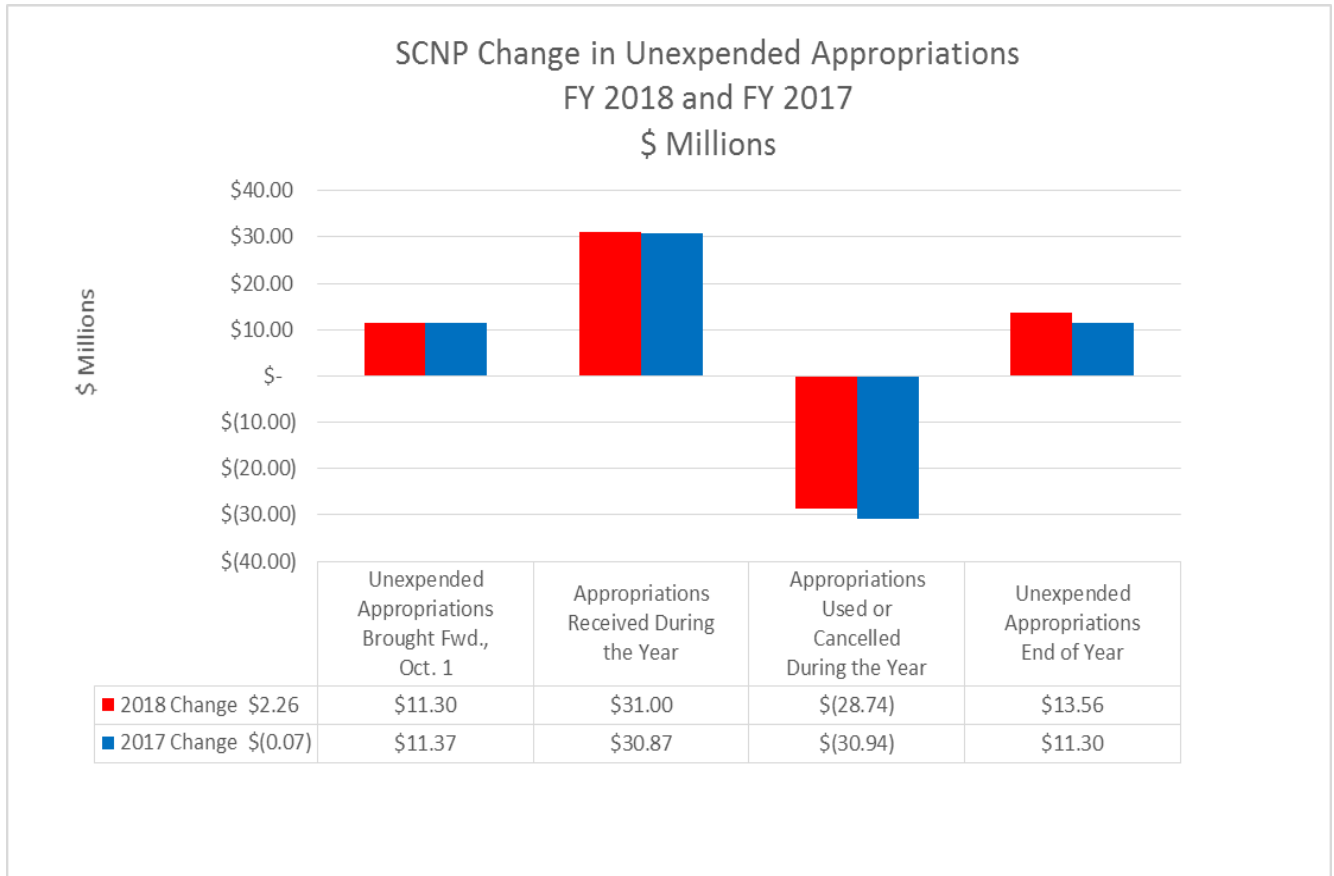
FIGURE 7 - SCNP – CHANGE IN CRO



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As shown in **FIGURE 8**, during FY 2018 the Board used (expended) \$28.74 million of its appropriations, slightly less, \$2.26 million, than the appropriations that it received, \$31.00 million. Lower expenditures were due mainly to lower personnel costs. This increased the Board’s end of year Unexpended Appropriations by \$2.26 million from \$11.30 million at the end of FY 2017 to \$13.56 million at the end of FY 2018.

FIGURE 8 - SCNP CHANGE IN UNEXPENDED APPROPRIATIONS



1.5.2.4 Statement of Budgetary Resources

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

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

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

TABLE 3 - SIMPLIFIED STATEMENT OF BUDGETARY RESOURCES

Simplified Statement of Budgetary Resources		
Whole Dollars		
	FY 2018 as of September 30 (Whole Dollars)	FY 2017 as of September 30 (Whole Dollars)
Budgetary Resources		
Unobligated balance from prior year budget authority	\$ 8,140,500	\$ 7,974,857
Appropriations	\$ 31,000,000	\$ 30,872,000
Total Budgetary Resources	\$ 39,140,500	\$ 38,846,857
Status of Budgetary Resources		
New obligations and upward adjustments (total)	\$ 29,805,492	\$ 30,835,345
Unobligated balance, end of year:		
Unexpired unobligated balance, end of year	\$ 5,156,144	\$ 3,576,160
Expired unobligated balance, end of year	\$ 4,178,864	\$ 4,435,351
Unobligated balance, end of year (total)	\$ 9,335,008	\$ 8,011,511
Total Budgetary Resources	\$ 39,140,500	\$ 38,846,857
Outlays, net:		
Outlays, net (total)	\$ 29,048,492	\$ 30,626,000

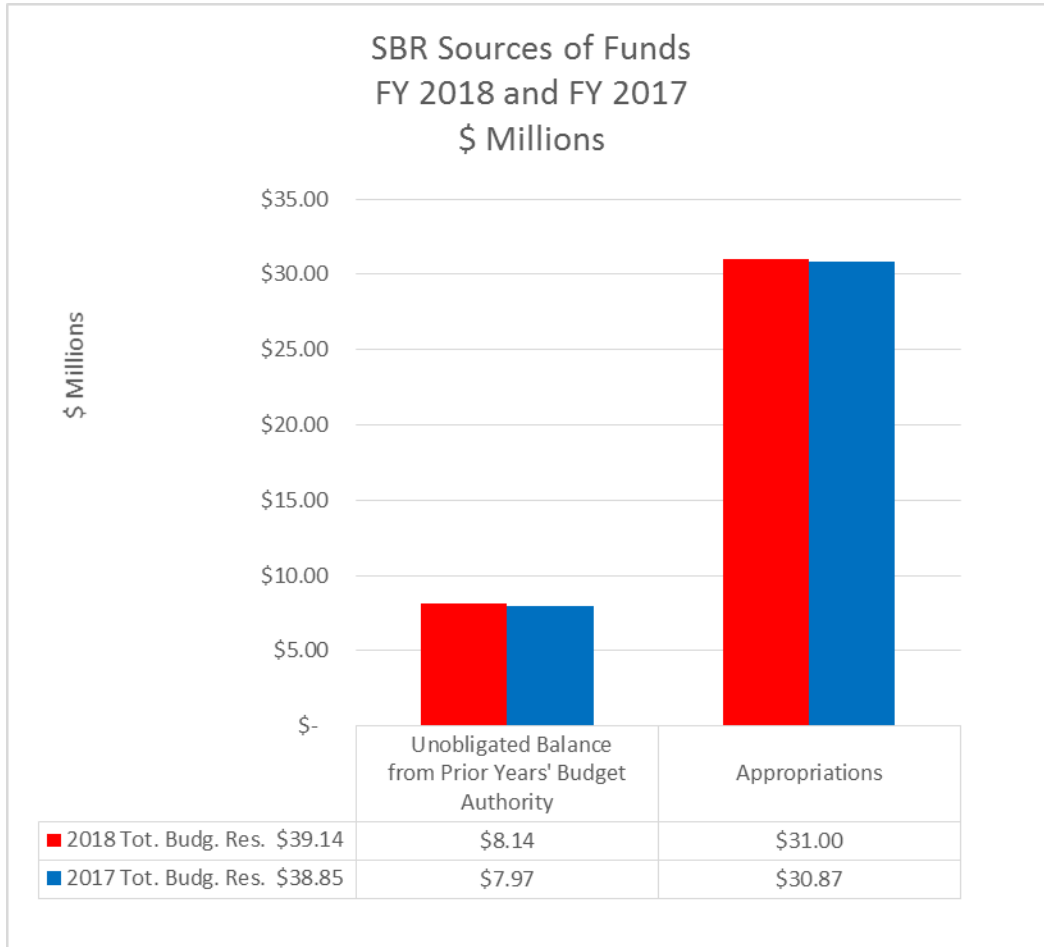
1.5.2.4.1 Budgetary Resources

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

- Unobligated balances from prior years: FY 2018, \$8.14 million; FY 2017, \$7.97 million.
- New appropriations received during the year, FY 2018, \$31.0 million; FY 2017, \$30.87 million.

As shown in the “SBR Sources of Funds” chart, **FIGURE 9**, there was very little difference in terms of Total Budgetary Resources between the two years.

FIGURE 9 - SBR SOURCES OF FUNDS



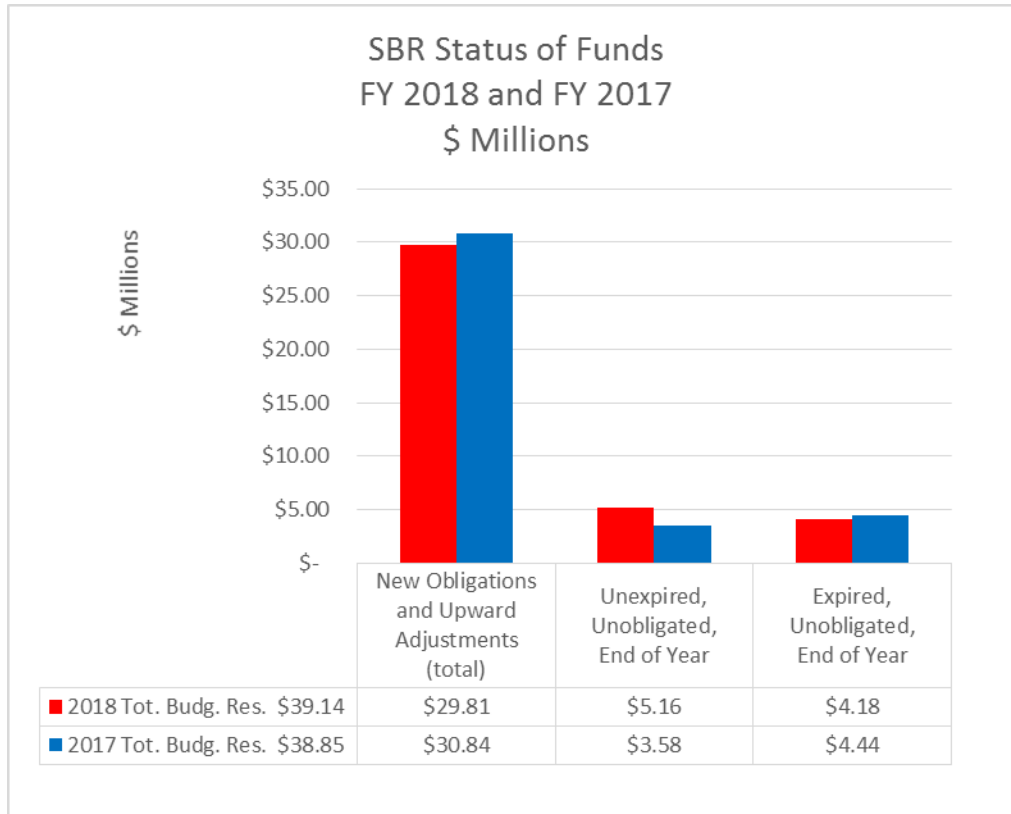
1.5.2.4.2 Status of Budgetary Resources

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 2017 as expired and, therefore, the Board could not obligate them.

