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# UNITED STATES DEPARTMENT OF ENERGY

## OFFICE OF ENVIRONMENTAL MANAGEMENT

## URANIUM ENRICHMENT DECONTAMINATION AND DECOMMISSIONING FUND

Financial Statements

September 30, 1994 and 1993

MASTER

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UNITED STATES DEPARTMENT OF ENERGY

OFFICE OF ENVIRONMENTAL MANAGEMENT

URANIUM ENRICHMENT DECONTAMINATION AND DECOMMISSIONING FUND

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## OVERVIEW

The Energy Policy Act of 1992 (Act) transferred the uranium enrichment enterprise to the United States Enrichment Corporation as of July 1, 1993. However, the Act requires the Department of Energy to retain ownership and responsibility for the costs of environmental cleanup resulting from the Government's operation of the three gaseous diffusion facilities located in Oak Ridge, Tennessee; Paducah, Kentucky; and Portsmouth, Ohio (diffusion facilities).

The Act established the Uranium Enrichment Decontamination and Decommissioning Fund (D&D Fund) to:

- Pay for the costs of decontamination and decommissioning at the diffusion facilities;
- Pay the annual costs for remedial action at the diffusion facilities to the extent that the amount in the Fund is sufficient; and
- Reimburse uranium/thorium licensees for the costs of decontamination, decommissioning, reclamation, and other remedial actions which are incident to sales to the Government.

The Act authorized revenues of $7.2 billion adjusted for inflation, $480 million per year for fifteen years, to pay for the costs. The revenues are to be obtained from:

- An assessment on domestic utilities up to $150 million annually based on the ratio of their purchases of separative work units to the total purchases from the Department including those for defense; and
- Government appropriations for the difference between $480 million and the utility assessment.

In addition, the Act provided that balances in the D&D Fund be invested in Treasury securities and any interest earned would be available to pay the costs of D&D Fund activities.

The D&D Fund first collected revenues from domestic utilities in Fiscal Year (FY) 1993. The first Government appropriation for revenue was received in FY 1994, the same year the Fund received an appropriation to make expenditures.

The Office of Environmental Management (Environmental Management) is responsible for cleaning up contamination and managing waste at Department of Energy sites across the nation. Its mission is to protect human health and the environment from risks posed by contamination and waste. Environmental Management has established six goals to accomplish its mission:

- Eliminate and manage urgent risks in the Department's system;
- Provide a safe work place and emphasize health and safety for both Department workers and the public;
- Establish a system that is under control managerially and financially;
- Demonstrate tangible results by being more outcome oriented;
- Focus the technology development program on the Department's major environmental management issues while involving the best talent in the Department and the national science and engineering communities; and
- Develop a stronger partnership between the Department and its stakeholders.

The Office of Eastern Area Programs within the Office of Environmental Management is responsible for management of the resources of the D&D Fund and cleanup activities at the gaseous diffusion facilities. The Oak Ridge Division manages one major system acquisition for environmental cleanup activities which includes activities at the gaseous diffusion plants funded by the D&D Fund. The gaseous diffusion plants located in Oak Ridge, Tennessee and Portsmouth, Ohio are approximately 640 acres each; while the Paducah, Kentucky site has 750 acres. The facilities have approximately 40 million square feet of floor space under 500 acres of roof containing processing and handling equipment which will be cleaned up under the D&D Fund. Initial D&D activities at the Paducah and Portsmouth facilities will be determined after the United States Enrichment Corporation turns the facilities over to the Department under the terms and conditions in the lease. The Oak Ridge Operations Office provides day-to-day oversight of D&D Fund activities. Budget, accounting, contracting and other activities are supported through matrix organizations in the Department.

The decontamination and decommissioning of the three gaseous diffusion plants was estimated to cost approximately $16.1 billion in FY 1992 dollars, as referenced in the base case of <u>Executive Summary Environmental Restoration of the Gaseous Diffusion Plants, Technical Summary Document</u>, October 1991. The first work began in FY 1988 and completion of the last plant is estimated to be FY 2031 assuming that Paducah and Portsmouth are shutdown in FY 2005. Preliminary activities such as removal of hazardous materials, engineering design and permitting are to be accomplished prior to the start of D&D at the three sites. The physical decontamination effort at Oak Ridge starts in 2002 and will take 11 years. Paducah will take 8 years, from 2013 to 2020, while Portsmouth will take 10 years, from 2021 to 2030. Decommissioning start dates at Portsmouth and Paducah are dependent on the return of the facilities by the United States Enrichment Corporation to the Department under terms of the lease. The duration and cost of the work are based on the assumed technical approach in the report and presume that resources are available when needed. The financial statements show the liability for D&D at the plants to be $17.4 billion at September 30, 1994, including adjustments for inflation to that date.

The Office of Southwestern Area Programs is responsible for evaluating the claims submitted by uranium and thorium licensees. The Energy Information Administration and the Albuquerque Operations Office provide support for conducting technical audits and the Defense Contract Audit Agency provides support for financial audits.

Significant uncertainties facing the UE D&D Fund:

- The current estimated liability for D&D of $17.4 billion (FY94$) far exceeds the revenues authorized by the Act. The estimated shortfall is $11 billion (FY94$) if the Government fully funds its share of the contributions to the Fund beginning in FY 1996 and the Fund is <u>only</u> spent on D&D.

- The majority of current collections in the UE D&D Fund are being used to pay for remedial action costs at the gaseous diffusion plants. Estimates of the cost to complete these activities at the gaseous diffusion plants is approximately $3 billion based on the report, <u>Department of Energy Gaseous Diffusion Plants, Assessment of Costs for Remedial Action, dated September 1991</u>. The financial statements reflect only those remedial action costs funded from appropriation bills' which have passed. The use of the D&D Fund for these activities will impact the availability of funds to accomplish D&D.

- Government contributions through September 30, 1994, were approximately $472 million less than authorized by the Act.

Government contributions in FY 1995 are $134 million. In FY 1996 the Department is requesting funding at the level authorized by the act. At present, there are no plans to request funding for the previous years shortfall. Instead, the Department would request funding as needed to support completion of D&D work at the sites.

- At the present time the Department is assessing alternate uses for depleted uranium hexaflouride (UF6). Through FY 1998 the depleted UF6 is set aside exclusively for military purposes. Should the military no longer need the material and no alternative use is found, the estimated cost for disposition of depleted uranium hexaflouride owned by the Department is $1.3 billion based on the <u>Cost Study for the D&D of the GDP's, Depleted Uranium Management and Conversion</u>, dated September 1991. The financial statements do not reflect any liabilities for cost of disposition of depleted UF6.

<u>Limitations of the Financial Statements:</u>

The accompanying financial statements were prepared to report the financial position and result of operations of the D&D Fund, pursuant to the requirements of the Energy Policy Act of 1992, and the Chief Financial Officers Act of 1990.

While the statements have been prepared from the books and records of the D&D Fund in accordance with the formats prescribed by the Office of Management and Budget, the statements are different from 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 relate to the D&D Fund, a sovereign entity; that unfunded liabilities reported in the financial statements cannot be liquidated without the enactment of an appropriation; and that the payment of all liabilities, other than those resulting from contractual obligations, can be abrogated by the Department of Energy.

## <u>Performance Measures</u>

<u>Program Performance Measures:</u>

The Office of Environmental Management was designated by the Office of Management and Budget as a pilot program under the Government Performance and Results Act (Results Act) of 1993. Environmental Management selected four quantifiable and specific performance measures to assess outputs and outcomes at the subproject level: number of assessments completed; number of interim actions completed; number of remedial actions completed; and the number of decontamination and decommissioning (D&D) actions completed.

An assessment is complete when the key end assessment document (e.g., Record of Decision) is submitted in final form to regulators for approval. An interim action is complete when physical work not considered a final action, which results in cleanup progress, reduction in exposure to contaminants, or containment of a source term, has been completed. A remedial action is complete when the physical cleanup is finished and a final report, indicating the final cleanup goal has been reached, is submitted to regulators for approval. A D&D subproject is complete when the final cleanup objectives for the structures have been completed and a final report submitted for approval.

