Defense Nuclear Facilities Safety Board
Washington, DC 20004-2901

Office of the Inspector General

November 14, 2014

MEMORANDUM TO: Chairman Winokur

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 2014 AND 2013 (DNFSB-15-A-03)

The Accountability for Tax Dollars Act of 2002 (ADTA), 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 (Board) financial statements in accordance with applicable standards. In compliance with this requirement, the Office of the Inspector General (OIG) contracted with Acuity Consulting, Inc. (Acuity), to conduct this annual audit. Transmitted with this memorandum are the following Acuity reports:

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

The Board's Performance and Accountability Report includes comparative financial statements for FY 2014 and FY 2013.

Objective of a Financial Statement Audit

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

Acuity's audit was conducted in accordance with U.S. generally accepted government auditing standards and Office of Management and Budget (OMB) Bulletin No. 14-02, *Audit Requirements for Federal Financial Statements*. The audit included, among other things, obtaining an understanding of the Board 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 2014 Audit Results

The results are as follows:

<u>Financial Statements</u>

- Unmodified opinion.

<u>Internal Controls Over Financial Reporting</u>

- Unqualified opinion, with two significant deficiencies.

<u>Compliance with Laws, Regulations, Contracts, and Grant Agreements</u>

- No reportable instances of noncompliance.

OIG Oversight of Acuity Performance

To fulfill our responsibilities under ATDA and related legislation for overseeing the audit work performed, we monitored Acuity's audit 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 Board's internal controls.
- Reviewing Acuity's audit reports for compliance with U.S. generally accepted government auditing standards and OMB Bulletin No. 14-02.
- Coordinating the issuance of the audit reports.
- Performing other procedures deemed necessary.

Acuity is responsible for the attached auditor's reports, dated November 7, 2014, 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, and accordingly we do not express, an opinion on:

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

However, our oversight, 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 12, 2014, the General Manager of the Board 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 in Appendix II.

We appreciate the Board staff's cooperation and continued interest in improving financial management within the Board.

Attachments: As stated

cc: Vice Chairman Roberson
Board Member Sullivan
M. Welch, General Manager

To: Hubert T. Bell
Inspector General

Chairman Winokur
Defense Nuclear Facilities Safety Board

Introduction

As a result of our audit of the Defense Nuclear Facilities Safety Board's (Board) comparative financial statements for fiscal years 2014 and 2013, we found the following:

- The financial statements as of and for the fiscal years ended September 30, 2014, and 2013, are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America;
- Although internal controls could be improved, the Board maintained, in all material respects, effective internal control over financial reporting as of September 30, 2014; and
- No reportable noncompliance for fiscal year 2014 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 supplementary information (RSI) and other information included with the financial statements; (2) our report on compliance with laws, regulations, contracts, and grant agreements; and (3) the Board's comments on a draft of this report.

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

We have audited the accompanying financial statements of the Defense Nuclear Facilities Safety Board, which comprise the balance sheets as of September 30, 2014, and 2013; 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 Board's internal control over financial reporting as of September 30, 2014, based on criteria established under 31 U.S.C. § 3512(c and d), commonly known as the Federal Managers' Financial Integrity Act (FMFIA), and applicable sections of the Office of Management and Budget (OMB) Circular A-123, *Management's Responsibility for Internal Control*.

We conducted our audits in accordance with U.S. generally accepted government auditing standards and OMB Bulletin 14-02, *Audit Requirements for Federal Financial Statements*. We believe that the audit evidence we obtained is sufficient and appropriate to provide a basis for our audit opinions.

Management's Responsibility

Board management is responsible for (1) the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the U.S.; (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 the RSI; (4) maintaining effective internal control over financial reporting, including the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; (5) evaluating the effectiveness of internal control over financial reporting based on the criteria established under FMFIA and applicable sections of OMB Circular A-123; and (6) providing its assertion about the effectiveness of internal control over financial reporting as of September 30, 2014, based on its evaluation, included in the accompanying Management Report on Internal Control Over Financial Reporting (See Appendix I).