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As shown in the “SBR Status of Funds” chart, **FIGURE 10**, the significant differences between FY 2018 and FY 2017 are that the FY 2018 Unexpired - unobligated balance, \$5.16 million, was \$1.58 million more than it was in FY 2017, \$3.58 million. This was mainly due to new obligations being \$1.03 million less in FY 2018 than in FY 2017, primarily because of lower payroll obligations.

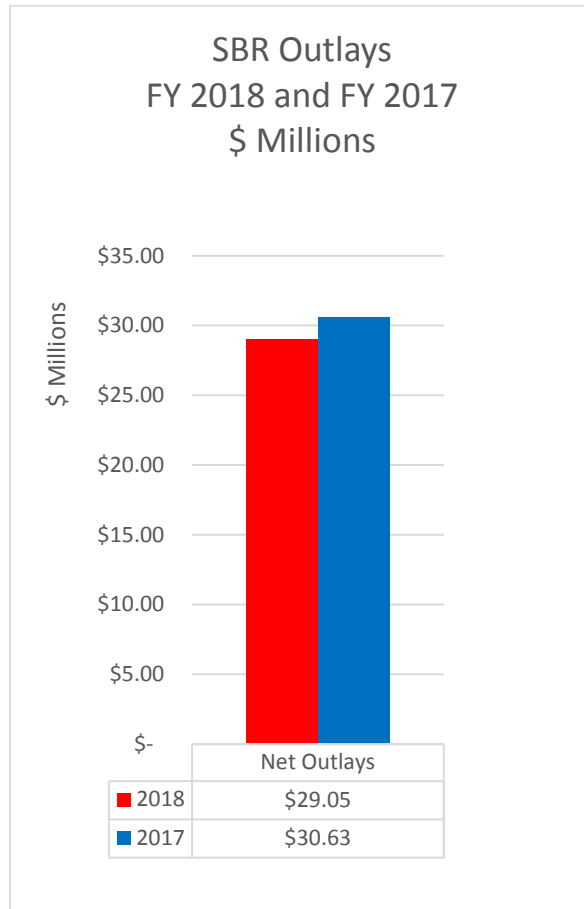
FIGURE 10 - SBR STATUS OF FUNDS



1.5.2.4.3 Outlays, Net

This part of the SBR shows Net Outlays, **FIGURE 11**. FY 2018 Net Outlays were \$1.58 million less than in FY 2017, primarily because of lower personnel outlays.

FIGURE 11 - SBR OUTLAYS



1.5.3 Overall financial condition and financial management

As of September 30, 2018, 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 2017 nor have any anticipated or unanticipated financial risks occurred during FY 2018.

1.6 Management Assurance and Internal Control

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

Internal control 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, 2018. 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 consists of the General Manager, Technical Director, General Counsel, and two Board Members. The OIG participates as an observer. The ECIC met to review the reasonable assurance assertions provided by the Office Directors and the reported internal control deficiencies. Based on the information provided, the ECIC reported to the Chairman that there were no internal control deficiencies serious enough to require reporting as a material weakness or non-compliance.

1.6.1 FMFIA Statement of Assurance

Unmodified Statement of Assurance (FMFIA)

The Defense Nuclear Facilities Safety Board's (DNFSB) management is responsible for managing risks and maintaining effective internal control to meet the objective of Section 2 of the Federal Managers' Financial Integrity Act (FMFIA). DNFSB conducted its assessment of risk and internal control in accordance with OMB Circular A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control*. Based on the results of the assessment, DNFSB can provide reasonable assurance that internal control over operations, reporting, and compliance were operating effectively as of September 30, 2018.



11/6/2018

Bruce Hamilton
Acting Chairman

Date

1.6.2 Financial Management Systems Strategy and Framework

The Board's financial management systems strategy is to contract with USDA PFMS for the provision of USSGL 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 which 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 provides effective control over budget execution and a solid historical basis for budget projections. The OGM reports regularly to the Board of Directors on the budget status and trends.

1.6.3 Controls over Reporting

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. The Board contracts for accounting services with USDA PFMS. USDA's Chief Financial Officer, PFMS, in its "Report on the United States Department of Agriculture's Description of its Pegasys Financial Management System and the Suitability of the Design and Operating Effectiveness of its Controls reported that "...the controls operated effectively to provide reasonable assurance that the control objectives stated in the description were achieved throughout the period July 1, 2017 to June 30, 2018, if complementary subservice organization and user entity controls, assumed in the design of USDA's controls, operated effectively throughout the period July 1, 2017 to June 30, 2018."

1.6.4 Analysis of Legal Compliance

1.6.4.1 Fraud Reduction and Data Analytics Act

The Board acknowledges its responsibility for the design, implementation, and maintenance of effective internal control to prevent and detect fraud under the Fraud Reduction and Data Analytics Act of 2015. In FY 2017, the Board developed and provided the OMB with its Enterprise Risk Management report. There is no knowledge of any fraud or suspected fraud involving management or employees who have significant roles in internal control over financial reporting, or allegations of fraud or suspected fraud affecting the financial statements.

1.6.4.2 Prompt Payment Act

The Prompt Payment Act, as amended, requires federal agencies to make timely payments to vendors for supplies and services, to pay interest penalties when payments are made after the due date, and to take cash discounts when they are economically justified. In FY 2018, on total cash outlays of approximately \$8.0 million subject to the Prompt Payment Act, the Board incurred Prompt Payment Act interest penalties totaling \$305. This compares to approximately \$150 for FY 2017.

1.6.4.3 Improper Payments Information Act

The Board is considered to be at low risk for 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. During FY 2018, the National Finance Center (for payroll) and the USDA (for all other payments) made total payments of approximately \$29.05 million on the Board's behalf. The Board's finance staff have identified only one improper payment during this period. The amount of the improper payment was \$18.00 (whole dollars).

1.6.4.4 Federal Information Security Modernization Act

The Federal Information Security Modernization Act (FISMA) requires an annual independent evaluation of an agency's information security program and practices to determine their effectiveness. In response to the FY 2017 OIG independent audit recommendations, the Board has implemented and closed out one of two recommendations, and continues to update policies and information system contingency plans for continued compliance with the information security program.

1.6.4.5 Government Charge Card Abuse Prevention Act

The Government Charge Card Abuse Prevention Act requires that agencies ensure that appropriate policies and controls are in place or that corrective actions have been taken to mitigate the risk of fraud and inappropriate charge card practices. The Board participates in the federal travel card program and the purchase card program, and provides reasonable assurance that internal controls related to the government charge card programs are operating effectively, and no material weaknesses were identified.

1.6.5 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. GAO Report 15-181, Defense Nuclear Facilities Safety Board: Improvements Needed to Strengthen Internal Control and Promote Transparency, as revised March 2, 2015, contained six recommendations, with one of which the Board disagreed. The Board has taken actions to implement GAO's recommendations, two of which remain open. An update to close out the remaining recommendations was provided to GAO in FY 2017, and is pending GAO review. The report and the recommendation status can be found at: <http://www.gao.gov/products/GAO-15-181>.

1.7 Forward-Looking Information-Future Challenges

In FY 2018, DOE issued Order 140.1, Interface with the Defense Nuclear Facilities Safety Board. The Board has conducted one of three proposed public hearings on this topic on August 28, 2018, in Washington, D.C. This first hearing gathered information 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 second public hearing is scheduled for November 28, 2018, in Washington, D.C., and the Board will gather information from the DOE Office of Environmental Management officials on the objectives for issuing DOE Order 140.1 and the potential impacts on the Board's mission at this session. In February 2019, the Board plans to hold a subsequent hearing in Albuquerque, N.M., on this topic to gather additional information and request feedback from stakeholders.

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Also in FY 2018, the Board selected the National Academy of Public Administration (the Academy) to provide an organizational assessment of its operations and to assess opportunities to improve effectiveness and efficiency. The report was published in November 2018. In response to the Academy's report and an Office of the Inspector General's report, Audit of the DNFSB's Issue and Commitment Tracking System (IACS) and Its Related Processes, the Board approved a series of three Board Member Public Business Meetings to discuss the implicit and explicit recommendations.

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 2018 financial statements received an unmodified opinion from its independent auditors, the Board’s thirteenth consecutive “clean” opinion since its FY 2004 financial statements were initially audited pursuant to the Accountability of Tax Dollars Act of 2002 (ATDA). In addition, the Board received an unqualified opinion on its internal control over reporting. FY 2018 marked the twelfth consecutive year that the Board’s unmodified opinion was coupled with no instances of non-compliance with laws and regulations and no material financial internal control weaknesses.

The financial statements that follow were prepared and audited as part of this Annual Financial report within 45 days after the end of the fiscal year. 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 2018 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 15-02, *Audit Requirements for Federal Financial Statements*. For the eleventh 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 19-01. The auditors noted no internal control material weaknesses for the twelfth consecutive year.

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



Glenn Sklar, General Manager

2.1.1 Limitation of the Financial Statements

The principal financial statements have been prepared to report the financial position and results of operations of the Board, pursuant to the requirements of the Accountability of Tax Dollars Act of 2002. While the statements have been prepared from the books and records of the Board in accordance with generally accepted accounting principles (GAAP) for federal entities and the formats prescribed by OMB, the statements are in addition to the financial reports used to monitor and control budgetary resources which are prepared from the same books and records. The statements should be read with the realization that they are used for a component of the U.S. Government, a sovereign entity.

2.1.2 Compliance with the Inspector General Act of 1978

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

- (A) States whether there has been established in the federal entity an office that meets the requirements of this section;
- (B) Specifies the actions taken by the federal entity otherwise to ensure that audits are conducted of its programs and operations in accordance with the standards for audit of governmental organizations, programs, activities, and functions issued by the Comptroller General of the United States, and includes a list of each audit report completed by a federal or non-federal auditor during the reporting period and a summary of any particularly significant findings; and
- (C) Summarizes any matters relating to the personnel, programs, and operations of the federal entity referred to prosecutorial authorities, including a summary description of any preliminary investigation conducted by or at the request of the federal entity concerning these matters, and the prosecutions and convictions which have resulted.