Although D&D Fund activities at Oak Ridge, Portsmouth and Paducah have lower-tier performance measures and other accomplishments, the discussion below focuses on the key measures used in the annual Performance Plan required by the Results Act and reports actions completed in FY 1994. There were three assessments completed, one at Portsmouth and two at Oak Ridge (K-25). The most significant K-25 assessment work was to determine the nature and extent of contamination of the K-25 cooling towers, the cooling tower superstructures, and the K-25 power house and its auxiliary facilities. This will allow for demolition of these structures to begin in FY95.

There were four interim actions completed in FY94 as follows: one at K-25, one at Paducah and two at Portsmouth. One interim action at Portsmouth demonstrates the actions being accomplished. It consisted of the construction of a slurry wall, an engineered barrier, to redirect contaminated groundwater to prevent it from migrating off-site. This was done to ensure the protection of human health and the environment from hazardous constituents in the groundwater.

There were five final remedial actions completed in FY94. All of them were completed at the Portsmouth Gaseous Diffusion Plant. Most noteworthy was the decontamination and removal of a tank and its support facility. In addition, the soils in the surrounding area had been contaminated in past plant operations and were removed as well.

Finally, there were two D&D final actions completed in FY94. The two D&D activities were the decontamination of over ten thousand transformers and capacitors located at the K-25 site. The project consisted of draining hazardous fluid from the electrical components and placing the carcasses in condition to ship them off-site for disposal. Seven thousand were shipped off-site in FY 1994. The remaining three thousand will be shipped in FY 1995.

Environmental Management initiated several actions in FY 1994 to lower the costs of environmental cleanup which are not included as performance measures. The Program piloted a contracting strategy which uses fixed price contracts and incentives for meeting project performance objectives, thus linking profit to performance. The new contracting approach used on two K-25 D&D projects in FY 1994 is expected to save $20 million over the life of these projects. The approach will be expanded to other D&D Fund projects in FY 1995 for additional savings. The strategy for decontamination and decommissioning is being challenged with the goal of establishing cleanup objectives based on ultimate land use and includes a process known as "Common Ground" which involves stakeholders in assessing future land use. A value engineering process has been initiated to determine ways to lower the costs of D&D at the gaseous diffusion plants. Finally, the Program is making investments in technology development including a technique for in-situ soil cleanup which saved over $83 million on one cleanup action at Portsmouth.

In addition to the performance measures completed under the Results Act, Environmental Management had other major accomplishments:

- The Program issued two major rules in FY 1994: (1) Uranium Enrichment Decontamination and Decommissioning Fund; Procedures for Special Assessment of Domestic Utilities and (2) Reimbursement for Costs of Remedial Action at Active Uranium and Thorium Processing Sites.

- The Office of Southwestern Area Programs received $127 million in claims for cleanup costs already incurred from 13 uranium/thorium licensees. One technical and six financial audits of the claims were completed by September 30, 1994. The remaining audits were completed in early FY 1995. Payments totaling $40.368 million for the FY 1994 claims was made in December 1994. The remaining claims will be processed in future years as appropriations are made available.

Financial Performance Measures:

The Department is required to collect assessments from utilities and payments from other appropriations, invest excess cash and make disbursements from the UE D&D Fund in accordance with the requirements of the Energy Policy of 1992. As of September 30, 1994, no specific financial performance measures have been established to evaluate the UE D&D Fund performance; however, two financial performance measures can be used to assess performance: (1) the amount of interest earnings lost as a result of untimely receipt of remittances of assessments by utilities; and (2) excessive uninvested daily cash balances.

## Timeliness of Receipts

A review of the timeliness of receipts of the UE D&D was performed with the following results:

Three late payments totaling $7.3 million were received during FY 1994. The total interest lost from these payments was $2565. The UE D&D Fund billed interest of $1744 for interest on the late payments resulting in a net loss of interest of $821. The loss is caused by the difference between the Treasury Current Value of Funds Rate and the rate the D&D Fund was earning on overnight investments.

## Uninvested Daily Cash Balances

Investments of excess funds of the UE D&D Fund were evaluated to determine if excess uninvested cash balances existed. A review of the daily investment activities concluded that there was one occurrence of excessive uninvested daily cash balances which resulted in interest lost of $468.

## Financial Management Performance Measures:

Although there were no specific performance measures identified in this area for the UE D&D Fund, during FY 1994 the Fund earned 4.01 percent from investments in short term Treasury securities. As of September 30, 1994, the book value of Treasury notes and bills was about $299.7 million, at a market value of about $299.3 million. Earnings from investment activities in FY 1994 were $11 million. The UE D&D Fund adheres to sound financial management practices and strategies. Bills are paid in a timely manner, accounts receivable are properly managed, and sound internal controls are in place. In addition, reviews of the UE D&D Fund are performed by both internal and external auditors.

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**Independent Auditors' Report on Financial Statements**

Office of Environmental Management
United States Department of Energy:

We have audited the accompanying statements of financial position of the Uranium Enrichment Decontamination and Decommissioning Fund (D & D Fund, or Fund) as of September 30, 1994 and 1993, and the related statements of operations and changes in net position (deficit), cash flows, and budgetary resources and actual expenses for the years then ended. These financial statements are the responsibility of the management of the Uranium Enrichment Decontamination and Decommissioning Fund. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards; *Government Auditing Standards* (1988 revision), issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin 93-06, *Audit Requirements for Federal Financial Statements*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the 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. We believe that our audits provide a reasonable basis for our opinion.

As described in note 1, the financial statements were prepared in conformity with the hierarchy of accounting principles and standards approved by the principals of the Federal Accounting Standards Advisory Board. This hierarchy is a comprehensive basis of accounting other than generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the United States Department of Energy's Uranium Enrichment Decontamination and Decommissioning Fund as of September 30, 1994 and 1993, the results of its operations and changes in net position (deficit), its cash flows, and its budgetary resources and actual expenses for the years then ended on the basis of accounting described in note 1.

(continued)

As discussed in note 4, the D&D Fund has recorded a liability of $17.4 billion as of September 30, 1994 for the costs of decontaminating and decommissioning (D&D) the gaseous diffusion facilities in Oak Ridge, Tennessee; Paducah, Kentucky; and Portsmouth, Ohio (Diffusion Facilities). The recorded liability is based on a cost estimate under which the costs of D&D range from $11.3 billion to $24.2 billion, with a most likely cost of $16.1 billion. The liability has been adjusted for inflation since the estimate was published, but does not include an estimate of the effects of future inflation on D&D costs. Because the completion of D&D is scheduled to occur in the year 2031, the actual costs may be significantly higher than the recorded liability. In addition, proposed delays, if implemented, in the accomplishment of D&D may cause costs to increase. The Department of Energy (Department) plans to conduct a value engineering review of the D&D cost estimate during fiscal year 1995, with the goal of reducing the costs to complete D&D activities. Changes in technology and in decisions by the Department as to the extent of decontamination required may result in additional cost reductions. The Department is presently unable to determine the impact of the factors discussed above on the liability for decontamination and decommissioning costs.

As discussed in note 6, the Energy Policy Act of 1992 (Act) provides for payment from the D&D Fund of the annual cost of remedial action at the Diffusion Facilities to the extent the amount available in the D & D Fund is sufficient. To the extent the amount available in the Fund is insufficient to pay remedial action costs, the Act provides that the Department, not the Fund, will be responsible for such costs. Because the Department may be responsible for remedial action costs, the Fund's recorded liability for remedial action at September 30, 1994 consists only of $191 million of future appropriations for remedial action costs that have been signed into law, plus unexpended appropriations of $73 million. The D&D Fund will make additional accruals of remedial action costs if Congress appropriates additional funds for that purpose. The Department is presently unable to determine the amount of additional remedial action costs, if any, that should be recognized in the financial statements.