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements and an opinion on the Board's internal control over financial reporting based on our audits. We conducted our audits in accordance with U.S. generally accepted government auditing standards and OMB Bulletin 14-02, *Audit Requirements for Federal Financial Statements*. 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 the 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 includes obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control over financial reporting based on the assessed risk. Our audit of internal control also considered the entity's process for evaluating and reporting on internal control over financial reporting based on criteria established under FMFIA and applicable sections of OMB Circular A-123. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that the audit evidence we obtained is sufficient and appropriate to provide a basis for our audit opinions.

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 accounting principles generally accepted in the U.S., (2) assets are safeguarded against loss from unauthorized acquisition, use, or disposition, and (3) transactions are executed in accordance with laws governing the use of budget authority and with other applicable laws, regulations, contracts, and grant agreements that could have a direct and 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 Board's financial statements present fairly, in all material respects, the Board's financial position as of September 30, 2014, and 2013, and its net cost, changes in net position, and budgetary resources for the fiscal years then ended in accordance with accounting principles generally accepted in the U.S.

Matter of Emphasis

As described in Note 18, the Board has restated its fiscal year 2013 financial statements to recognize an adjustment of $1.9 million to its unobligated balances presented on the statement of budgetary resources. The fiscal year 2013 financial statements were audited by a predecessor auditor who issued an unmodified opinion, dated November 25, 2013, on the financial statements. We applied audit procedures to the adjustments made to restate the Board's comparative fiscal year 2013 financial statements in our report. In our opinion such adjustments are appropriate and have been properly applied. Our audit opinion on the Board's financial statements is not modified with respect to this matter.

Opinion on Internal Control Over Financial Reporting

Although certain controls could be improved, the Board maintained, in all material respects, effective internal control over financial reporting as of September 30, 2014, based on criteria established under FMFIA and applicable sections of OMB Circular A-123. Our opinion on the Board's internal control over financial reporting is consistent with the Board's assertion that its internal control over financial reporting was effective as of September 30, 2014, and that no material weaknesses were found in the design or operation of the controls. As discussed in greater detail later in this report, our fiscal year 2014 audit identified deficiencies in the Board's internal control over undelivered orders and the annual internal control assessment process that collectively constituted significant deficiencies in the Board's internal control over financial reporting.

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.

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

Significant Deficiency Over Undelivered Orders

During our fiscal year 2014 audit, we found that the Board did not consistently implement effective internal control over its aged population of undelivered orders to determine whether they remained valid. Specifically, the Board did not always timely identify expired contracts (and purchases) and take actions to deobligate appropriated funds that were no longer needed for their originally intended purposes. Such funds are reported as used in the budgetary records and are no longer available for other purposes. We identified $1.9 million of no-year funds that should be deobligated and made available for other use. The Board agreed to take corrective actions in fiscal year 2015 and, in the meantime, made correcting adjustments of $1.9 million in its fiscal year 2014 financial statements and $1.9 million in its fiscal year 2013 financial statements, to reclassify these funds as unused and, if not expired, available for future Board use.

We conclude that the Board has a significant deficiency in its internal control over undelivered orders that merits the attention of management and those charged with governance.

We recommend that the Board:

1. Design and implement procedures that include the review and evaluation of obligations for validity on a regular basis and the deobligation of inactive obligations after a reasonable period of inactivity.

Significant Deficiency Over Internal Control Assessment Process

We also found, during our fiscal year 2014 audit, that the Board did not utilize robust procedures in its internal control over its financial reporting assessment process performed under OMB Circular A-123. Citing its limited resources, the Board relied on its managers' self-assessments of their operations and did not perform any testing of internal controls to independently verify they were operating effectively. As a result, the Board faced increased risk that material weaknesses in internal controls would not be identified.

We conclude that the Board has a significant deficiency in its internal control over the A-123 process that merits the attention of management and those charged with governance.