The Board reports as follows for FY 2018:

- (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 five assessments on Board programs during FY 2018, including its Assessment of the Most Serious Management and Performance Challenges Facing DNFSB in FY 2018. The Independent Evaluation of DNFSB's Implementation of the Federal Information Security Modernization Act (FISMA) of 2014 for FY 2017, (DNFSB-18-A-02) resulted in two recommendations to strengthen the information security program. The Board has fully implemented and closed out recommendations from the Audit of DNFSB's Compliance with Standards Established by the Digital Accountability and Transparency Act (DATA) of 2014,

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(DNFSB-18-A-03). OIG also completed an Audit of the Board's Financial Statements for Fiscal Years 2017 and 2016, (DNFSB-18-A-04), and DNFSB is implementing two recommendations to address reporting requirements and organizational culture challenges, from the Audit of DNFSB's Implementation of Its Governing Legislation, (DNFSB-18-A-05).

In regard to prior year audits, the Board is implementing three recommendations from the Audit of DNFSB's Telework Program, (DNFSB-17-A-06), to revise policy and operating procedures, telework agreements, recordkeeping for the Telework Program. The Board is also implementing one remaining recommendation from the Audit of DNFSB's Resident Inspector Program (DNFSB-17-A-05), to determine Resident Inspector staffing decisions. The Board has closed all recommendations from the Audit of DNFSB's Process for Developing, Implementing, and Updating Policy Guidance, (DNFSB-16-A-05), and recommendations from the OIG's Audit of DNFSB's Oversight of Nuclear Facility Design and Construction Projects (DNFSB-16-A-06) have also been implemented and closed. Two recommendations from the Cybersecurity Act of 2015 Audit (DNFSB-16-A-07), for compliance with the Privacy Act of 1974 and E-Government Act of 2002, remain to be implemented for closure in first quarter FY 2019.

(C) The Board referred no matters to prosecutorial authorities.

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2.2 FY 2018 Auditor's Report



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

OFFICE OF THE
INSPECTOR GENERAL

November 15, 2018

MEMORANDUM TO: Chairman Bruce Hamilton

FROM: Hubert T. Bell */RA/*
Inspector General

SUBJECT: RESULTS OF THE AUDIT OF THE DEFENSE NUCLEAR
FACILITIES SAFETY BOARD'S FINANCIAL STATEMENTS
FOR FISCAL YEARS 2018 AND 2017 (DNFSB-19-A-03)

The *Accountability for Tax Dollars Act of 2002* (ATDA) requires the Inspector General (IG) or an independent external auditor, as determined by the IG, to annually audit the Defense Nuclear Facilities Safety Board's (DNFSB) financial statements in accordance with applicable standards. In compliance with this requirement, the Office of the Inspector General (OIG) retained Acuity Consulting, Inc. (Acuity) to conduct this annual audit. Transmitted with this memorandum is Acuity's audit report. Acuity examined the DNFSB's *Fiscal Year (FY) 2018 Agency Financial Report*, which includes comparative financial statements for FYs 2018 and 2017. Acuity's audit report contains the following reports:

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

Objective of a Financial Statement Audit

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

FY 2018
DEFENSE NUCLEAR FACILITIES SAFETY BOARD
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significant estimates made by management as well as evaluating the overall financial statement presentation.

Acuity's audit included, among other things, obtaining an understanding of the DNFSB and its operations, including internal control over financial reporting; evaluating the design and operating effectiveness of internal control and assessing risk; and testing relevant internal controls over financial reporting. Because of inherent limitations in any internal control, misstatements due to error or fraud may occur and not be detected. Also, projections of any evaluation of the 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 2018 Audit Results

The results are as follows:

Financial Statements

- Unmodified opinion.

Internal Control over Financial Reporting

- Unmodified opinion.

Compliance with Laws, Regulations, Contracts, and Grant Agreements

- No instances of noncompliance with selected provisions of applicable laws, regulations, contracts, and grant agreements for FY 2018 that would be reportable under U.S. generally accepted government auditing standards.

OIG Oversight of Acuity's Performance

To fulfill our responsibilities for overseeing the audit work performed, we monitored Acuity's audit of the DNFSB's FYs 2018 and 2017 financial statements by:

- Reviewing Acuity's audit approach and planning.
- Evaluating the qualifications and independence of Acuity's auditors.
- Monitoring audit progress at key points.
- Examining the working papers related to planning and performing the audit and assessing the DNFSB's internal control.

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- Reviewing Acuity's reports for compliance with United States generally accepted government auditing standards and Office of Management and Budget Bulletin No. 19-01.
- Coordinating the issuance of the audit report.
- Performing other procedures deemed necessary.

Acuity is responsible for the attached auditor's report, dated November 13, 2018, 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, 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:

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

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

Meeting with the General Manager

At the exit conference on November 13, 2018, the General Manager of the DNFSB and representatives of both OIG and Acuity discussed the results of the audit.

Comments of the General Manager

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

We appreciate the DNFSB's staff's cooperation.

Attachment: As stated

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



November 13, 2018



Audit of the Defense Nuclear Facilities Safety Board's Annual Financial Statements

Fiscal Year 2018 Financial Statements

Independent Auditor's Report

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INDEPENDENT AUDITOR'S REPORT

To: Inspector General
United States Nuclear Regulatory Commission

Chairman
Defense Nuclear Facilities Safety Board

In our audits of the fiscal years 2018 and 2017 financial statements of the Defense Nuclear Facilities Safety Board (DNFSB), we found

- the DNFSB's financial statements as of and for the fiscal years ended September 30, 2018, and 2017 are presented fairly, in all material respects, in accordance with U.S. generally accepted accounting principles;
- the DNFSB maintained, in all material respects, effective internal control over financial reporting as of September 30, 2018; and
- no reportable noncompliance for fiscal year 2018 with provisions of applicable laws, regulations, contracts, and grant agreements we tested.

The following sections discuss in more detail (1) our report on the financial statements and on internal control over financial reporting, which includes required supplemental information (RSI)¹ and other information included with the financial statements;² (2) our report on compliance with applicable laws, regulations, contracts, and grant agreements; and (3) agency comments.

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

In accordance with contract D17PD00255, we have audited the DNFSB's financial statements. The DNFSB's financial statements comprise the balance sheets as of September 30, 2018, and 2017; the related statements of net cost, changes in net position, and budgetary resources for the fiscal years then ended; and the related notes to the financial statements. We have also audited the DNFSB's internal control over financial reporting as of September 30, 2018, based on criteria established under 31 U.S.C. § 3512(c), (d), commonly known as the *Federal Managers' Financial Integrity Act* (FMFIA).

We conducted our audits in accordance with U.S. generally accepted government auditing standards. We believe that the audit evidence we obtained is sufficient and appropriate to provide a basis for our audit opinions.

¹ The RSI consists of Management's Discussion and Analysis, which is included with the financial statements.

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



INDEPENDENT AUDITOR'S REPORT

Management's Responsibility

DNFSB management is responsible for (1) the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; (2) preparing, measuring, and presenting the RSI in accordance with U.S. generally accepted accounting principles; (3) preparing and presenting other information included in documents containing the audited financial statements and auditor's report, and ensuring the consistency of that information with the audited financial statements and 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 criteria established under FMFIA; and (6) its assessment about the effectiveness of internal control over financial reporting.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements and an opinion on the DNFSB's internal control over financial reporting based on our audits. U.S. generally accepted government auditing standards require that we plan and perform the 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 other information 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 auditor's judgment, including the auditor's assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances. An audit of financial statements also involves evaluating the appropriateness of the accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

An audit of internal control over financial reporting involves performing procedures to obtain evidence about whether a material weakness exists.³ 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

³ A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis.



INDEPENDENT AUDITOR'S REPORT

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 the 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 that are less severe than a material weakness.

Definitions 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, the DNFSB's financial statements present fairly, in all material respects, the DNFSB's financial position as of September 30, 2018, and 2017, and its net cost of operations, changes in net position, and budgetary resources for the fiscal years then ended in accordance with U.S. generally accepted accounting principles.

Opinion on Internal Control over Financial Reporting

In our opinion, the DNFSB maintained, in all material respects, effective internal control over financial reporting as of September 30, 2018, based on criteria established under FMFIA.



INDEPENDENT AUDITOR'S REPORT

During our fiscal year 2018 audit, we identified deficiencies in the 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 U.S. generally accepted government auditing standards, which consisted of inquiries of management about the methods of preparing the RSI and comparing the information for consistency with management's responses to the auditor's inquiries, the financial statements, and other knowledge we obtained during the audit of the financial statements, in order to report omissions or material departures from FASAB guidelines, if any, identified by these limited procedures. We did not audit and we do not express an opinion or provide any assurance on the RSI because the limited procedures we applied do not provide sufficient evidence to express an opinion or provide any assurance.

Other Information

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

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

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



INDEPENDENT AUDITOR'S REPORT

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to test compliance with selected provisions of laws, regulations, contracts, and grant agreements applicable to the DNFSB that have a direct effect on the determination of material amounts and disclosures in the 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 the DNFSB.

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

Our tests for compliance with selected provisions of applicable laws, regulations, contracts, and grant agreements disclosed no instances of noncompliance for fiscal year 2018 that would be reportable under U.S. generally accepted 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 the DNFSB. Accordingly, we do not express such an opinion.

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

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

Agency Comments

In commenting on a draft of this report, DNFSB stated it was in agreement with the report. The complete text of DNFSB's response is reprinted in the Agency Financial Report.

Acuity Consulting, Inc.

Acuity Consulting, Inc.
Alexandria, Virginia
November 13, 2018

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DEFENSE NUCLEAR FACILITIES SAFETY BOARD
Annual Financial Report

**DEFENSE NUCLEAR FACILITIES
SAFETY BOARD**

Washington, DC 20004-2901



November 15, 2018

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

Dear Dr. Baker:

I appreciate the opportunity to respond to the Independent Auditor's Report of the Defense Nuclear Facilities Safety Board (Board) Fiscal Years 2018 and 2017 financial statements. I agree with the results of the audit.

I am pleased that the auditors rendered an unmodified or "clean" audit opinion, which means that they found that the Board's financial statements are presented fairly, in all material respects, and in conformity with the United States Generally Accepted Accounting Principles; that the Board maintained, in all material respects, effective internal controls over financial reporting; and that there were no instances of reportable noncompliance with laws and regulations.