As discussed in note 9, the Department is presently storing approximately 560,000 metric tons of depleted uranium hexafluoride (UF-6) generated from the operation of the Diffusion Facilities by the Department and its predecessor agencies. The Department estimates that, as of September 30, 1994, its share of the cost of depleted UF-6 disposition would be $1.3 billion, including adjustments for inflation since September 1991. However, the extent to which the Department's stockpile of depleted UF-6 will require disposal is dependent on future restrictions on the use of this material for military purposes and on other alternative uses. The Department is presently unable to determine what portion of the stockpile will require disposal. Accordingly, no provision for the cost of depleted UF-6 disposal is included in the accompanying financial statements.

Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The information presented in management's *Overview* is not a required part of the basic financial statements but is supplementary information required by OMB Bulletin 94-01, *Form and Content of Agency Financial Statements.* We have considered whether this information is materially inconsistent with the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audits of the basic financial statements and, accordingly, we do not express an opinion on it. Performance information included in management's *Overview* is addressed in our auditors' report on the internal control structure in accordance with OMB Bulletin 93-06.

This report is intended for the information of the management of the Uranium Enrichment Decontamination and Decommissioning Fund and the United States Department of Energy. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

KPMG Peat Marwick LLP

December 15, 1994

UNITED STATES DEPARTMENT OF ENERGY

OFFICE OF ENVIRONMENTAL MANAGEMENT

URANIUM ENRICHMENT DECONTAMINATION AND DECOMMISSIONING FUND

Statements of Financial Position

September 30, 1994 and 1993
(in thousands)

| Assets | 1994 | 1993 |
|---|---|---|
| Intragovernmental: | | |
| Cash | $ 4,148 | 29,119 |
| Cash equivalents | 52,653 | 118,896 |
| Cash and cash equivalents (note 2) | 56,801 | 148,015 |
| U.S. Treasury securities, net (notes 2 and 3) | 247,154 | - |
| Accrued interest receivable | 2,350 | - |
| Other current receivables | 1,168 | - |
| Governmental: | | |
| Assessments receivable from domestic utilities (note 8): | | |
| Current | 138,300 | 155,532 |
| Long-term | 1,874,943 | 1,995,377 |
| Total assets | $ 2,320,716 | 2,298,924 |
| **Liabilities and Net Position** | | |
| Governmental: | | |
| Liabilities covered by budgetary resources: | | |
| Decontamination and decommissioning (note 4) | $ 14,891 | - |
| Uranium and thorium licensee claims (note 5) | 40,369 | - |
| Remedial action (note 6) | 72,887 | - |
| Other accrued expenses | 3,821 | - |
| Total funded liabilities | 131,968 | - |
| Liabilities not covered by budgetary resources: | | |
| Decontamination and decommissioning (note 4) | 17,381,488 | 16,968,916 |
| Uranium and thorium licensee claims (note 5) | 287,292 | - |
| Remedial action (note 6) | 190,831 | 241,991 |
| Total unfunded liabilities | 17,859,611 | 17,210,907 |
| Total liabilities | 17,991,579 | 17,210,907 |
| Net position (deficit): | | |
| Balances: | | |
| Unexpended fund balance: | | |
| Unobligated appropriations | 9 | - |
| Undelivered orders | 233 | - |
| Cumulative results of operations | 2,188,506 | 2,298,924 |
| Future funding requirements | (17,859,611) | (17,210,907) |
| Total net position (deficit) | (15,670,863) | (14,911,983) |
| Commitments and contingencies (notes 4, 5, 6, 7, 9, and 10) | | |
| Total liabilities and net position (deficit) | $ 2,320,716 | 2,298,924 |

The accompanying notes are an integral part of these statements.

UNITED STATES DEPARTMENT OF ENERGY

OFFICE OF ENVIRONMENTAL MANAGEMENT

URANIUM ENRICHMENT DECONTAMINATION AND DECOMMISSIONING FUND

Statements of Operations and Changes in Net Position (Deficit)

For the year ended September 30, 1994 and
the period from October 24, 1992 to September 30, 1993
(in thousands)

| | 1994 | 1993 |
|---|---|---|
| Revenues and financing sources: | | |
| Appropriations (note 7): | | |
| Transfer from uranium enrichment | $ 68,531 | - |
| Defense environmental restoration and waste management | 129,805 | - |
| Assessments against domestic utilities (note 8) | 34,847 | 2,298,867 |
| Interest income | 11,251 | 57 |
| Total revenues and financing sources | 244,434 | 2,298,924 |
| Expenses and financing uses: | | |
| Decontamination and decommissioning (note 4) | 483,490 | 16,968,916 |
| Uranium and thorium licensee claims (note 5) | 327,661 | - |
| Remedial action (note 6) | 192,163 | 241,991 |
| Total expenses and financing uses | 1,003,314 | 17,210,907 |
| Excess of expenses and financing uses over revenues and financing sources | (758,880) | (14,911,983) |
| Net position (deficit), beginning balance | (14,911,983) | - |
| Net position (deficit), ending balance | $(15,670,863) | (14,911,983) |

The accompanying notes are an integral part of these statements.

UNITED STATES DEPARTMENT OF ENERGY

OFFICE OF ENVIRONMENTAL MANAGEMENT

URANIUM ENRICHMENT DECONTAMINATION AND DECOMMISSIONING FUND

Statements of Cash Flows

For the year ended September 30, 1994 and
the period from October 24, 1992 to September 30, 1993
(in thousands)

| | 1994 | 1993 |
|---|---|---|
| Cash flows from operating activities: | | |
| Excess of expenses and financing uses over revenues and financing sources | $ (758,880) | (14,911,983) |
| Adjustments to reconcile excess of expenses and financing uses over revenues and financing sources to net cash provided by operating activities: | | |
| Net amortization and accretion of premiums and discounts on U.S. Treasury securities | (6,728) | - |
| Loss on sale of U. S. Treasury securities | 1 | |
| (Increase) decrease in operating assets: | | |
| Assessments receivable from domestic utilities | 137,666 | (2,150,909) |
| Accrued interest receivable | (2,350) | - |
| Other current receivables | (1,168) | - |
| Increase in operating liabilities: | | |
| Decontamination and decommissioning | 427,463 | 16,968,916 |
| Uranium and thorium licensee claims | 327,661 | - |
| Remedial action | 21,727 | 241,991 |
| Other accrued expenses | 3,821 | - |
| Net cash provided by operating activities | 149,213 | 148,015 |
| Cash flows from investing activities: | | |
| Purchases of U. S. Treasury securities | (807,126) | - |
| Proceeds from maturities of U.S. Treasury securities | 550,500 | - |
| Proceeds from sale of U.S. Treasury securities | 16,199 | - |
| Net cash used in investing activities | (240,427) | - |
| Net increase (decrease) in cash and cash equivalents | (91,214) | 148,015 |
| Cash and cash equivalents, beginning of year | 148,015 | - |
| Cash and cash equivalents, end of year | $ 56,801 | 148,015 |

The accompanying notes are an integral part of these statements.

UNITED STATES DEPARTMENT OF ENERGY

OFFICE OF ENVIRONMENTAL MANAGEMENT

URANIUM ENRICHMENT DECONTAMINATION AND DECOMMISSIONING FUND

Statements of Budgetary Resources and Actual Expenses

For the year ended September 30, 1994 and
the period from October 24, 1992 to September 30, 1993
(in thousands)

| | Budget | | | | Actual | |
|---|---|---|---|---|---|---|
| | | | Obligations | | | |
| | Resources | | Direct | | Expenses | |
| Program Name | 1994 | 1993 | 1994 | 1993 | 1994 | 1993 |
| Uranium enrichment decontamination and decommissioning fund | $287,325 | 68,531 | 287,316 | 67,526 | 1,003,314 | 17,210,907 |

Budget Reconciliation

| | 1994 | 1993 |
|---|---|---|
| Total expenses | $ 1,003,314 | 17,210,907 |
| Add: | | |
| Bond acquisition | 2 | - |
| Current year budgetary resources charged to operations in prior year: | | |
| Decontamination and decommissioning | 56,027 | - |
| Remedial action | 170,436 | - |
| Less: | | |
| Expenses not covered by available budgetary resources: | | |
| Decontamination and decommissioning | (483,490) | (16,968,916) |
| Uranium and thorium license claims | (287,292) | - |
| Remedial action | (192,163) | (241,991) |
| Accrued expenditures, direct | $ 266,834 | - |

The accompanying notes are an integral part of these statements.