We recommend that the Board:

2. Design and implement a more robust internal control assessment process and related procedures.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America, issued by the Federal Accounting Standards Advisory Board (FASAB), require that RSI be presented to supplement the financial statements.

Although 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 Board's other information accompanying our audit report contains 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 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 Board'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 Board's financial statements, we tested compliance with selected provisions of applicable laws, regulations, contracts, and grant agreements consistent with the 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.

Management's Responsibility

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

Auditor's Responsibility

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

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 2014 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 Board. 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, the General Manager stated that he agreed with the results of our audit. The complete text of the Board's comments is reprinted in Appendix II.

Acuity Consulting, Inc.

Acuity Consulting, Inc.

November 7, 2014

DEFENSE NUCLEAR FACILITIES SAFETY BOARD

Washington, DC 20004-2901

November 7, 2014

Mr. Stephen D. Dingbaum
Assistant Inspector General for Audits
U.S. Nuclear Regulatory Commission
11555 Rockville Pike
Rockville, MD 20852

Dear Mr. Dingbaum:

In accordance with Statements on Standards for Attestation Engagements (SSAE) No. 15, I am providing this management assertion regarding the effectiveness of internal control that apply to financial reporting by the Defense Nuclear Facilities Safety Board (Board).

The Board'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 laws governing the use of budget authority and with other applicable laws, regulations, and contracts that could have a direct and material effect on the financial statements.

As the General Manager, I am responsible for 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. I have evaluated the effectiveness of the Board's internal control over financial reporting as of September 30, 2014, based on the criteria established under the applicable sections of Office of Management and Budget Circular A-123.

Based on that evaluation, I conclude that as of September 30, 2014, the Board's internal control over financial reporting was effective.

Sincerely,

Mark T. Welch
General Manager

DEFENSE NUCLEAR FACILITIES SAFETY BOARD

Washington, DC 20004-2901

November 7, 2014

Mr. Stephen D. Dingbaum
Assistant Inspector General for Audits
U.S. Nuclear Regulatory Commission
11555 Rockville Pike
Rockville, MD 20852

Dear Mr. Dingbaum:

I appreciate the opportunity to respond to the Independent Auditor's Report of the Defense Nuclear Facilities Safety Board (Board) Fiscal Years 2014 and 2013 financial statements, and want to thank your staff and the auditors for working with the Board's financial staff to meet the audit requirements. I agree with the results of the audit.

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

The auditors identified two significant deficiencies regarding the review process for Undelivered Orders and a lack of independent testing in internal controls over financial reporting. We are developing and implementing corrective actions to mitigate the risks identified by the auditors, and will continue to work to enhance our system of internal control and to ensure the reliability of the Board's financial reporting.

Sincerely,

Mark T. Welch
General Manager

Defense Nuclear Facilities Safety Board's (DNFSB) Financial Statements for Fiscal Years 2014 and 2013

(Extracted from DNFSB's Fiscal Year 2014 Performance and Accountability Report)

Defense Nuclear Facilities Safety Board

BALANCE SHEET

As Of September 30, 2014 and 2013

		2014	2013
Assets:			
Intragovernmental:			
Fund Balance With Treasury	(Note 2)	$ 10,429,252	$ 7,859,949
Other:	(Note 5)		
Advances and Prepayments		18,789	13,750
Total Intragovernmental		10,448,041	7,873,699
Assets With The Public:			
Accounts Receivable, net	(Note 3)	71	17,892
General Property, Plant and Equipment, Net	(Note 4)	311,781	546,940
Total Assets		$ 10,759,893	$ 8,438,531
Liabilities:	(Note 6)		
Intragovernmental:			
Accounts Payable	(Note 7)	$ 108,341	$ 27,770
Other:	(Note 9)		
Employer Contributions and Payroll Taxes Payable	(Note 8)	82,302	78,759
Other Unfunded Employment Related Liability	(Note 10)	8,778	22,013
Total Intragovernmental		199,421	128,542
Liabilities With the Public:			
Accounts Payable		439,105	535,952
Other:	(Note 9)		
Accrued Funded Payroll and Leave		424,860	346,122
Employer Contributions and Payroll Taxes Payable		17,112	15,990
Unfunded Leave		1,211,096	1,205,202
Total Liabilities		$ 2,291,594	$ 2,231,808
Net Position:			
Unexpended Appropriations - All Other Funds (Consolidated Totals)		$ 9,376,321	$ 6,869,106
Cumulative Results of Operations - All Other Funds (Consolidated Totals)		(908,022)	(662,383)
Total Net Position - All Other Funds (Consolidated Totals)		8,468,299	6,206,723
Total Net Position		$ 8,468,299	$ 6,206,723
Total Liabilities and Net Position		$ 10,759,893	$ 8,438,531