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

Sincerely,

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

Glenn Sklar
General Manager

Defense Nuclear Facility Safety Board (DNFSB)

Financial Statements

For Fiscal Years 2018 and 2017

(Excerpts from Fiscal Year 2018 Agency Financial Report)

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DEFENSE NUCLEAR FACILITIES SAFETY BOARD

GENERAL FUND

FINANCIAL STATEMENTS

As Of And For The Years Ended September 30, 2018 and 2017

FY 2018
 DEFENSE NUCLEAR FACILITIES SAFETY BOARD
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Defense Nuclear Facilities Safety Board
 BALANCE SHEET

As Of September 30, 2018 and 2017

		<u>2018</u>	<u>2017</u>
Assets:			
Intragovernmental:			
Fund Balance With Treasury	(Note 2)	\$ 15,367,997.45	\$ 13,527,280.81
Other:	(Note 5)		
Advances and Prepayments		-	2.00
Total Intragovernmental		<u>15,367,997.45</u>	<u>13,527,282.81</u>
General Property, Plant and Equipment, Net	(Note 4)	<u>153,553.85</u>	<u>260,945.45</u>
Total Assets		<u>\$ 15,521,551.30</u>	<u>\$ 13,788,228.26</u>
Liabilities:	(Note 6)		
Intragovernmental:			
Accounts Payable		\$ 258,454.12	\$ 455,469.50
Other:	(Note 9)		
Employer Contributions and Payroll Taxes Payable		124,010.72	151,665.85
Other Unfunded Employment Related Liability		762.00	762.00
Total Intragovernmental		<u>383,226.84</u>	<u>607,897.35</u>
Accounts Payable		597,531.11	551,064.17
Other:	(Note 9)		
Accrued Funded Payroll and Leave		803,593.65	1,039,510.35
Employer Contributions and Payroll Taxes Payable		22,475.35	27,848.38
Unfunded Leave		1,124,542.24	1,360,472.16
Total Liabilities		<u>\$ 2,931,369.19</u>	<u>\$ 3,586,792.41</u>
Net Position:			
Unexpended Appropriations - All Other Funds (Consolidated		13,561,932.50	11,301,724.56
Cumulative Results of Operations - All Other Funds			
(Consolidated Totals)		\$ (971,750.39)	\$ (1,100,288.71)
Total Net Position - All Other Funds (Consolidated		<u>12,590,182.11</u>	<u>10,201,435.85</u>
Totals)			
Total Net Position		<u>\$ 12,590,182.11</u>	<u>\$ 10,201,435.85</u>
Total Liabilities and Net Position		<u>\$ 15,521,551.30</u>	<u>\$ 13,788,228.26</u>

The accompanying notes are an integral part of these statements.

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 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, 2018 and 2017

	2018	2017
Program Costs:		
DNFSB:		
Gross Costs	\$ 29,395,946.23	\$ 31,447,586.92
Net Program Costs	(Note 12) 29,395,946.23	31,447,586.92
Net Cost of Operations	\$ 29,395,946.23	\$ 31,447,586.92

The accompanying notes are an integral part of these statements.

FY 2018
 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, 2018 and 2017
 FY 2018 (Current Year)

	Funds From Dedicated Collections (Consolidated Totals)	All Other Funds (Consolidated Totals)	Eliminations	Consolidated Total
Unexpended Appropriations:				
Beginning Balance		\$ 11,301,724.56		\$ 11,301,724.56
Beginning balance, as adjusted		11,301,724.56		11,301,724.56
Budgetary Financing Sources:				
Appropriations received		31,000,000.00		31,000,000.00
Other Adjustments (+/-)		(110,791.14)		(110,791.14)
Appropriations used		(28,629,000.92)		(28,629,000.92)
Total Budgetary Financing Sources		2,260,207.94		2,260,207.94
Total Unexpended Appropriations		13,561,932.50		13,561,932.50
Cumulative Results from Operations				
Beginning Balances		\$ (1,100,288.71)		\$ (1,100,288.71)
Beginning balances, as adjusted		(1,100,288.71)		(1,100,288.71)
Budgetary Financing Sources:				
Appropriations used		28,629,000.92		28,629,000.92
Other Financing Sources (Nonexchange):				
Imputed Financing		895,483.63		895,483.63
Total Financing Sources		29,524,484.55		29,524,484.55
Net Cost of Operations		29,395,946.23		29,395,946.23
Net Change		128,538.32		128,538.32
Cumulative Results of Operations		(971,750.39)		(971,750.39)
Net Position		\$ 12,590,182.11		\$ 12,590,182.11

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 DEFENSE NUCLEAR FACILITIES SAFETY BOARD
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Defense Nuclear Facilities Safety Board
 STATEMENT OF CHANGES IN NET POSITION
 As Of And For The Years Ended September 30, 2018 and 2017

FY 2017 (Prior Year)

	Funds From Dedicated Collections (Consolidated Totals)	All Other Funds (Consolidated Totals)	Eliminations	Consolidated Total
Unexpended Appropriations:				
Beginning Balance		\$ 11,373,805.15		\$ 11,373,805.15
Beginning balance, as adjusted		11,373,805.15		11,373,805.15
Budgetary Financing Sources:				
Appropriations received		30,872,000.00		30,872,000.00
Appropriations used		(30,944,080.59)		(30,944,080.59)
Total Budgetary Financing Sources		(72,080.59)		(72,080.59)
Total Unexpended Appropriations		11,301,724.56		11,301,724.56
Cumulative Results from Operations				
Beginning Balances		\$ (1,000,144.83)		\$ (1,000,144.83)
Beginning balances, as adjusted		(1,000,144.83)		(1,000,144.83)
Budgetary Financing Sources:				
Appropriations used		30,944,080.59		30,944,080.59
Other (+/-)		(132,855.55)		(132,855.55)
Other Financing Sources (Nonexchange):				
Imputed Financing		536,218.00		536,218.00
Total Financing Sources		31,347,443.04		31,347,443.04
Net Cost of Operations		31,447,586.92		31,447,586.92
Net Change		(100,143.88)		(100,143.88)
Cumulative Results of Operations		(1,100,288.71)		(1,100,288.71)
Net Position		\$ 10,201,435.85		\$ 10,201,435.85

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Defense Nuclear Facilities Safety Board
 STATEMENT OF BUDGETARY RESOURCES

As Of And For The Years Ended September 30, 2018 and 2017

	<u>2018</u> <u>Budgetary</u>	<u>2017</u> <u>Budgetary</u>
Budgetary resources:		
Unobligated balance from prior year budget authority, net (discretionary and mandatory)	\$ 8,140,499.59	\$ 7,974,856.58
Appropriations (discretionary and mandatory)	31,000,000.00	30,872,000.00
Total budgetary resources	<u>\$ 39,140,499.59</u>	<u>\$ 38,846,856.58</u>
Status of budgetary resources:		
New obligations and upward adjustments (total)	(Note 13) \$ 29,805,491.70	\$ 30,835,345.13
Unobligated balance, end of year:		
Apportioned, unexpired account	5,156,144.35	3,576,160.19
Unexpired unobligated balance, end of year	5,156,144.35	3,576,160.19
Expired unobligated balance, end of year	4,178,863.54	4,435,351.26
Unobligated balance, end of year (total)	<u>9,335,007.89</u>	<u>8,011,511.45</u>
Total budgetary resources	<u>\$ 39,140,499.59</u>	<u>\$ 38,846,856.58</u>
Outlay, net:		
Outlays, net (total) (discretionary and mandatory)	<u>\$ 29,048,492.22</u>	<u>\$ 30,625,999.61</u>
Agency outlays, net (discretionary and mandatory)	<u>\$ 29,048,492.22</u>	<u>\$ 30,625,999.61</u>

The accompanying notes are an integral part of these statements.

DEFENSE NUCLEAR FACILITIES SAFETY BOARD

GENERAL FUND

2.3.2.1 Note 1 – Significant Accounting Policies

(a) Reporting Entity

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

(b) Basis of Presentation

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

Circular A-136 requires agencies to prepare principal statements, which include a Balance Sheet, a Statement of Net Cost, a Statement of Changes in Net Position, and a Statement of Budgetary Resources. The balance sheet presents, as of September 30, 2018, 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 the Board's budgetary activity.

(c) Basis of Accounting

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

(d) Revenues and Other Financing Sources

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The Board receives its funding needed to support its activities through annual congressional appropriations. FY 2018 and FY 2017 appropriated funds are available for obligation until September 30, 2019 and September 30, 2018, 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), 8 and 9).

(e) Assets and Liabilities

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

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

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

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

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

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

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

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

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

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

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

(h) Annual, Sick, and Other Leave

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

(i) Federal Employee Benefits

The Board recognizes its share of the cost of providing future pension benefits to eligible employees over the period of time that they render service to the Board. The pension expense recognized in the financial statement equals the current service cost for the Board’s employees for the accounting period less the amount contributed by the employees. The Office of Personnel Management (OPM), the administrator of the plan, supplies the Board with factors to apply in the calculation of the service cost. These factors are derived through actuarial cost methods and assumptions. The excess of the recognized pension expense represents the amount being financed directly by OPM. This amount is considered imputed financing to the Board (see Note 8).

The Board recognizes a current-period expense for the future cost of post-retirement health benefits and life insurance for its employees while they are still working. The Board accounts for and reports this expense in a manner similar to that used for pensions, with the exception that employees and the Board do not make current contributions to fund these future benefits. Federal employee benefit costs paid by OPM and imputed to the Board are reported as a resource on the Statement of Changes in Net Position.

(j) Contingencies

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

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, 2018, and 2017, are as follows:

	2018	2017
A. Fund Balance with Treasury General Fund	\$ 15,367,997.45	\$ 13,527,280.81

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B. Status of Fund Balance with Treasury		
1) Unobligated Balance		
a) Available	\$ 5,156,144.35	\$ 3,576,160.19
b) Unavailable	\$ 4,178,863.54	\$ 4,435,351.26
2) Obligated Balance not yet Disbursed	\$ 6,032,989.56	\$ 5,515,769.36
Total	\$ 15,367,997.45	\$ 13,527,280.81

2.3.2.3 Note 3 – Accounts Receivable, Net

The Board has no accounts receivable in FY 2018 or FY 2017. The Board has historically collected any receivables due and thus has not established an allowance for uncollectible accounts.

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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, 2018 and 2017 are as follows.

2018	Equipment	Furniture & Fixtures	Software	Software in Development	Total
Cost	\$ 1,053,331.18	\$ 116,832.25	\$ 356,658.21	-	\$ 1,526,821.64
Accum. Depr.	\$ (961,467.36)	\$ (55,142.22)	\$ (356,658.21)	-	\$ (1,373,267.79)
Net Book Value	\$ 91,863.82	\$ 61,690.03	-	-	\$ 153,553.85
2017	Equipment	Furniture & Fixtures	Software	Software in Development	Total
Cost	\$ 1,273,133.86	\$ 40,174.35	\$ 553,684.97	-	\$ 1,866,993.18
Accum. Depr.	\$ (1,012,188.41)	\$ (40,174.35)	\$ (553,684.97)	-	\$ (1,606,047.73)
Net Book Value	\$ 260,945.45	-	-	-	\$ 260,945.45

2.3.2.5 Note 5 – Other Assets

The FY 2017 Other Assets amount represents an unliquidated advance.