UNITED STATES DEPARTMENT OF ENERGY

OFFICE OF ENVIRONMENTAL MANAGEMENT

URANIUM ENRICHMENT DECONTAMINATION AND DECOMMISSIONING FUND

Notes to Financial Statements

September 30, 1994 and 1993

(1) Basis of Presentation, Description of Reporting Entity, and Summary of Significant Accounting Policies

(a) Basis of Presentation

These financial statements have been prepared to report the financial position and results of operations of the Uranium Enrichment Decontamination and Decommissioning Fund (D&D Fund, or Fund), as required by the Chief Financial Officers Act of 1990. The statements have been prepared from the books and records of the Fund in accordance with the applicable form and content requirements of Office of Management and Budget (OMB) Bulletin 94-01 and the Fund's accounting policies, which are summarized in this note. These statements are therefore different from the financial reports, also prepared for the Fund pursuant to OMB directives, that are used to monitor and control the Fund's use of budgetary resources.

The U. S. Department of Energy's (Department's) headquarters, field offices, and the management and operating contractors conducting environmental restoration activities at the Department's facilities discussed in note (1)(b), record D&D Fund activity in their accounting systems. The management and operating contractors integrate their accounting systems with the Department through the use of reciprocal accounts. All management and operating contractors are required under provisions of their respective contracts to maintain a separate set of accounts and records for recording and reporting Fund financial transactions in accordance with the Department's accounting practices and procedures. These financial statements are prepared by extracting and adjusting Fund-related data from the financial records of the Department and its contractors.

(b) Reporting Entity

The Energy Policy Act of 1992 (Energy Policy Act, or Act) transferred the uranium enrichment business to the United States Enrichment Corporation as of July 1, 1993. However, the Act requires the Department to retain ownership and responsibility for the costs of environmental cleanup resulting from the government's operation of the three gaseous diffusion facilities located in Oak Ridge, Tennessee; Paducah, Kentucky; and Portsmouth, Ohio (Diffusion Facilities) prior to that date.

(b) Reporting Entity (continued)

The Act established the D&D Fund within the U.S. Treasury as of October 24, 1992, to pay for the costs of decontaminating and decommissioning the Diffusion Facilities (note 4). The Act further provides that the Fund will reimburse licensees operating uranium or thorium processing sites for the costs of environmental cleanup at those sites, subject to a maximum reimbursement limit (note 5). The Act also provides for payment of the costs of remedial action at the Diffusion Facilities, to the extent that the amount available in the Fund is sufficient (note 6). To pay for these activities, the Act authorizes revenues of $480 million per year, adjusted annually for inflation, over a fifteen-year period. The revenues will be obtained from government appropriations and from assessments against domestic utilities.

(c) Basis of Accounting

The D&D Fund uses the accrual method of accounting. The accrual method of accounting requires recognition of the financial effects of transactions, events, and circumstances in the periods when those transactions, events and circumstances occur, regardless of when cash is received or paid. The Fund also uses budgetary accounting to facilitate compliance with legal constraints and to keep track of its budget authority at the various stages of execution, including allotment, obligation, and eventual outlay.

The financial statements are prepared in accordance with the following hierarchy which constitutes a comprehensive basis of accounting:

Individual standards agreed to and published by the Joint Financial Management Improvement Program Principals, based upon recommendations from the Federal Accounting Standards Advisory Board.

Form and content requirements included in OMB Bulletin 94-01, *Form and Content of Agency Financial Statements.*

Accounting standards contained in agency accounting policy, procedures manuals, and/or related guidance as of March 29, 1991, so long as they are prevalent practices.

Accounting principles published by authoritative standard setting bodies and other authoritative sources (1) in the absence of other guidance in the first three parts of this hierarchy, and (2) if the use of such accounting standards improves the meaningfulness of the financial statements.

(d) Cash Equivalents

Cash equivalents of $52.7 million at September 30, 1994 and $118.9 million at September 30, 1993, consist of overnight investments with the U.S. Treasury. For purposes of the statements of cash flows, the D&D Fund considers all Treasury securities with initial maturities of ninety days or less to be cash equivalents.

(e) U.S. Treasury Securities

The Energy Policy Act requires the investment of the D&D Fund's balance with the U.S. Treasury in obligations of the United States.

The D&D Fund classifies its investments in Treasury securities in one of two categories: available-for-sale or held-to-maturity. Held-to-maturity securities are those securities which the Fund has the ability and intent to hold until maturity. All other securities are classified as available-for-sale.

Available-for-sale securities are recorded at fair value. Unrealized holding gains or losses on available-for-sale securities are excluded from earnings and are reported as a separate component of net position until realized. Held-to-maturity securities are recorded at amortized cost, adjusted for the amortization or accretion of premiums or discounts. Premiums and discounts are amortized or accreted over the life of the related security as an adjustment to yield using the effective interest method. Realized gains and losses for securities classified as available-for-sale are included in earnings and are derived using the specific identification method for determining the cost of securities sold. All securities sold prior to maturity are redeemed by the U.S. Treasury at fair value on the date of sale.

(f) Plant and Equipment

Plant and equipment acquired by the D&D Fund is charged to operations when purchased, unless the plant or equipment will be used for purposes other than environmental cleanup. All plant and equipment held by the D&D Fund at September 30, 1994 is used in environmental cleanup activities.

(g) Revenue Recognition

Revenue from assessments against domestic utilities is recognized when such assessments are authorized by legislation. Revenue recognized includes known adjustments for transfers between utilities and other reconciliation adjustments. Increases or decreases in current and future assessments due to changes in the Consumer Price Index for All Urban Consumers (Consumer Price Index), as published by the Department of Labor, are recognized in each fiscal year as such changes occur.

Revenue from government appropriations is recognized at the later of the beginning of each fiscal year, when appropriations may be apportioned to the Department by the Office of Management and Budget, or the date the appropriations legislation is signed into law.

(h) General and Administrative Expenses

Salaries, benefits, and related costs of Department personnel involved in the management and oversight of the resources in the D&D Fund are funded under separate appropriations, and are not included in the accompanying financial statements.

(i) Statements of Budgetary Resources and Actual Expenses

Appropriations of $68.5 million were transferred to the D&D Fund from uranium enrichment during the year ended September 30, 1994 (fiscal year 1994). Since the appropriations were allotted to uranium enrichment and subsequently obligated during fiscal year 1993, the appropriations and related obligations of $67.5 million are shown as fiscal year 1993 budgetary resources and obligations in the statements of budgetary resources and actual expenses.

(2) Cash and Cash Equivalents

Cash and cash equivalents consist of the following funds with the U.S. Treasury (in thousands):

| | 1994 | 1993 |
|---|---|---|
| Restricted | $172,913 | 148,015 |
| Accrued but not paid | 131,968 | - |
| Due from another appropriation | (1,168) | - |
| Undelivered orders | 233 | - |
| Unobligated appropriations | 9 | - |
| Total fund balance with Treasury | 303,955 | 148,015 |
| Less U.S. Treasury securities | 247,154 | - |
| Cash and cash equivalents | $ 56,801 | 148,015 |

(3) U.S. Treasury Securities

All Treasury securities held at September 30, 1994 are classified as held-to-maturity and all are due within one year. The market value of Treasury securities held by the D&D Fund was $246.7 million at September 30, 1994.

During fiscal year 1994, a security with an amortized cost (in thousands) of $16,200 was transferred from held-to-maturity to available-for-sale to obtain cash for operations. Proceeds from the sale of this security were $16,199 and the gross realized loss was $1.