The accompanying notes are an integral part of these statements.

Defense Nuclear Facilities Safety Board
STATEMENT OF NET COST

As Of And For The Years Ended September 30, 2014 and 2013

		2014	2013
Program Costs:			
DNFSB:			
Gross Costs		$ 26,595,721	$ 27,483,544
Net Program Costs	(Note 12)	26,595,721	27,483,544
Net Cost of Operations		$ 26,595,721	$ 27,483,544

The accompanying notes are an integral part of these statements.

Defense Nuclear Facilities Safety Board

STATEMENT OF CHANGES IN NET POSITION

As Of And For The Years Ended September 30, 2014 and 2013

	2014	2013
Cumulative Results of Operations:		
Beginning Balances	$ (662,383)	$ (862,560)
Beginning balance, as adjusted	(662,383)	862,560
Budgetary Financing Sources:		
Appropriations used	25,492,785	26,818,384
Other Financing Sources (Non-Exchange):		
Imputed financing	857,297	865,337
Total Financing Sources	26,350,082	27,683,721
Net Cost of Operations	26,595,721	27,483,544
Net Change	(245,639)	200,177
Cumulative Results of Operations	(908,022)	(662,383)
Unexpended Appropriations:		
Beginning Balance	6,869,106	6,973,919
Beginning Balance, as adjusted	6,869,106	6,973,919
Budgetary Financing Sources:		
Appropriations received	28,000,000	29,130,000
Other adjustments		(2,416,429)
Appropriations used	(25,492,785)	(26,818,384)
Total Budgetary Financing Sources	2,507,215	(104,813)
Total Unexpended Appropriations	9,376,321	6,869,106
Net Position	$ 8,468,299	$ 6,206,723

The accompanying notes are an integral part of these statements.

Defense Nuclear Facilities Safety Board

STATEMENT OF BUDGETARY RESOURCES

As Of And For The Years Ended September 30, 2014 and 2013

		2014	2013
BUDGETARY RESOURCES			
Unobligated balance brought forward, October 1		$ 4,051,254	$ 924,672
Unobligated balance brought forward, October 1, adjusted		4,051,254	924,672
Recoveries of prior year unpaid obligations (unobligated balances)		465,344	2,661,238
Unobligated balance from prior year budget authority, net		4,516,598	3,585,910
Appropriations (discretionary and mandatory)		28,000,000	26,713,571
Spending authority from offsetting collections		105	3,807
Total budgetary resources		$ 32,516,703	$ 30,303,288
STATUS OF BUDGETARY RESOURCES			
Obligations incurred	(Note 13)	$ 26,809,632	$ 26,252,034
Apportioned		3,759,346	2,249,710
Unapportioned		1,947,725	1,801,544
Unobligated balance brought forward, end of year		5,707,071	4,051,254
Total budgetary resources		$ 32,516,703	$ 30,303,288
CHANGE IN OBLIGATED BALANCE			
Unpaid obligations, brought forward, October 1 (gross)		$ 3,808,696	$ 8,173,124
Obligations incurred		26,809,632	26,252,034
Outlays (gross) (-)		(25,430,803)	(27,955,224)
Recoveries of prior year unpaid obligations (-)		(465,344)	(2,661,238)
Unpaid obligations, end of year	(Note 14)	4,722,181	3,808,696
Obligated balance, start of year (net)		3,808,696	8,173,124
Obligated balance, end of year (net)		$ 4,722,181	$ 3,808,696
BUDGET AUTHORITY AND OUTLAYS, NET			
Budget authority, gross (discretionary and mandatory)		$ 28,000,105	$ 26,717,378
Actual offsetting collections (discretionary and mandatory) (-)		(105)	(3,807)
Budget authority, net (discretionary and mandatory)		28,000,000	26,713,571
Outlays, gross (discretionary and mandatory)		25,430,803	27,955,224
Actual offsetting collections (discretionary and mandatory) (-)		(105)	(3,807)
Outlays, net (discretionary and mandatory)		25,430,698	27,951,417
Agency outlays, net (discretionary and mandatory)		$ 25,430,698	$ 27,951,417