	2018	2017
Intragovernmental		
Advances and Prepayments	\$ -	\$ 2.00
Total Intragovernmental	\$ -	\$ 2.00
Total Other Assets	\$ -	\$ 2.00

2.3.2.6 Note 6 – Liabilities Not Covered by Budgetary Resources

The liabilities on the Board's Balance Sheets as of September 30, 2018 and 2017 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

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to fund these liabilities. The composition of liabilities not covered by budgetary resources as of September 30, 2018 and 2017 is as follows:

	2018	2017
Intragovernmental		
Accounts Payable	\$ 258,454.12	\$ 455,469.50
Employer Contributions and Payroll		
Taxes Payable	\$ 124,010.72	\$ 151,665.85
Worker's Compensation	\$ 762.00	\$ 762.00
Total Intragovernmental	\$ 383,226.84	\$ 607,897.35
With the Public		
Accounts Payable	\$ 597,531.11	\$ 551,064.17
Accrued Funded Payroll and Leave	\$ 803,593.65	\$ 1,039,510.35
Employer Contributions and Payroll		
Taxes Payable	\$ 22,475.35	\$ 27,848.38
Unfunded Leave	\$ 1,124,542.24	\$ 1,360,472.16
Total with the Public	\$ 2,548,142.35	\$ 2,978,895.06
Total Liabilities	\$ 2,931,369.19	\$ 3,586,792.41
Total Liabilities not covered by budgetary resources	\$ 1,125,304.24	\$ 1,361,234.16
Total Liabilities covered by budgetary resources	\$ 1,806,064.95	\$ 2,225,558.25
Total Liabilities	\$ 2,931,369.19	\$ 3,586,792.41

2.3.2.7 Note 7 - Intragovernmental Liabilities

Intragovernmental liabilities arise from transactions with other federal entities. As of September 30, 2018, the Board had accounts payable intragovernmental liabilities of \$258,454.12: With the Department of Agriculture (\$17,194.70), GSA (\$213,963.92) and the Department of Homeland Security (\$27,295.50). The Board's FY2017 account payable intragovernmental liabilities of \$455,469.50 were the Department of Agriculture (\$11,473.75), GSA (\$37,002.39), OPM (\$14,760) and the Department of Homeland Security (\$392,233.36). Employee benefits are the amounts owed to OPM and Treasury as of September 30, 2018 and 2017 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 8).

2.3.2.8 Note 8 – 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

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the program and the benefits they will eventually receive are not recognized by the Board's financial statements. The Board makes contributions to CSRS, FERS, and FICA and matches certain employee contributions to the thrift savings component of FERS. All of these payments are recognized as operating expenses.

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

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

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2.3.2.9 Note 9– Other Liabilities

Other liabilities with the public for the year ended September 30, 2018 and 2017 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 2018		
	Non-Current	Current	Total
Intragovernmental			
Employer contributions and Payroll Taxes Payable		\$ 124,010.72	\$ 124,010.72
Worker's compensation Liability		\$ 762.00	\$ 762.00
Total Intragovernmental		\$ 124,772.72	\$ 124,772.72
Liabilities with the Public			
Accrued Funded Payroll & Leave		\$ 803,593.65	\$ 803,593.65
Employer Contributions and Payroll Taxes Payable		\$ 22,475.35	\$ 22,475.35
Unfunded leave	\$ 1,124,542.24		\$ 1,124,542.24
Total Liabilities with the Public	\$ 1,124,542.24	\$ 826,069.00	\$ 1,950,611.24
Total Other Liabilities	\$ 1,124,542.24	\$ 950,841.72	\$ 2,075,383.96
	FY 2017		
	Non-Current	Current	Total
Intragovernmental			
Employer contributions and Payroll Taxes Payable			\$ -
Worker's compensation Liability		\$ 151,665.85	\$ 151,665.85
Worker's compensation Liability		\$ 762.00	\$ 762.00
Total Intragovernmental		\$ 152,427.85	\$ 152,427.85
Liabilities with the Public			
Accrued Funded Payroll & Leave		\$ 1,039,510.35	\$ 1,039,510.35
Employer Contributions and Payroll Taxes Payable		\$ 27,848.38	\$ 27,848.38
Unfunded leave	\$ 1,360,472.16		\$ 1,360,472.16

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Total Liabilities with the Public	\$ 1,360,472.16	\$ 1,067,358.73	\$ 2,427,830.89
Total Other Liabilities	<u>\$ 1,360,472.16</u>	<u>\$ 1,219,786.58</u>	<u>\$ 2,580,258.74</u>

2.3.2.10 Note 10 – Workers’ Compensation

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

The Board recorded an estimated liability for claims incurred, but not paid as of September 30, 2018, and 2017, as follows:

	FY 2018	FY 2017
Worker’s Compensation	\$ 762.00	\$ 762.00

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2.3.2.11 Note 11 – Leases

The Board has not entered into any existing capital leases and thus has incurred no liability resulting from such leases. The Board has also not directly entered into any operating leases, but does have an occupancy agreement with GSA for its headquarters space (GSA has an operating lease with the building owner, the costs of which are billed to the Board). Lease costs for office space for FY 2018 and FY 2017 amounted to \$3,007,545 and \$2,978,670, 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
2019	\$ 3,097,607
2020	\$ 3,142,672
2021	\$ 3,189,085
2022	\$ 3,236,889
2023	\$ 3,286,123
2024 and thereafter until 2026	\$ 8,054,511
Total Estimated Future Lease Payments	\$ 24,006,887

2.3.2.12 Note 12 – 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 2018	\$ 8,766,883.92	\$ 20,629,062.31	\$ 29,395,946.23
FY 2017	\$ 8,635,793.40	\$ 22,811,793.52	\$ 31,447,586.92

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

OC	Description	FY 2018	FY 2017
11	Personnel Compensation	\$ 14,127,558.94	\$ 16,186,761.72
12	Personnel Benefits	\$ 5,318,801.47	\$ 5,644,940.79
13	Former Personnel Benefits	\$ 16.00	\$ 18,932.00
21	Travel & Transportation of Persons	\$ 836,656.99	\$ 817,366.21
22	Transportation of Things	\$ 4,147.60	\$ 23,265.97
23	Rent, Communications, & Utilities	\$ 3,413,515.95	\$ 3,189,184.42
24	Printing & Reproduction	\$ 5,351.61	\$ 6,931.00
25	Other Contractual Services	\$ 5,176,626.35	\$ 4,525,958.43
26	Supplies & Materials	\$ 221,023.95	\$ 203,016.77

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31	Acquisition of Assets	\$ 292,247.37	\$ 831,229.61
	Total	\$ 29,395,946.23	\$ 31,447,586.92

2.3.2.13 Note 13 – 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 2018	FY 2017
Direct		
Category A	\$ 29,805,491.70	\$ 30,835,345.13

2.3.2.14 Note 14 – Undelivered Orders at the End of the Period

The amount of DNFSB’s undelivered orders was \$4,226,924.61 and \$3,290,213.11 as of September 30, 2018 and 2017, respectively.

	Unpaid Undelivered Orders	Paid Undelivered Orders	Total Undelivered Orders
2018	\$ 4,226,924.61		\$ 4,226,924.61
2017	\$ 3,902,211.11	\$ 2.00	\$ 3,902,213.11

2.3.2.15 Note 15 – 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 2018 actual budgetary execution information is scheduled for publication in February 2019, which will be available through OMB’s website at <http://www.whitehouse.gov/omb>. Accordingly, information required for such disclosure is not available at the time of publication of these financial statements.

Balances reported in the FY 2017 SBR and the related President’s Budget reflected the following:

	Budgetary Resources	Obligations Incurred	Net Outlays
Statement of Budgetary Resources	\$ 38,846,856.58	\$ 30,835,345.13	\$ 30,625,999.61

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Expired Unobligated Balances	\$ (4,435,351.26)		
<i>Budget of the U.S. Government</i>	\$ 35,000,000.00	\$ 31,000,000.00	\$ 30,000,000.00
Difference	<u>\$ (588,494.68)</u>	<u>\$ (164,654.87)</u>	<u>\$ 625,999.61</u>

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.

2.3.2.16 Note 16 – Reconciliation of Net Cost of Operations to Budget

Budgetary Resources Obligated are obligations for personnel, goods, services, benefits, etc. made by the Board in order to conduct operations or acquire assets. Other (i.e., non-budgetary) financing resources are also utilized by Board in its program (proprietary) operations. For example, Spending Authority from Recoveries and Offsetting Collections are financial resources from the recoveries of prior year obligations (e.g., the completion of a contract where not all the funds were used) and refunds or other collections (i.e., funds used to conduct operations that were previously budgeted). As explained in Notes 1(i) and 8, an Imputed Financing Source from Costs Absorbed by Others is recognized for future federal employee benefits costs incurred for Board employees that will be funded by OPM. Changes in Budgetary Resources Obligated for Goods, Services, and Benefits Ordered but Not Yet Provided represents the difference between the beginning and ending balances of undelivered orders (i.e., goods and services received during the year based on obligations incurred the prior year represent a cost of operations not funded from budgetary resources). Resources that Finance the Acquisition of Assets are budgetary resources used to finance assets and not cost of operations (e.g., increases in accounts receivables or capitalized assets). Financing Sources Yet to be Provided represents financing that will be provided in future periods for future costs that are recognized in determining the net cost of operations for the present period. Finally, Components not Requiring or Generating Resources are costs included in the net cost of operations that do not require resources (e.g., depreciation and amortized expenses of assets previously capitalized).

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A reconciliation between Budgetary Resources Obligated and Net Cost of Operations (i.e., providing an explanation between budgetary and financial (proprietary) accounting) is as follows (note: in prior years this information was presented as a separate financial statement (the Statement of Financing)):

	FY 2018	FY 2017
Budgetary Resources Obligated	\$ 29,805,491.70	\$ 30,835,345.13
Spending Authority from Recoveries and Offsetting Collections	\$ (519,303.64)	\$ (1,460,176.48)
Other Resources	\$ 895,483.63	\$ 403,362.45
Changes in Budgetary Resources Obligated for Goods, Services, and Benefits Ordered but Not Yet Provided	\$ (657,187.14)	\$ 1,568,911.94
Resources that Finance the Acquisition of Assets	\$ (76,657.90)	\$ (179,235.51)
Financing Sources Yet to be Provided (see Note 16)	\$ (235,929.92)	\$ (33,790.84)
Components Not Requiring or Generating Resources	\$ 184,049.50	\$ 313,170.23
Net Cost of Operations	\$ 29,395,946.23	\$ 31,447,586.92

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2.3 FY 2018 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, 2018 and 2017

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Defense Nuclear Facilities Safety Board
BALANCE SHEET

As Of September 30, 2018 and 2017

		2018	2017
Assets:			
Intragovernmental:			
Fund Balance With Treasury	(Note 2)	\$ 15,367,997.45	\$ 13,527,280.81
Other:	(Note 5)		
Advances and Prepayments		-	2.00
Total Intragovernmental		15,367,997.45	13,527,282.81
General Property, Plant and Equipment, Net	(Note 4)	153,553.85	260,945.45
Total Assets		\$ 15,521,551.30	\$ 13,788,228.26
Liabilities:			
Intragovernmental:			
Accounts Payable	(Note 6)	\$ 258,454.12	\$ 455,469.50
Other:	(Note 9)		
Employer Contributions and Payroll Taxes Payable		124,010.72	151,665.85
Other Unfunded Employment Related Liability		762.00	762.00
Total Intragovernmental		383,226.84	607,897.35
Accounts Payable		597,531.11	551,064.17
Other:	(Note 9)		
Accrued Funded Payroll and Leave		803,593.65	1,039,510.35
Employer Contributions and Payroll Taxes Payable		22,475.35	27,848.38
Unfunded Leave		1,124,542.24	1,360,472.16
Total Liabilities		\$ 2,931,369.19	\$ 3,586,792.41
Net Position:			
Unexpended Appropriations - All Other Funds (Consolidated		13,561,932.50	11,301,724.56
Cumulative Results of Operations - All Other Funds			
(Consolidated Totals)		\$ (971,750.39)	\$ (1,100,288.71)
Total Net Position - All Other Funds (Consolidated		12,590,182.11	10,201,435.85
Totals)			
Total Net Position		\$ 12,590,182.11	\$ 10,201,435.85
Total Liabilities and Net Position		\$ 15,521,551.30	\$ 13,788,228.26

The accompanying notes are an integral part of these statements.