(4) Decontamination and Decommissioning

In fiscal year 1993, the D&D Fund recorded a provision of $17.0 billion for the cost of decontaminating and decommissioning the Diffusion Facilities. The provision is based on an estimate prepared for the Department and published in September 1991. The estimated costs of decontamination and decommissioning range from $11.3 billion to $24.2 billion, with a most likely cost of $16.1 billion. The estimate is based on the Department's plan to remove all contaminated equipment from the facilities and to decontaminate all surfaces in each structure before decommissioning. The work is scheduled to begin in the year 2002 and continue through 2031. The estimate also includes costs of surveillance and maintenance prior to the decontamination and decommissioning.

Since the estimate did not include adjustments for anticipated inflation, the provision recorded in fiscal year 1993 includes adjustments for estimated cost increases from September 1991 through September 1993, based on the change in the Consumer Price Index. The statement of operations for fiscal year 1994 includes a provision of $483.5 million for the increase in estimated cost during the year. Changes in the liability for decontamination and decommissioning from October 24, 1992 to September 30, 1993 and during the year ended September 30, 1994 may be summarized as follows (in thousands):

| | |
|---|---|
| Balance, October 24, 1992 | $ - |
| Provision for decontamination and decommissioning costs | 16,968,916 |
| Balance, September 30, 1993 | 16,968,916 |
| Decontamination and decommissioning costs incurred | (56,027) |
| Provision for estimated cost increases | 483,490 |
| Balance, September 30, 1994 | $17,396,379 |

Of the total liability of $17.396 billion for decontamination and decommissioning as of September 30, 1994, $15 million is covered by budgetary resources and $17.381 billion is not covered by budgetary resources.

Because the estimate on which the recorded liability for decontamination and decommissioning costs is based does not include an estimate of the impact of inflation on such costs, the actual costs may be significantly higher than the recorded liability. In addition, proposed delays, if implemented, in the accomplishment of decontamination and decommissioning may cause costs to increase. The Department plans to conduct a value engineering review of the decontamination and decommissioning cost estimate during fiscal year 1995, with the goal of reducing the costs to complete decontamination and decommissioning activities at the Diffusion Facilities. Changes in technology and in decisions by the Department as to the extent of decontamination required may result in additional cost reductions. The Department is presently unable to determine the impact of the factors discussed above on the liability for decontamination and decommissioning costs.

## (5) Uranium and Thorium Licensee Claims

The Energy Policy Act provides that the D&D Fund will reimburse licensees operating uranium or thorium processing sites for the costs of environmental cleanup at those sites, subject to maximum reimbursements of $270 million for uranium licensees and $40 million for the thorium licensee, plus adjustments for inflation. In fiscal year 1994, the Department published a final rule governing reimbursement for such costs and began receiving claims for reimbursement.

Claims for reimbursement amounted to $127.8 million from uranium and thorium licensees as of September 30, 1994. Based on claims received and anticipated future claims, the D&D Fund has recorded a provision of $327.7 million for reimbursement of such claims in the statement of operations for fiscal year 1994. The provision consists of the maximum reimbursement limits established by the Energy Policy Act, plus adjustments for inflation through September 30, 1994. Of the total liability of $327.7 million for uranium and thorium licensee claims as of September 30, 1994, $40.4 million is covered by budgetary resources and $287.3 million is not covered by budgetary resources.

## (6) Remedial Action

The Energy Policy Act provides that the annual cost of remedial action at the Diffusion Facilities will be paid from the Fund to the extent the amount available in the D&D Fund is sufficient. To the extent the amount in the Fund is insufficient to pay remedial action costs, the Act provides that the Department will be responsible for such costs.

At September 30, 1994 and 1993, the Fund recorded liabilities of $263.7 million and $242.0 million, respectively, for remedial action costs. Of the total liability of $263.7 million for remedial action as of September 30, 1994, $72.9 million is covered by budgetary resources and $190.8 million is not covered by budgetary resources. Because the Act places primary responsibility for remedial action costs with the Department if sufficient resources are not available in the D&D Fund, the Fund's recorded liability for remedial action at the end of each fiscal year includes only the funding for such costs provided by Congress in the D&D Fund appropriation for the succeeding fiscal year, plus the unexpended portion of such appropriations for current and previous fiscal years. The D&D Fund will make additional accruals of remedial action costs if Congress appropriates funds for that purpose. The Department is presently unable to determine the amount of additional remedial action cost, if any, that should be recognized in the Fund's financial statements.

(6) Remedial Action (continued)

An estimate of the total cost of remedial action at the Diffusion Facilities was prepared for the Department in fiscal year 1991. The estimate includes costs of all phases of environmental restoration, including monitoring for three years following remediation. The estimated total cost of $3 billion does not include an estimate of the impact of inflation on the cost of the work, which is scheduled to be completed by the year 2010. Because the estimate does not include an estimate of the impact of inflation on remedial action costs, the actual costs may be significantly higher than the estimate. In addition, proposed delays, if implemented, in the accomplishment of remedial action may cause costs to increase. Changes in technology and in decisions by the Department and regulatory authorities as to the extent of remedial action required may result in cost reductions. The Department is presently unable to determine the impact of the factors discussed above on estimated remedial action costs.

(7) Government Appropriations

The Energy Policy Act authorizes annual government appropriations to the D&D Fund through fiscal year 2007, equal to the difference between $480 million, adjusted annually for increases in the Consumer Price Index, and the assessment against domestic utilities. For fiscal years 1994 and 1993, actual appropriations have not equaled the amounts authorized by the Act. During fiscal year 1994, the Fund received appropriation transfers of $68.5 million from uranium enrichment and a payment of $129.8 million from defense environmental restoration and waste management, for a total of $198.3 million in appropriations revenue. The Fund received no appropriations during fiscal year 1993. The following is a summary of government appropriations authorized but not received by the D&D Fund, excluding adjustments for inflation, as of September 30, 1994 (in millions):

| Year ended September 30, | Appropriations authorized | Appropriations received | Authorized, not received |
|---|---|---|---|
| 1993 | $ 330.0 | - | 330.0 |
| 1994 | 331.5 | 198.3 | 133.2 |
| | $ 661.5 | 198.3 | 463.2 |

Government appropriations of $133.7 million have been approved for fiscal year 1995.

(8) Assessments Against Domestic Utilities

The Energy Policy Act authorizes assessments by the D&D Fund against domestic utilities who purchased uranium enrichment services from the Department and its predecessor agencies prior to the Act. The assessments are based on the ratio of such services purchased by domestic utilities to total services provided to domestic and foreign utilities and to the government. The assessments are limited to $150 million each year by the Act, and will continue through fiscal year 2007 or until $2.25 billion, exclusive of indexing adjustments, has been collected. The amount of the assessments will be adjusted each year based on changes in the Consumer Price Index.

During fiscal year 1994, the Fund recognized revenue of $34.8 million from reconciliation adjustments and the increase in the 1994 and future assessments against domestic utilities resulting from the increase in the Consumer Price Index during the fiscal year. In fiscal year 1993, the Fund recognized $2.3 billion of revenue, representing the entire fifteen-year series of assessments against the utilities, plus adjustments for the increase in the Consumer Price Index through September 1993. Management believes all current and future assessments against domestic utilities are collectible.

(9) Disposition of Depleted Uranium Hexafluoride

The gaseous diffusion process of uranium enrichment produces two streams of uranium hexafluoride (UF-6) - one that has an increased concentration of the uranium isotope U-235 (enriched) and one that has a reduced level of U-235 (depleted). Enriched UF-6 is converted into enriched uranium, used by utilities to generate electricity and by the government for military purposes. The Department is presently storing approximately 560,000 metric tons of depleted UF-6, containing about 380,000 metric tons of depleted uranium, generated from the operation of the Diffusion Facilities by the Department and its predecessor agencies.

The Energy Policy Act restricts the use of depleted UF-6 to military purposes until October 1998. The Department is preparing to assess strategies for long-term management of the depleted uranium hexafluoride stockpile, including potential alternative uses, and plans to issue a draft environmental impact statement in fiscal year 1998. The ultimate uses of the depleted UF-6 and the need for disposal will be evaluated during the process of preparing the draft environmental impact statement.