The accompanying notes are an integral part of these statements.

DEFENSE NUCLEAR FACILITIES SAFETY BOARD

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, 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, 2014, amounts of future economic benefits owned or managed by the Board (assets), amounts owed by the Board (liabilities), and amounts, which comprise the difference (net position). The Statement of Net Cost reports the full cost of the Board's operations and the Statement of Budgetary Resources reports Board's budgetary activity.

(c) Basis of Accounting

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

(d) Revenues and Other Financing Sources

The Board receives its funding needed to support its activities through annual congressional appropriations. FY 2014 and FY 2013 appropriated funds are available for obligation until September 30, 2015 and September 30, 2014, 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) and 8).

(e) Assets and Liabilities

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

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

Liabilities represent amounts that are likely to be paid by the Board as a result of transactions that have already occurred. The accounts payable portion of liabilities consists 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 useful 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 from 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 is subject to potential liabilities in various administrative proceedings, legal actions, and claims brought against it. In the opinion of the Board's management, the ultimate resolution of these proceedings, actions, and claims will not materially affect the financial position or net cost to the Board. 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.

Note 2 – Funds Balance with the U.S. Treasury

The Board's funds with the U.S. Treasury consist only of appropriated funds. Worksheet adjustments were made for credits of $0.01 and $648,770 for FY 2014 and FY 2013, respectively, for payroll charges that were reflected in the U.S. Treasury cash balance at year end but were not yet recorded in the GSA accounting system. The status of these funds as of September 30, 2014 and 2013 are as follows:

	FY 2014	FY 2013
A. Fund Balance with Treasury		
Appropriated Fund	$10,429,252	$7,859,949
B. Status of Fund Balance with Treasury		
1) Unobligated Balance		
(a) Available	3,734,739	2,157,732
(b) Unavailable	54,203	
2) Obligated Balance not yet Disbursed	6,640,310	5,702,218
Total	$10,429,252	$7,859,949*

**Rounding*

Note 3 – Accounts Receivable, Net

The line item represents the gross amount of monies owed to the Board. The Board has historically collected receivables due and thus has not established an allowance for uncollectible accounts.

Accounts Receivable	FY 2014	FY 2013
Claims	$71	$17,892

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, 2014 and 2013 are as follows.

2014	Equipment	Furniture & Fixtures	Software	Software in Development	Total
Cost	$1,151,670	$40,174	$673,273	$0	$1,865,117
Accum. Depr.	($867,202)	($40,174)	($645,960)	($0)	($1,553,336)
Net Book Value	$284,468	$0	$27,313	$0	$311,781

2013	Equipment	Furniture & Fixtures	Software	Software in Development	Total
Cost	$1,096,055	$40,174	$673,273	$0	$1,809,502
Accum. Depr.	($622,624)	(40,174)	(599,764)	($0)	(1,262.562)
Net Book Value	$473,431	$0	$73,509	$0	$546,940

Note 5 – Other Assets

The FY 2014 Other Assets amount represents an unliquidated advance.