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Defense Nuclear Facilities Safety Board
STATEMENT OF NET COST
 As Of And For The Years Ended September 30, 2018 and 2017

	2018	2017
Program Costs:		
DNFSB:		
Gross Costs	\$ 29,395,946.23	\$ 31,447,586.92
Net Program Costs	(Note 12) 29,395,946.23	31,447,586.92
Net Cost of Operations	\$ 29,395,946.23	\$ 31,447,586.92

The accompanying notes are an integral part of these statements.

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Defense Nuclear Facilities Safety Board
 STATEMENT OF CHANGES IN NET POSITION
 As Of And For The Years Ended September 30, 2018 and 2017
 FY 2018 (Current Year)

	Funds From Dedicated Collections (Consolidated Totals)	All Other Funds (Consolidated Totals)	Eliminations	Consolidated Total
Unexpended Appropriations:				
Beginning Balance		\$ 11,301,724.56		\$ 11,301,724.56
Beginning balance, as adjusted		11,301,724.56		11,301,724.56
Budgetary Financing Sources:				
Appropriations received		31,000,000.00		31,000,000.00
Other Adjustments (+/-)		(110,791.14)		(110,791.14)
Appropriations used		(28,629,000.92)		(28,629,000.92)
Total Budgetary Financing Sources		2,260,207.94		2,260,207.94
Total Unexpended Appropriations		13,561,932.50		13,561,932.50
Cumulative Results from Operations				
Beginning Balances		\$ (1,100,288.71)		\$ (1,100,288.71)
Beginning balances, as adjusted		(1,100,288.71)		(1,100,288.71)
Budgetary Financing Sources:				
Appropriations used		28,629,000.92		28,629,000.92
Other Financing Sources (Nonexchange):				
Imputed Financing		895,483.63		895,483.63
Total Financing Sources		29,524,484.55		29,524,484.55
Net Cost of Operations		29,395,946.23		29,395,946.23
Net Change		128,538.32		128,538.32
Cumulative Results of Operations		(971,750.39)		(971,750.39)
Net Position		\$ 12,590,182.11		\$ 12,590,182.11

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Defense Nuclear Facilities Safety Board
 STATEMENT OF CHANGES IN NET POSITION
 As Of And For The Years Ended September 30, 2018 and 2017
 FY 2017 (Prior Year)

	Funds From Dedicated Collections (Consolidated Totals)	All Other Funds (Consolidated Totals)	Eliminations	Consolidated Total
Unexpended Appropriations:				
Beginning Balance		\$ 11,373,805.15		\$ 11,373,805.15
Beginning balance, as adjusted		11,373,805.15		11,373,805.15
Budgetary Financing Sources:				
Appropriations received		30,872,000.00		30,872,000.00
Appropriations used		(30,944,080.59)		(30,944,080.59)
Total Budgetary Financing Sources		(72,080.59)		(72,080.59)
Total Unexpended Appropriations		11,301,724.56		11,301,724.56
Cumulative Results from Operations				
Beginning Balances		\$ (1,000,144.83)		\$ (1,000,144.83)
Beginning balances, as adjusted		(1,000,144.83)		(1,000,144.83)
Budgetary Financing Sources:				
Appropriations used		30,944,080.59		30,944,080.59
Other (+/-)		(132,855.55)		(132,855.55)
Other Financing Sources (Nonexchange):				
Imputed Financing		536,218.00		536,218.00
Total Financing Sources		31,347,443.04		31,347,443.04
Net Cost of Operations		31,447,586.92		31,447,586.92
Net Change		(100,143.88)		(100,143.88)
Cumulative Results of Operations		(1,100,288.71)		(1,100,288.71)
Net Position		\$ 10,201,435.85		\$ 10,201,435.85

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Defense Nuclear Facilities Safety Board STATEMENT OF BUDGETARY RESOURCES As Of And For The Years Ended September 30, 2018, and 2017
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	2018 Budgetary	2017 Budgetary
Budgetary resources:		
Unobligated balance from prior year budget authority, net (discretionary and mandatory)	\$ 8,140,499.59	\$ 7,974,856.58
Appropriations (discretionary and mandatory)	\$ 31,000,000.00	\$ 30,872,000.00
Total budgetary resources	\$ 39,140,499.59	\$ 38,846,856.58
Status of budgetary resources:		
New obligations and upward Adjustments (total) (Note 13)	\$ 29,805,791.70	\$ 30,835,345.13
Unobligated balance, end of year:		
Apportioned, unexpired account	\$ 5,156,144.35	\$ 3,576,160.19
Unexpired unobligated balance, end of year	\$ 5,156,144.35	\$ 3,576,160.19
Expired unobligated balance, end of year	\$ 4,178,863.54	\$ 4,435,351.26
Unobligated balance, end of year, (total)	\$ 9,335,007.89	\$ 8,011,511.45
Total budgetary resources	\$ 39,140,799.59	\$ 38,846,856.58
Outlays, net:		
Outlays, net (total)(discretionary and mandatory)	\$ 20,048,492.22	\$ 30,625,999.61
Agency outlays, net (discretionary and mandatory)	\$ 20,048,492.22	\$ 30,625,999.61

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

(a) Reporting Entity

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

(b) Basis of Presentation

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

Circular A-136 requires agencies to prepare principal statements, which include a Balance Sheet, a Statement of Net Cost, a Statement of Changes in Net Position, and a Statement of Budgetary Resources. The balance sheet presents, as of September 30, 2018, 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 the Board's budgetary activity.

(c) Basis of Accounting

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

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(d) Revenues and Other Financing Sources

The Board receives its funding needed to support its activities through annual congressional appropriations. FY 2018 and FY 2017 appropriated funds are available for obligation until September 30, 2019 and September 30, 2018, 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), 8 and 9).

(e) Assets and Liabilities

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

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

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

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

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

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

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

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

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

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

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

(h) Annual, Sick, and Other Leave

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

(i) Federal Employee Benefits

The Board recognizes its share of the cost of providing future pension benefits to eligible employees over the period of time that they render service to the Board. The pension expense recognized in the financial statement equals the current service cost for the Board's employees for the accounting period less the amount contributed by the employees. The Office of Personnel Management (OPM), the administrator of the plan, supplies the Board with factors to apply in the calculation of the service cost. These factors are derived through actuarial cost methods and assumptions. The excess of the recognized pension expense represents the amount being financed directly by OPM. This amount is considered imputed financing to the Board (see Note 8).

The Board recognizes a current-period expense for the future cost of post-retirement health benefits and life insurance for its employees while they are still working. The Board accounts for and reports this expense in a manner similar to that used for pensions, with the exception that employees and the Board do not make current contributions to fund these future benefits. Federal employee benefit costs paid by OPM and imputed to the Board are reported as a resource on the Statement of Changes in Net Position.

(j) Contingencies

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

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, 2018, and 2017, are as follows:

	2018	2017
A. Fund Balance with Treasury General Fund	\$ 15,367,997.45	\$ 13,527,280.81
B. Status of Fund Balance with Treasury		
1) Unobligated Balance		
a) Available	\$ 5,156,144.35	\$ 3,576,160.19
b) Unavailable	\$ 4,178,863.54	\$ 4,435,351.26
2) Obligated Balance not yet Disbursed	\$ 6,032,989.56	\$ 5,515,769.36
Total	\$ 15,367,997.45	\$ 13,527,280.81

2.3.2.3 Note 3 – Accounts Receivable, Net

The Board has no accounts receivable in FY 2018 or FY 2017. The Board has historically collected any receivables due and thus has not established an allowance for uncollectible accounts.

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, 2018 and 2017 are as follows:

FY 2018	Equipment	Furniture & Fixtures	Software	Software in Development	Total
Cost	\$ 1,053,331.18	\$ 116,832.25	\$ 356,658.21	-	\$ 1,526,821.64
Accum. Depr.	\$ (961,467.36)	\$ (55,142.22)	\$ (356,658.21)	-	\$ (1,373,267.79)
Net Book Value	\$ 91,863.82	\$ 61,690.03	-	-	\$ 153,553.85
FY 2017	Equipment	Furniture & Fixtures	Software	Software in Development	Total
Cost	\$ 1,273,133.86	\$ 40,174.35	\$ 553,684.97	-	\$ 1,866,993.18
Accum. Depr.	\$ (1,012,188.41)	\$ (40,174.35)	\$ (553,684.97)	-	\$ (1,606,047.73)
Net Book Value	\$ 260,945.45	-	-	-	\$ 260,945.45

2.3.2.5 Note 5 – Other Assets

The FY 2017 Other Assets amount represents an unliquidated advance.

	FY 2018	FY 2017
Intragovernmental		
Advances and Prepayments	\$ -	\$ 2.00
Total Intragovernmental	\$ -	\$ 2.00
Total Other Assets	\$ -	\$ 2.00

2.3.2.6 Note 6 – Liabilities Not Covered by Budgetary Resources

The liabilities on the Board’s Balance Sheets as of September 30, 2018 and 2017 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, 2018 and 2017 is as follows:

	FY 2018		FY 2017	
Intragovernmental				
Accounts Payable	\$	258,454.12	\$	455,469.50
Employer Contributions and Payroll				
Taxes Payable	\$	124,010.72	\$	151,665.85
Worker's Compensation	\$	762.00	\$	762.00
Total Intragovernmental	\$	383,226.84	\$	607,897.35
With the Public				
Accounts Payable	\$	597,531.11	\$	551,064.17
Accrued Funded Payroll and Leave	\$	803,593.65	\$	1,039,510.35
Employer Contributions and Payroll				
Taxes Payable	\$	22,475.35	\$	27,848.38
Unfunded Leave	\$	1,124,542.24	\$	1,360,472.16
Total with the Public	\$	2,548,142.35	\$	2,978,895.06
Total Liabilities	\$	2,931,369.19	\$	3,586,792.41
Total Liabilities not covered by budgetary resources	\$	1,125,304.24	\$	1,361,234.16
Total Liabilities covered by budgetary resources	\$	1,806,064.95	\$	2,225,558.25
Total Liabilities	\$	2,931,369.19	\$	3,586,792.41

2.3.2.7 Note 7 - Intragovernmental Liabilities

Intragovernmental liabilities arise from transactions with other federal entities. As of September 30, 2018, the Board had accounts payable intragovernmental liabilities of \$258,454.12: With the Department of Agriculture (\$17,194.70), GSA (\$213,963.92) and the Department of Homeland Security (\$27,295.50). The Board’s FY2017 account payable intragovernmental liabilities of \$455,469.50 were the Department of Agriculture (\$11,473.75), GSA (\$37,002.39), OPM (\$14,760) and the Department of Homeland Security (\$392,233.36). Employee benefits are the amounts owed to OPM and Treasury as of September 30, 2018 and 2017 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 8).