In fiscal year 1991, a contractor for the Department conducted a study on the ultimate disposition of this material. The study assumed that there would be approximately 620,000 metric tons of depleted uranium, including 240,000 metric tons generated by the United States Enrichment Corporation, in storage by the end of fiscal year 2005. The study estimated that the costs of disposition of depleted UF-6 will range from $1.3 billion to $4.1 billion, with a probable cost of $1.9 billion, excluding adjustments for inflation after September 1991.

(9) Disposition of Depleted Uranium Hexafluoride (continued)

Costs of disposition of depleted UF-6 generated by the United States Enrichment Corporation will be the Corporation's responsibility. The Department estimates that, as of September 30, 1994, its share of the cost of depleted UF-6 disposition would be $1.3 billion, including adjustments for inflation since September 1991. However, the extent to which the Department's stockpile of depleted UF-6 will require disposal is dependent on future restrictions of the use of this material for military purposes and on other alternative uses. The Department is presently unable to determine what portion of the stockpile will require disposal. Accordingly, no provision for the cost of depleted UF-6 disposal is included in the accompanying financial statements.

(10) Litigation

Four appeals have been filed by domestic utilities, arising from the implementation of the rules governing the assessments authorized by the Energy Policy Act. Management and the Department's legal counsel cannot predict the outcome of the appeals; however, management believes that valid defenses exist against the claims and will vigorously contest them.

Various other legal actions are pending or may be asserted in the future against the D&D Fund arising out of the Department's activities at the Diffusion Facilities. Such actions include claims and disputes asserted by domestic utilities with respect to assessments by the Fund, contract claims and disputes, workers' compensation claims, and environmental issues. Some of the foregoing matters involve or may involve contract termination and validity claims and citizen action claims, which could be significant if the original claims were granted. Although the ultimate liabilities with respect to these matters cannot be ascertained, management, after providing for certain known claims, believes that any resulting liability should not materially affect the financial position of the D&D Fund as of September 30, 1994.

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**Independent Auditors' Report on Compliance with Laws and Regulations**

Office of Environmental Management
United States Department of Energy:

We have audited the financial statements of the Uranium Enrichment Decontamination and Decommissioning (D&D) Fund for the year ended September 30, 1994, and have issued our report thereon dated December 15, 1994.

We conducted our audit in accordance with generally accepted auditing standards; *Government Auditing Standards* (1988 revision), issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin 93-06, *Audit Requirements for Federal Financial Statements*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

Compliance with laws and regulations applicable to the D&D Fund is the responsibility of the D&D Fund's management. As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we tested compliance with laws and regulations that may directly affect the financial statements and certain other laws and regulations designated by OMB and the United States Department of Energy, including the Energy Policy Act of 1992, which created the Uranium Enrichment Decontamination and Decommissioning Fund; the Budget and Accounting Procedures Act; and the Federal Managers' Financial Integrity Act. However, the objective of our audit of the financial statements was not to provide an opinion on overall compliance with such laws and regulations. Accordingly, we do not express such an opinion.

As part of our audit, we also obtained an understanding of management's process for evaluating and reporting on internal control and accounting systems as required by the Federal Managers' Financial Integrity Act (FMFIA) and compared the D&D Fund's most recent FMFIA reports with the evaluation we conducted of the entity's internal control structure.

Material instances of noncompliance are failures to follow requirements, or violations of prohibitions, contained in laws or regulations that cause us to conclude that the aggregation of the misstatements resulting from those failures or violations is material to the financial statements, or the sensitivity of the matter would cause it to be perceived as significant by others. The results of our tests of compliance disclosed the following material instances of noncompliance:

(1) Government Appropriations

**Audit Comment**

The Energy Policy Act of 1992 (Energy Policy Act, or Act) requires that deposits into the D&D Fund will total $480 million each fiscal year through 2007, adjusted annually for inflation. The Act provides that up to $150 million of annual deposits shall be collected from domestic utilities, with the remaining portion of the $480 million to come from federal appropriations.

In fiscal years 1993 and 1994, actual assessments against domestic utilities were $150 million and $148.5 million, respectively, excluding adjustments for inflation, leaving $330 million and $331.5 million, respectively, to be provided by the federal government.

Because the fiscal year 1993 budget was already approved and the fiscal year 1994 budget request had been sent to the Office of Management and Budget when the Energy Policy Act was signed into law, the Department's budget requests for fiscal years 1993 and 1994 were below the required level of federal appropriations. As a result, the Fund has received appropriation transfers totaling only $198.3 million from the federal government during fiscal years 1993 and 1994. The Fund is therefore $463.2 million below the $661.5 million of government funding required by the Act for its first two years, not including adjustments for inflation. An additional shortfall in federal appropriations to the Fund is anticipated in fiscal year 1995, since the approved appropriation is only $133.7 million.

**Audit Recommendation**

The Department should consider requesting a supplemental appropriation, including inflation adjustments, to make up the cumulative shortfall in federal appropriations to the D&D Fund.

**Management Response**

The Department will maintain a record of the difference between the Government contribution to the D&D Fund from appropriations and the amount required by the Energy Policy Act of 1992. Past shortfalls in the Government contributions to the fund will be requested in appropriations as they are needed to ensure D&D activities are accomplished at the sites. The fiscal year 1996 Congressional Budget Submission requests the full amount for the Government contribution for that year. Since there is no shortfall in funding to accomplish the work, no supplemental appropriation will be requested.

(2) Payment of Remedial Action Costs

**Audit Comment**

The Energy Policy Act provides for payment of remedial action costs by the D&D Fund, as follows: "The annual cost of remedial action at the Department's gaseous diffusion facilities shall be paid from the Fund to the extent the amount available in the Fund is sufficient. To the extent the amount in the Fund is insufficient, the Department shall be responsible for the cost of remedial action. No provision of this title may be construed to relieve in any way the responsibility or liability of the Department for remedial action under applicable Federal and State laws and regulations."

The estimated liability for decontamination and decommissioning activities amounted to $17.4 billion at September 30, 1994. This estimate does not include an estimate of the impact of future inflation. If the D&D Fund receives annual revenues of $480 million through fiscal year 2007 as authorized by the Act, future revenues will amount to $6.2 billion, plus adjustments for inflation. Thus, there is a shortfall of approximately $11 billion in the Fund's resources available for decontamination and decommissioning activities.

The D&D Fund recorded remedial action costs of $242 million in fiscal year 1993 and $192 million in fiscal year 1994. Costs recorded in fiscal 1994 consist of anticipated fiscal year 1995 remedial action budget outlays. Budget requests and planning documents for fiscal year 1996 and future years also contemplate payment of substantial remedial action costs by the Fund. Funds are currently available for remedial action because the majority of decontamination and decommissioning costs will not occur until after the year 2000. However, use of the Fund's resources for remedial action now will significantly reduce resources available for decontamination and decommissioning later, thus increasing what is already a shortfall of more than $11 billion in resources available to fund decontamination and decommissioning activities. Since the Energy Policy Act places responsibility for remedial action costs with the Department if sufficient resources are not available in the Fund, the Department should seek other funding sources for current remedial action costs.

**Audit Recommendation**

The Department should develop and implement a plan to pay for remedial action costs separate from the D&D Fund in light of the projected shortfall in resources available for decontamination and decommissioning activities.

**Management Response**

Fiscal years 1994 and 1995 appropriation bills specifically provided for the payment of remedial action costs from the D&D Fund. The Department will request additional resources for the D&D Fund as they are needed to support D&D activities at the gaseous diffusion plants.

* * * * * * * * * * * * *

We considered the above material instances of noncompliance in forming our opinion on whether the D&D Fund's 1994 financial statements are presented fairly, in all material respects, in accordance with the accounting policies described in note 1 to the financial statements, during our audit of the D&D Fund's financial statements, and this report does not affect our report on those financial statements dated December 15, 1994.

Except as described above, the results of our tests of compliance indicate that for the items tested, the D&D Fund complied in all material respects with the provisions referred to in the third paragraph of this report. With respect to items not tested, nothing came to our attention that caused us to believe that the D&D Fund had not complied, in all material respects, with those provisions.