	FY 2014	FY 2013
Intragovernmental	$18,789	$13,750
With the Public – Associates	$0	$0
Total Other Assets	$18,789	$13,750

Note 6 – Liabilities Not Covered by Budgetary Resources

The liabilities on the Board's Balance Sheets as of September 30, 2014 and 2013 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, 2014 and 2013 is as follows:

	2014	2013
Unfunded Leave	$1,211,096	$1,205,202
Workers' Compensation	$ 8,778	$ 22,013
Total liabilities not covered by budgetary resources	$1,219,874	$1,227,215
Total liabilities covered by budgetary resources	$1,071,720	$1,004,593
Total Liabilities	$2,291,594	$2,231,808

Note 7 - Intragovernmental Liabilities

Intragovernmental liabilities arise from transactions with other federal entities. As of September 30, 2014, the Board had accounts payable intragovernmental liabilities of $108,341 with the Pension Benefit Guarantee Corporation ($25,000), the United States Department of Agriculture ($44,805), GSA ($12,879) and the Department of Energy ($25,657). The Board's FY 2013 account payable intragovernmental liabilities of $27,770 were with OPM ($13,000) and GSA ($14,770). Employee benefits are the amounts owed to OPM and Treasury as of September 30, 2014 and 2013 for Federal Employees Health Benefits Program (FEHBP), Federal Employees' Group Life Insurance Program (FEGLIP), Federal Insurance Contributions Act (FICA), Federal Employees Retirement System (FERS), and Civil Service Retirement System (CSRS) contributions (reference Note 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 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).

Note 9– Other Liabilities

Other liabilities with the public for the years ending September 30, 2014 and 2013 consist of Accrued Funded Payroll and Leave, Withholdings Payable (to employees), and Unfunded Leave in the amounts shown below. Other liabilities Intragovernmental for the years ending September 30, 2014 and 2013 consist of Withholdings Payable (to Government agencies) and Workers' Compensation in the amounts shown below:

	With the Public	**Non-Current**	**Current**	**Total**
2014	Other Liabilities	$1,211,096	$ 441,972	$1,653,068
2013	Other Liabilities	$1,205,202	$ 362,112	$1,567,314

	Intragovernmental	**Non-Current**	**Current**	**Total**
2014	Other Liabilities	$0	$ 91,080	$ 91,080
2013	Other Liabilities	$0	$100,772	$100,772

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 reported as of September 30, 2014 and 2013, as follows:

	FY 2014	**FY 2013**
Worker's Compensation	$8,778	$22,013

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's one operating lease is for headquarters office space from GSA. Lease costs for office space for FY 2014 and FY 2013 under the terms of its leases amounted to $2,452,306 and $2,256,815, respectively. The Board entered into a new ten year lease agreement effective March 8, 2006 which is due to expire on March 7, 2016. The Board is currently in discussions with GSA concerning renewing the lease. Estimated future minimum lease payments under the terms of the lease are as follows:

Fiscal Year Ending September 30	**Payment**
2015	$2,258,809
2016 (through March 7)	$ 984,811
Total Estimated Future Lease Payments	$3,243,620

Note 12 – Intragovernmental Costs

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 2014	$7,752,828	$18,842,893	$26,595,721
FY 2013	$6,730,804	$20,752,740	$27,483,544

Note 12 – Intragovernmental Costs (continued)

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

OC	Description	FY 2014	FY 2013
11	Personnel Compensation	$14,135,419	$14,809,298
12	Personnel Benefits	$ 5,023,704	$ 5,292,487
13	Former Personnel Benefits	$ 359	$ 2,513
21	Travel & Transportation of Persons	$ 629,283	$ 622,277
22	Transportation of Things	$ 29,135	$ 100,810
23	Rent, Communications, & Utilities	$ 2,687,422	$ 2,507,369
24	Printing & Reproduction	$ 22,853	$ 12,972
25	Other Contractual Services	$ 3,310,092	$ 3,437,100
26	Supplies & Materials	$ 197,931	$ 218,014
31	Acquisition of Assets	$ 559,523	$ 480,703
	Total	$26,595,721	$27,483,544