2.3.2.8 Note 8 – Federal Employee Benefits

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

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

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

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2.3.2.9 Note 9– Other Liabilities

Other liabilities with the public for the year ended September 30, 2018 and 2017 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 2018		
	Non-Current	Current	Total
Intragovernmental			
Employer contributions and Payroll Taxes Payable		\$ 124,010.72	\$ 124,010.72
Worker's compensation Liability		\$ 762.00	\$ 762.00
Total Intragovernmental		\$ 124,772.72	\$ 124,772.72
Liabilities with the Public			
Accrued Funded Payroll & Leave		\$ 803,593.65	\$ 803,593.65
Employer Contributions and Payroll Taxes Payable		\$ 22,475.35	\$ 22,475.35
Unfunded leave	\$ 1,124,542.24		\$ 1,124,542.24
Total Liabilities with the Public	\$ 1,124,542.24	\$ 826,069.00	\$ 1,950,611.24
Total Other Liabilities	\$ 1,124,542.24	\$ 950,841.72	\$ 2,075,383.96

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	FY 2017		
	Non-Current	Current	Total
Intragovernmental			
Employer contributions and Payroll Taxes Payable		\$ 151,665.85	\$ 151,665.85
Worker's compensation Liability		\$ 762.00	\$ 762.00
Total Intragovernmental		\$ 152,427.85	\$ 152,427.85
Liabilities with the Public			
Accrued Funded Payroll & Leave Employer Contributions and Payroll Taxes Payable		\$ 1,039,510.35	\$ 1,039,510.35
Unfunded leave	\$ 1,360,472.16		\$ 1,360,472.16
Total Liabilities with the Public	\$ 1,360,472.16	\$ 1,067,358.73	\$ 2,427,830.89
Total Other Liabilities	\$ 1,360,472.16	\$ 1,219,786.58	\$ 2,580,258.74

2.3.2.10 Note 10 – Workers’ Compensation

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

The Board recorded an estimated liability for claims incurred, but not paid as of September 30, 2018, and 2017, as follows:

	FY 2018	FY 2017
Worker’s Compensation	\$ 762.00	\$ 762.00

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2.3.2.11 Note 11 – Leases

The Board has not entered into any existing capital leases and thus has incurred no liability resulting from such leases. The Board has also not directly entered into any operating leases, but does have an occupancy agreement with GSA for its headquarters space (GSA has an operating lease with the building owner, the costs of which are billed to the Board). Lease costs for office space for FY 2018 and FY 2017 amounted to \$3,007,545 and \$2,978,670, 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
2019	\$ 3,097,607
2020	\$ 3,142,672
2021	\$ 3,189,085
2022	\$ 3,236,889
2023	\$ 3,286,123
2024 and thereafter until 2026	\$ 8,054,511
Total Estimated Future Lease Payments	\$ 24,006,887

2.3.2.12 Note 12 – 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 2018	\$ 8,766,883.92	\$ 20,629,062.31	\$ 29,395,946.23
FY 2017	\$ 8,635,793.40	\$ 22,811,793.52	\$ 31,447,586.92

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

OC	Description	FY 2018	FY 2017
11	Personnel Compensation	\$ 14,127,558.94	\$ 16,186,761.72
12	Personnel Benefits	\$ 5,318,801.47	\$ 5,644,940.79
13	Former Personnel Benefits	\$ 16.00	\$ 18,932.00
21	Travel & Transportation of Persons	\$ 836,656.99	\$ 817,366.21
22	Transportation of Things	\$ 4,147.60	\$ 23,265.97

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23	Rent, Communications, & Utilities	\$ 3,413,515.95	\$ 3,189,184.42
24	Printing & Reproduction	\$ 5,351.61	\$ 6,931.00
25	Other Contractual Services	\$ 5,176,626.35	\$ 4,525,958.43
26	Supplies & Materials	\$ 221,023.95	\$ 203,016.77
31	Acquisition of Assets	\$ 292,247.37	\$ 831,229.61
	Total	\$ 29,395,946.23	\$ 31,447,586.92

2.3.2.13 Note 13 – 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 2018	FY 2017
Direct		
Category A	\$ 29,805,491.70	\$ 30,835,345.13

2.3.2.14 Note 14 – Undelivered Orders at the End of the Period

The amount of DNFSB’s undelivered orders was \$4,226,924.61 and \$3,290,213.11 as of September 30, 2018 and 2017, respectively.

	Unpaid Undelivered Orders	Paid Undelivered Orders	Total Undelivered Orders
2018	\$ 4,226,924.61	\$ -	\$ 4,226,924.61
2017	\$ 3,902,211.11	\$ 2.00	\$ 3,902,213.11

2.3.2.15 Note 15 – 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 2018 actual budgetary execution information is scheduled for publication in February 2019, which will be available through OMB’s website at <http://www.whitehouse.gov/omb>. Accordingly, information required for such disclosure is not available at the time of publication of these financial statements.

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Balances reported in the FY 2017 SBR and the related President’s Budget reflected the following:

	Budgetary Resources	Obligations Incurred	Net Outlays
Statement of Budgetary Resources	\$ 38,846,856.58	\$ 30,835,345.13	\$ 30,625,999.61
Expired Unobligated Balances	\$ (4,435,351.26)	\$ -	\$ -
<i>Budget of the U.S. Government</i>	\$ 35,000,000.00	\$ 31,000,000.00	\$ 30,000,000.00
Difference	<u>\$ (588,494.68)</u>	<u>\$ (164,654.87)</u>	<u>\$ 625,999.61</u>

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.

2.3.2.16 Note 16 – Reconciliation of Net Cost of Operations to Budget

Budgetary Resources Obligated are obligations for personnel, goods, services, benefits, etc. made by the Board in order to conduct operations or acquire assets. Other (i.e., non-budgetary) financing resources are also utilized by Board in its program (proprietary) operations. For example, Spending Authority from Recoveries and Offsetting Collections are financial resources from the recoveries of prior year obligations (e.g., the completion of a contract where not all the funds were used) and refunds or other collections (i.e., funds used to conduct operations that were previously budgeted). As explained in Notes 1(i) and 8, an Imputed Financing Source from Costs Absorbed by Others is recognized for future federal employee benefits costs incurred for Board employees that will be funded by OPM. Changes in Budgetary Resources Obligated for Goods, Services, and Benefits Ordered but Not Yet Provided represents the difference between the beginning and ending balances of undelivered orders (i.e., goods and services received during the year based on obligations incurred the prior year represent a cost of operations not funded from budgetary resources). Resources that Finance the Acquisition of Assets are budgetary resources used to finance assets and not cost of operations (e.g., increases in accounts receivables or capitalized assets). Financing Sources Yet to be Provided represents financing that will be provided in future periods for future costs that are recognized in determining the net cost of operations for the present period. Finally, Components not Requiring or Generating Resources are costs included in the net cost of operations that do not require resources (e.g., depreciation and amortized expenses of assets previously capitalized).

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A reconciliation between Budgetary Resources Obligated and Net Cost of Operations (i.e., providing an explanation between budgetary and financial (proprietary) accounting) is as follows (note: in prior years this information was presented as a separate financial statement (the Statement of Financing)):

	FY 2018	FY 2017
Budgetary Resources Obligated	\$ 29,805,491.70	\$ 30,835,345.13
Spending Authority from Recoveries and Offsetting Collections	\$ (519,303.64)	\$ (1,460,176.48)
Other Resources	\$ 895,483.63	\$ 403,362.45
Changes in Budgetary Resources Obligated for Goods, Services, and Benefits Ordered but Not Yet Provided	\$ (657,187.14)	\$ 1,568,911.94
Resources that Finance the Acquisition of Assets	\$ (76,657.90)	\$ (179,235.51)
Financing Sources Yet to be Provided (see Note 16)	\$ (235,929.92)	\$ (33,790.84)
Components Not Requiring or Generating Resources	\$ 184,049.50	\$ 313,170.23
Net Cost of Operations	\$ 29,395,946.23	\$ 31,447,586.92

Chapter 3 – Appendices

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



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

October 23, 2018

OFFICE OF THE
INSPECTOR GENERAL

MEMORANDUM TO: Acting Chairman Hamilton

FROM: 
Hubert T. Bell
Inspector General

SUBJECT: INSPECTOR GENERAL'S ASSESSMENT OF THE MOST
SERIOUS MANAGEMENT AND PERFORMANCE
CHALLENGES FACING THE DEFENSE NUCLEAR
FACILITIES SAFETY BOARD (DNFSB) IN FISCAL YEAR
(FY) 2019 (DNFSB-19-A-01)

In accordance with the *Reports Consolidation Act of 2000*, I am providing what I consider to be the most serious management and performance challenges facing DNFSB in FY 2019. Congress left the determination and threshold of what constitutes a most serious management and performance challenge to the discretion of the Inspectors General. I have defined serious management and performance challenges as *mission critical areas or programs that have the potential for a perennial weakness or vulnerability that, without substantial management attention, would seriously impact agency operations or strategic goals.*

INTRODUCTION

The *Consolidated Appropriations Act of 2014* provided that notwithstanding any other provision of law, the Inspector General (IG) of the Nuclear Regulatory Commission (NRC) is authorized in 2014 and subsequent years to exercise the same authorities with respect to DNFSB, as determined by the NRC IG, as the IG exercises under the *Inspector General Act of 1978* (5 U.S.C. App.) with respect to NRC.

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BACKGROUND

DNFSB was created by Congress in 1988 as an independent organization within the executive branch to provide recommendations and advice to the President and the Secretary of Energy regarding public health and safety issues at Department of Energy (DOE) defense nuclear facilities. DNFSB reviews and evaluates the content and implementation of health and safety standards, as well as other requirements, relating to the design, construction, operation, and decommissioning of DOE's defense nuclear facilities. As of March 31, 2018, DNFSB has 117 full time employees, including 4 Board members. In August 2018, the Acting Chairman of DNFSB announced a plan to reorganize and reduce staff at DNFSB, with a targeted increase of 80 percent in the number of on-site Resident Inspectors and an approximately 40 percent decrease in DNFSB headquarters staff to 79 employees, but Congressional approval will be needed before such an action is taken. DNFSB's enabling legislation authorized a staff of up to 130 personnel in FY 2018. The DNFSB FY 2019 appropriation is \$31 million.

MANAGEMENT AND PERFORMANCE CHALLENGES

The FY 2019 management and performance challenges are related to DNFSB's organizational culture and climate, security, human capital, and internal controls. Our work in these areas indicates that DNFSB needs to continue improving the efficiency and effectiveness of its programs. The FY 2019 management and performance challenges are as follows:

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

These challenges represent what the Office of the Inspector General (OIG) considers to be inherent and immediate program challenges relative to maintaining effective and efficient oversight and internal management controls.

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As a result, some are likely to remain challenges from year to year while others may be removed from the list as progress is made toward resolution. Challenges do not necessarily equate to problems, rather, they should be considered areas of continuing important focus for DNFSB management and staff.

Attached is a brief synopsis of each management and performance challenge along with summaries of OIG audits and planned work that have informed the assessment process. A complete list of reports can be found at <http://www.nrc.gov/reading-rm/doc-collections/insp-gen/>.