This report is intended for the information of the management of the Uranium Enrichment Decontamination and Decommissioning Fund and the United States Department of Energy. However, this restriction is not intended to limit distribution of this report, which is a matter of public record.

KPMG Peat Marwick LLP

December 15, 1994

KPMG Peat Marwick LLP

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**Independent Auditors' Report on the Internal Control Structure**

Office of Environmental Management
United States Department of Energy:

We have audited the financial statements of the Uranium Enrichment Decontamination and Decommissioning (D&D) Fund for the year ended September 30, 1994, and have issued our report thereon dated December 15, 1994.

We conducted our audit in accordance with generally accepted auditing standards; *Government Auditing Standards* (1988 revision), issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin 93-06, *Audit Requirements for Federal Financial Statements*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

In planning and performing our audit of the financial statements of the D&D Fund for the year ended September 30, 1994, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements, and to determine whether the internal control structure meets the objectives identified in the following paragraph. Our consideration included obtaining an understanding of the internal control policies and procedures and assessing the level of internal control risk relevant to (1) all significant cycles, classes of transactions, or account balances, and (2) the performance information control objectives described in the following paragraph.

The management of the D&D Fund is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that transactions, including those relating to obligations and costs, are executed in compliance with applicable laws and regulations that could have a direct and material effect on the financial statements and any other laws and regulations that OMB, management, or the Department of Energy have identified as being significant and for which compliance can be objectively measured and evaluated; funds, property and other assets are safeguarded against loss from unauthorized use or disposition; transactions are properly recorded and accounted for to permit the preparation of reliable financial reports in accordance with the accounting policies described in note 1 to the financial statements and to maintain accountability over the assets; and data that support reported performance measures are properly recorded and accounted for to permit preparation of reliable and complete performance information. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

For the purpose of this report, we have classified the significant internal control structure policies and procedures in the following categories:

- Treasury and investments
- Billing and collections
- Purchases and disbursements
- Financial reporting

For all of the internal control structure categories listed above, we obtained an understanding of the design of relevant policies and procedures, determined whether they had been placed in operation, assessed control risk, and performed tests of the control structure.

Our evaluation of the controls for performance information was limited to those controls designed to ensure the existence and completeness of the information. With respect to the performance measure control objective, we obtained an understanding of the relevant internal control structure policies and procedures designed to permit the preparation of reliable and complete performance information, and we assessed control risk.

We noted certain matters involving the internal control structure and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants and OMB Bulletin 93-06. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure which, in our judgment, could adversely affect the D&D Fund's ability to ensure that the objectives of the internal control structure, as previously defined, are being achieved. The condition that we consider to be a reportable condition is included in Exhibit II of this report.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial statements being audited, or material to a performance measure or aggregate of related performance data, may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. The conditions we consider to be material weaknesses are included in Exhibit I of this report.

We considered the material weaknesses described in Exhibit I in forming our opinion on whether the D&D Fund's 1994 financial statements are presented fairly, in all material respects, in accordance with the accounting policies described in note 1 to the financial statements, and this report does not affect our report on those financial statements dated December 15, 1994.

We also noted other matters involving the D&D Fund's internal control structure and its operations that we have reported to the management of the D&D Fund in a separate letter dated December 15, 1994.

This report is intended for the information of the management of the Uranium Enrichment Decontamination and Decommissioning Fund and the United States Department of Energy. This restriction is not intended to limit distribution of this report, which is a matter of public record.

KPMG Peat Marwick LLP

December 15, 1994

## (1) Allocating Indirect Costs

### Audit Comment

Cost Accounting Standard (CAS) 418 provides guidance for the Department to allocate indirect costs to programs based on beneficial or causal relationships between indirect cost pools and cost objectives.

Martin Marietta Energy Systems (Energy Systems), the integrating contractor for environmental restoration activities in Oak Ridge, Tennessee; Paducah, Kentucky; and Portsmouth, Ohio, is required to comply with the provisions of CAS 418 and has established accounting policy in accordance with CAS 418. During fiscal year 1994, Energy Systems allocated more than 92 percent of program management support costs for those activities to the D&D Fund, although the Fund was charged less than 61 percent of the total environmental restoration direct costs. Discussions with Department and Energy Systems personnel indicated that the sharing of program management support costs is based on the availability of funds rather than on a beneficial or causal relationship. These discussions further indicated that environmental program integration costs, another category of indirect costs that includes certain Departmental costs and costs incurred by other contractors, are also funded based on the availability of funds, not a beneficial or causal relationship.

The sharing of indirect costs for environmental projects is based on activity data sheets (ADS's) prepared by Energy Systems and, for certain program integration costs, the environmental restoration and waste management division in the Oak Ridge field office. The ADS's are approved by the budget and environmental restoration divisions in the Oak Ridge Field Office, and the Office of Environmental Management (EM) at the Department's headquarters. Separate ADS's are prepared for environmental indirect costs, rather than allocating such costs to final cost objectives. Further, the indirect cost ADS's do not specify how indirect costs are allocated among the programs funding direct project costs. Therefore, the ADS process lacks sufficient control to ensure that indirect costs are properly allocated based on beneficial or causal relationships.

This lack of control has allowed Energy Systems and the Department to charge environmental program management support costs to the D&D Fund that should have been charged to other programs. The D&D Fund has not requested reimbursement of such costs, because other programs paid all fiscal year 1993 environmental restoration costs at the sites mentioned above, and a substantial portion of those costs during fiscal year 1994. Any environmental restoration costs at those sites not paid by other programs would have been charged to the D&D Fund.

### Audit Recommendation

The Department should enforce the provisions of CAS 418 in the budget and accounting structure of its field offices and contractors, particularly in environmental restoration and waste management programs. Further, EM should work with the Department's chief financial officer to develop an indirect cost allocation methodology and controls for activity data sheets used in environmental restoration and waste management programs.

### Management Response

EM will issue policy for funding program integration and program management support costs, as well as other costs, on the basis of beneficial or causal relationships instead of availability of funds, for work that is funded from the D&D Fund. The structure and use of activity data sheets for budget formulation and execution is approved by the Office of the Chief Financial Officer and the Office of Financial Management, the financial office within EM. This recommendation will be referred to those offices for disposition.

(2) Costs of Depleted Uranium Hexafluoride Disposal

**Audit Comment**

Generally accepted accounting principles require recognizing the liability for potential costs of known contingencies. The Department presently has a large quantity of depleted uranium hexafluoride (UF-6) that can, by law, only be used for military purposes until October 1998. The Department estimates that the cost of disposing of its stockpile of depleted UF-6 would be $1.3 billion as of September 30, 1994.

The Department is evaluating other potential uses for the depleted UF-6, and at least a portion of the stockpile may be restricted to military purposes indefinitely. However, given the vast quantities of depleted UF-6 on hand, it is probable that the D&D Fund will be required to fund disposal of a significant portion of the stockpile. The Department has not determined the portion of its depleted UF-6 stockpile that will require disposal, and has not recognized a liability for depleted UF-6 disposal in the D&D Fund's financial statements at September 30, 1994.

**Audit Recommendation**

The Department should determine the portion of its depleted UF-6 stockpile that will require disposal. After this determination, the estimated cost of disposal should be accrued in the D&D Fund's financial statements.

**Management Response**

The Department is assessing strategies for long-term management of the depleted UF-6 stockpile, including potential alternative uses for the material, and plans to issue a draft environmental impact statement in fiscal year 1998. The ultimate uses of the depleted UF-6 will be evaluated during the process of preparing the draft environmental impact statement. The Department will assess the need to make any accrual after the environmental impact statement is finalized.

(3) Decontamination and Decommissioning Liability Escalation

**Audit Comment**

Generally accepted accounting principles require environmental cleanup liabilities to be recorded at the estimated amounts to be paid at the dates of settlement.