Note 13 – Apportionment Categories of Obligations Incurred

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 2014	FY 2013
Direct		
Category A	$26,809,632	$26,252,034

Note 14 – Undelivered Orders at the End of the Period

The amount of Unpaid Obligated Balance, Net, End of Period shown on the Statement of Budgetary Resources includes obligations relating to Undelivered Orders (goods and services contracted for but not yet received at the end of the year) and Accounts Payable (amounts owed at the end of the year by the Board for goods and services received). The FY 2013 Undelivered Orders amount has been restated, see Note 18. The amount of each is as follows:

	Undelivered Orders	Accounts Payable	Unpaid Obl. Balance, Net
FY 2014	$3,650,461	$1,071,720	$4,722,181
FY 2013	$2,804,103	$1,004,593	$3,808,696

Note 15 – Explanation of Differences Between the Statement of Budgetary Resources and the Budget of the United States Government

Budgetary resources made available to the Board include current appropriations, unobligated appropriations and recoveries of prior year obligations. For FY 2013, no material differences exist between the amounts on the Statements of Budgetary Resource and the amounts in the FY 2015 President's Budget which are rounded to the nearest million. As the FY 2016 President's Budget is not yet available, comparison between the Statement of Budgetary Resources and the actual FY 2014 data in the FY 2016 Budget cannot be performed.

Note 16 – Explanation of the Relationship Between Liabilities Not Covered by Budgetary Resources on the Balance Sheet and the Change in Components Requiring or Generating Resources in Future Periods

The Change in Components Requiring or Generating Resources in Future Periods equals the difference between the opening and ending balances of Liabilities Not Covered by Budgetary Resources (as shown on the Balance Sheet, reference Note 6), shown as follows:

FY 2014

	FY 2013	FY 2014	Change
Unfunded Annual Leave	$1,205,202	$1,211,096	($ 5,894)
Workers Compensation	$ 22,013	$ 8,778	$13,235
Total	$1,227,215	$1,219,874	$7,341

FY 2013

	FY 2012	FY 2013	Change
Unfunded Annual Leave	$1,155,828	$1,205,202	$49,374
Workers Compensation	$ 22,013	$ 22,013	$ 0
Total	$1,177,841	$1,227,215	$49,374

Note accrued funded payroll liability is covered by budgetary resources and is included in the net cost of operations, whereas unfunded annual leave liability includes the expense related to the increase in annual leave liability for which the budgetary resources will be provided in a subsequent period.

Note 17 – Reconciliation of Net Cost of Operations (proprietary) 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).

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 2014	**FY 2013**
Budgetary Resources Obligated	$26,809,632	$26,252,034
Spending Authority from Recoveries and Offsetting Collections	(440,842)	(771,523)
Imputed Financing from Costs Absorbed by Others	857,297	865,337
Changes in Budgetary Resources Obligated for Goods, Services, and Benefits Ordered but Not Yet Provided	(876,005)	1,337,873
Resources that Finance the Acquisition of Assets	(37,793)	(494,641)
Financing Sources Yet to be Provided (see Note 16)	(7,341)	49,374
Components Not Requiring or Generating Resources	290,773	245,089
Net Cost of Operations	$26,595,721	$27,483,544

Note 18 – Restatements

In prior years, the Board did not adjust its accounts or financial statements for long-outstanding obligations that should have been de-obligated and reclassified as available for use. In fiscal year 2014, the Board identified $1,893,522 of obligations reported in the fiscal year 2013 financial statements that should have been reclassified as funds available for use. The fiscal year 2013 financial statements are being restated to make this correction and maintain consistency in the comparative financial statements. The Statement of Budgetary Resources will be affected as the Unobligated Balance Brought Forward End of Year would increase, and Unpaid Obligations End of Year would decrease, on the Statement of Budgetary Resources and in Note 14. There will be no change in the financial statements as a whole as the status of unexpended funds would change, but the Board's overall net position will remain the same.