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1. Management of a healthy and sustainable organizational culture and climate.

To meet its important health and safety mission, one of DNFSB's principles is to conduct operations in a manner that is accountable by fostering an organizational culture that relies on high standards of integrity, fiscal responsibility, and operational proficiency. However, employee morale at DNFSB is low and has been for the past several years. Survey data from the Federal Employee Viewpoint Survey (FEVS) for FY 2014 - 2017 demonstrates that employee morale has been low and diminished further in the last year.

The Partnership for Public Service annually publishes The Best Places to Work in the Federal Government, which is drawn from the FEVS results, and ranks the agencies based on the results. The Best Places to Work offers an assessment of how Federal public servants view their jobs and workplace, providing employee perspectives on leadership, pay, innovation, work-life balance, and other issues. Over the last two fiscal years, DNFSB has ranked low, compared with other small agencies. In 2016, DNFSB posted an index score of 53.6. In 2017, DNFSB's index score dropped to 38.6, ranking it last in the small agency category.

During the spring of 2015, OIG hired an independent contractor, Willis Towers Watson, to conduct an independent survey to evaluate the culture and climate of DNFSB and to facilitate identification of its strengths and opportunities for improvement. As part of its work, Willis Towers Watson prepared a report of key findings and identified that "morale is low."

Low employee morale and the lack of Board collegiality are significant organizational challenges for DNFSB. Low employee morale leads to a challenging organizational culture, lack of cohesion, and possible hampered mission effectiveness. Moreover, low employee morale leads to employee disengagement, which is costly to an organization, as disengaged employees have higher absenteeism and lower productivity.

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In an effort to develop and maintain a healthy and sustainable organizational culture and climate, DNFSB has a strategic objective to align human capital strategies with agency mission, goals, and objectives through analysis, planning, investment, measurement, and management of human capital programs.

Key culture and climate challenges for the Board include the following:

- Ensure that organizational communication and change management contribute to a pervasive sense of organizational stability.
- Operate in a manner that is accountable to the public and achieves the mission efficiently and effectively.
- Engender through leadership and operational processes an organizational culture that strives for the highest standards of integrity, efficiency, effectiveness, transparency, fiscal responsibility, and management proficiency.

The following synopsis is an example of work OIG conducted in FY 2018 with regard to DNFSB's culture and climate.

**Audit of the DNFSB's Implementation of Its Governing Legislation
DNFSB-18-A-05, May 29, 2018**

In 1988 Congress created the DNFSB as an independent executive branch agency to provide independent analysis, advice, and recommendations to the Secretary of Energy regarding adequate protection of public health and safety at the DOE defense nuclear facilities.

There are 14 major defense nuclear facilities under DNFSB's jurisdiction. As of March 31, 2018, DNFSB has 117 full time employees, including four Board members. DNFSB is supported by an annual budget of approximately \$31 million.

DNFSB's enabling statute allows it to establish reporting requirements for DOE. These reporting requirements are binding upon the Secretary of Energy, may accompany a report DNFSB staff have prepared on a safety issue, may request a briefing from DOE, or be a standalone request for information from a Board member.

The audit objective was to review the role and structure of DNFSB to determine whether the Board is (1) operating in accordance with applicable laws and (2) whether the role and structure is effective to facilitate the agency's mission.

OIG did not find any evidence that DNFSB is not operating in accordance with its enabling statute, the *National Defense Authorization Act of FY 1989*, and any amendments thereto. However, OIG identified improvements DNFSB should make in order to more effectively accomplish its mission. Specifically, OIG noted a stark disagreement among Board members, on how and when reporting requirements should be issued, as illustrated by the FY 2016 and 2017 notational voting records.

Additionally, OIG identified that multiple agency-wide surveys consistently illustrate low employee morale and a lack of collegiality and/or cohesion among the Board members. While OIG did not identify any specific instances of DNFSB's mission being impacted by these two issues, they should be of concern to the Board. Low employee morale and lack of Board collegiality are significant organizational challenges for DNFSB.

Moreover, the Board sets the "tone at the top" for DNFSB's guidance values and principles. Whatever tone the Board members set has an effect on DNFSB employees.

The report made two recommendations to address the findings identified during the audit work.

The full report is available at <https://www.nrc.gov/docs/ML1814/ML18149A287.pdf>

² The full report is available at <https://www.nrc.gov/docs/ML1814/ML18149A287.pdf>

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

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

Key security challenges for DNFSB include the following:

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

The following audit synopsis is an example of security and information management work that OIG completed during FY 2018, pertaining to security.

**Independent Evaluation of DNFSB's Implementation of the *Federal Information Security Modernization Act of 2014 (FISMA 2014)* for FY 2017
DNFSB-18-A-02, October 30, 2017**

FISMA 2014 outlines the information security management requirements for agencies, which include an annual independent evaluation of an agency's information security program and practices to determine their effectiveness. This evaluation must include testing the effectiveness of information security policies, procedures, and practices for a representative subset of the agency's information systems. The evaluation also must include an assessment of the effectiveness of the information security policies, procedures, and practices of the agency.

FISMA 2014 requires the annual evaluation to be performed by OIG or by an independent external auditor. The Office of Management and Budget (OMB) requires OIGs to report their responses to OMB's annual FISMA reporting questions for OIGs via an automated collection tool.

The evaluation objective was to perform an independent evaluation of DNFSB's implementation of FISMA 2014 for FY 2017.

DNFSB has continued to make improvements in its information security program, and has completed implementing the recommendations from previous FISMA evaluations. However, the independent evaluation identified the following security program weaknesses

- Information security program documentation is not up-to-date.
- Information system contingency planning needs improvement.

The report made two recommendations to improve DNFSB's implementation of FISMA.

The full report is available at <https://www.nrc.gov/docs/ML1730/ML17303B119.pdf>

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3. Management of administrative functions.

DNFSB should continue exploring ways to improve its administrative functions. To support the technical staff, DNFSB provides corporate support services such as contract support, human resources support, financial reporting, and information technology services. Although DNFSB has established these administrative functions to support agency staff, there is still ongoing concern regarding employee morale, recruiting new hires, and retention. DNFSB must be able to effectively recruit new hires, strengthen performance management and increase employee engagement. This includes employee recognition and training new and current staff. Lastly, DNFSB should continue to improve its information security and information technology efforts to comply with Federal requirements and meet staff needs.

Key DNFSB administrative function challenges include the following:

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

The following synopsis is an example of work that OIG plans to complete in FY 2019, pertaining to DNFSB's administrative functions.

**Audit of DNFSB's Talent Management System for Filling Vacancies within the Human Capital Framework (HCF)
(To be initiated in FY 2019)**

The director of OPM requires agencies to establish and maintain a system of accountability for merit system principles. Agencies are further required to use guidance, measures and metrics and to identify the measures used in agency accountability policies. OPM established the Human Capital Assessment and Accountability Framework (HCF) system as standards, including appropriate metrics, for Evaluators to use when assessing human capital management by Federal agencies. HCF's system components are

1. Strategic Alignment System
2. Leadership/Knowledge Management System
3. Results-Oriented Performance Culture System
4. Talent Management System
5. Accountability System

The Talent Management System requires that agencies identify, through a systematic process, mission-critical occupations and competencies needed in the current and future workforce and develop a strategy to close the gaps. Accountability System guidelines require organizations to establish a comprehensive set of measures for each of the five systems to gauge organizational progress toward achieving human capital goals, to collect data and to make it available in a way that supports necessary analysis and decision-making.

Human Resources Evaluators use agency processes and activities outlined in standards for the Accountability System to ensure that over time, the agency manages people efficiently and effectively in accordance with merit system principles, veterans' preference and related public policies. Agencies are required under 5 C.F.R. 250.203 to submit a Human Capital Management Report (HCMR) for review and approval annually. Evaluations begin with review of the HCMR.

The evaluation objectives will be to determine if DNFSB's Talent Management System is effective in identification of mission-critical occupations and competencies and if DNFSB has developed strategies to hire and retain staff in support of its mission and in accordance with Federal standards.

4. Management of technical programs.

DNFSB's mission 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 DOE, in providing adequate protection of public health and safety at such defense nuclear facilities.

DNFSB's jurisdiction covers DOE's "defense nuclear facilities." This scope includes all facilities operated by DOE that fall under the *Atomic Energy Act* and have a function related to national defense. It excludes DOE's nuclear projects that are civilian in purpose and commercial nuclear facilities regulated by the NRC. DNFSB's oversight jurisdiction does not extend to the U.S. Navy's nuclear propulsion program or to environmental hazards regulated by other federal and state agencies.

When DNFSB technical staff evaluate safety at the specified DOE facilities, they must employ specific analyses of many unique processes and hazards. DOE's nuclear weapons program is technically challenging and hazardous. Complex, high-hazard operations critical to national defense include assembly and disassembly of nuclear weapons, fabrication of plutonium pits and weapon secondary assemblies, production and recycling of tritium, nuclear criticality experiments, experiments to characterize special nuclear materials under extreme conditions, and a host of activities to address the radioactive legacy of nearly 70 years of these operations. DOE's major defense nuclear facilities are each one-of-a-kind.

Key technical program challenges for the Board include the following:

- Ensure that operations are conducted in a manner that is accountable and transparent, and that directs the Board's resources toward oversight of the most significant potential safety risks in DOE's defense nuclear complex.
- Develop and sustain a staff that earns the respect and confidence of the public and DOE through its expertise in the field of nuclear safety and performance of its oversight functions.

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- Maintain open and effective two-way communications with DOE that enable problem solving through mutual understanding of safety issues that require action as well as factors that may constrain action to address safety issues.
- Ensure that internal controls are fully understood and implemented.

The following synopsis is an example of ongoing OIG work at DNFSB in FY 2018 regarding the management of technical programs.

**Audit of DNFSB's Issue and Commitment Tracking System (IACTS) 3.0 and its Related Processes
(Ongoing work)**

The DNFSB IACTS 3.0 is an electronic repository that DNFSB's technical staff uses to support the management of Board member commitments. Commitments are the follow-up actions to be completed on any potential safety items identified at defense nuclear facilities, and generally consist of internal written products owed by DNFSB's technical staff to the Board, or DOE responses to Board requests.

Staff monitor potential safety items through staff's corresponding electronic lists that are closely tied to IACTS 3.0. Because IACTS 3.0 and its corresponding lists serve as the central repository for all safety-related DOE information, these systems work closely with several other internal DNFSB processes that may involve Board safety decisions.

During the 2016 Audit of DNFSB's Oversight of Construction Projects at Defense Nuclear Facilities, OIG determined IACTS guidance did not adequately detail what information should be included in the system. As a result, DNFSB's Technical Staff inconsistently completed information in IACTS and infrequently updated the IACTS entries. However, it should be noted that, since 2016, IACTS has been through several changes and has evolved from IACTS to its current version, IACTS 3.0.

The audit objective is to determine if IACTS 3.0 and its related processes are effective in helping DNFSB accomplish its mission.

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COMMENTS AND SUGGESTIONS

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 ASSURANCES⁴

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

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

Effectiveness of Internal Control over Operations (FMFIA § 2)

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

⁴ 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.