The D&D Fund has recorded a liability of $17.4 billion for decontamination and decommissioning costs as of September 30, 1994, based on a study published in September 1991. The study estimates that decontamination and decommissioning costs will range from $11.3 billion to $24.2 billion, with a most likely cost of $16.1 billion. However, since the cost estimate does not include adjustments for the estimated impact of inflation, the recorded liability only includes adjustments for inflation from September 1991 to September 1994. Because scheduled completion of decontamination and decommissioning occurs in the year 2031, future inflation could cause actual decontamination and decommissioning costs to be substantially higher than the amount recorded.

**Audit Recommendation**

The Department should include an estimate of the effects of future inflation in any new or revised estimates of decontamination and decommissioning costs, and should adjust the liability in its financial statements accordingly.

**Management Response**

The Department will assess how to address inflation when it prepares new or revised estimates of D&D costs. The schedule for decontamination and decommissioning the gaseous diffusion plants and the rate of expenditures for the work is extremely uncertain. At the present time, two of the gaseous diffusion plants are still being operated by the United States Enrichment Corporation.

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Office of Environmental Management
United States Department of Energy:

We have audited the financial statements of the Uranium Enrichment Decontamination and Decommissioning (D&D) Fund as of and for the year ended September 30, 1994, and have issued our report thereon dated December 15, 1994. In planning and performing our audit of the financial statements of the D&D Fund, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on internal control.

However, we noted certain matters involving the internal control structure and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions are matters coming to our attention that, in our judgment, relate to significant deficiencies in the design or operation of internal control and could adversely affect the organization's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material to the financial statements of the D&D Fund may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. In our Independent Auditors' Report on the Internal Control Structure dated December 15, 1994, we have reported matters involving the internal control structure and its operation that we consider to be material weaknesses.

One other reportable condition, which has been discussed with the appropriate members of management, is also presented in our Independent Auditors' Report on the Internal Control Structure, dated December 15, 1994.

These conditions were considered in determining the nature, timing, and extent of the audit tests applied in our audit of the D&D Fund's 1994 financial statements, and this report does not affect our report on those financial statements dated December 15, 1994. We have not considered the internal control structure since the date of our report.

Although not considered to be reportable conditions, we noted certain matters involving the internal control structure and other operational matters that are presented herein for your consideration. These comments and recommendations, all of which have been discussed with the appropriate members of management, are intended to improve the internal control structure or result in other operating efficiencies and are summarized in Exhibit I.

We would like to take this opportunity to acknowledge the courtesy and assistance extended to us by the management of the D&D Fund and other employees of the Department during the course of our audit.

This report is intended for the information and use of the D&D Fund's management, and others within the Office of Environmental Management. This restriction is not intended to limit distribution of this report, which is a matter of public record.

KPMG Peat Marwick LLP

December 15, 1994

1 - Accrual of Subcontractor Costs

**Audit Comment**

Generally accepted accounting principles require accruals of costs incurred but not paid by year-end so that such costs are recorded in the proper accounting period.

In one instance, Martin Marietta Energy Systems (Energy Systems) did not accrue costs of $121,716 related to unbilled services provided by Layne-Northwest, a fixed-price subcontractor, in September 1994. The non-accrual occurred because the subcontractor did not furnish the requested estimate of such costs and Energy Systems did not follow up after receiving no response. Energy Systems does not perform follow-up procedures for most fixed-price subcontractors due to the sheer number of fixed-price subcontracts in force. Energy Systems personnel stated that finance officers are instructed to request follow-up by the accounts payable department for fixed-price subcontractors who may have significant unbilled services. However, some finance officers have not fully complied with these instructions.

**Audit Recommendation**

The Department should direct Energy Systems to educate its finance officers as to the importance of requesting follow-up procedures for fixed-price subcontractors who may have significant unbilled services at year-end.

**Management Response**

The Oak Ridge Operations Office has previously addressed the lack of accruals with Energy Systems and again on January 12, 1995, emphasized the need for accurate accruals. Oak Ridge is currently assessing this item to determine if this was an isolated incident or a system-wide problem.

2 - Uranium Enrichment Litigation

**Audit Comment**

The Energy Policy Act of 1992 authorizes the D&D Fund to pay decontamination and decommissioning costs, and remedial action costs to the extent funds are available, at the gaseous diffusion facilities.

The uranium enrichment business was transferred to the United States Energy Corporation effective July 1, 1993. The Department retained responsibility for costs resulting from litigation and claims whose cause of action occurred prior to July 1, 1993. However, the Department has not made a determination as to which litigation involving Department activities at the gaseous diffusion facilities will be the Fund's responsibility. This situation creates uncertainty and could subject later decisions as to programs responsible for payment of damages to unnecessary political or economic influences.

**Audit Recommendation**

The Department should make a determination as to which litigation and claims arising from the Department's operation of the gaseous diffusion plants prior to July 1, 1993 will be the D&D Fund's responsibility.

**Management Response**

EM will determine which litigation and claims are the responsibility of the D&D Fund after consulting with the Office of Nuclear Energy.

3 - Gaseous Centrifuge Enrichment Program Obligations

**Audit Comment**

As previously stated, the Energy Policy Act authorizes the D&D Fund to pay decontamination and decommissioning costs, and remedial action costs to the extent funds are available, at the gaseous diffusion facilities.

The D&D Fund received appropriation transfers of $4.1 million and a related obligation of the same amount related to the closeout of the gaseous centrifuge enrichment program (GCEP) during fiscal year 1994. These items were transferred to the Fund from Uranium Programs, along with other appropriations and obligations related to the D&D Fund's mission. However, the GCEP closeout is not related to the mission of the D&D Fund. As a result, the D&D Fund has recorded a liability of $2.8 million, the unexpended portion of the GCEP appropriation, to Uranium Programs in its financial statements as of September 30, 1994. D&D Fund management has proposed the return of the unexpended portion of the GCEP appropriation and the related obligations to Uranium Programs during fiscal year 1995.

**Audit Recommendation**

The D&D Fund should transfer the GCEP appropriation and related obligations to Uranium Programs.

**Management Response**

EM will transfer the GCEP appropriation and related obligations to Uranium Programs.

4 - Payment of Landlord Costs

**Audit Comment**

As stated previously, the Energy Policy Act of 1992 authorizes the D&D Fund to pay decontamination and decommissioning costs, and remedial action costs if sufficient funds are available, at the gaseous diffusion facilities.

**Audit Comment** (continued)

The D&D Fund has been designated as a joint landlord of the K-25 site, the former gaseous diffusion facility in Oak Ridge, Tennessee. During fiscal year 1994, the Fund paid approximately $13.7 million, or 49 percent, of the landlord costs for the K-25 site. Examples of such costs include electrical upgrades to comply with Occupational Safety and Health Administration standards, infrastructure repairs and upgrades, asbestos inspections, and roof repairs. Many of the landlord costs at the K-25 site are necessary to safely perform decontamination and decommissioning and remedial action activities and, as such, are properly charged to the Fund. However, other landlord costs benefit both the Fund's activities and other users of the K-25 site, such as the Toxic Substances Control Act incinerator and Energy Systems' central engineering and computing and telecommunications divisions. Still other landlord costs provide little or no benefit to decontamination and decommissioning or remedial action activities.

Department personnel stated that, while the Department has a policy for designating landlord responsibility at DOE facilities, it has not developed a policy for determining how landlord costs will be shared among the various funding sources within a landlord program. The absence of such a policy creates risk that landlord costs may be funded based on the availability of funds, rather than on an equitable allocation. In such circumstances, the D&D Fund may violate the provisions of the Energy Policy Act by paying landlord costs that do not benefit decontamination and decommissioning or remedial action activities.

**Audit Recommendation**

The Department should develop and require Energy Systems to implement a policy to ensure that the D&D Fund pays for an equitable share of landlord costs that benefit the Fund's activities, and that other program funding sources pay for such costs that do not benefit the Fund's activities.

**Management response**

EM will include landlord costs when it issues policy for funding program integration and program management support costs on the basis of beneficial or causal relationships instead of availability of funds for work that is funded from the D&D Fund.