The Global Leader

**UNITED STATES DEPARTMENT OF ENERGY
OFFICE OF ENVIRONMENTAL MANAGEMENT
URANIUM ENRICHMENT DECONTAMINATION AND
DECOMMISSIONING FUND**

Financial Statements

September 30, 1995 and 1994

UNITED STATES DEPARTMENT OF ENERGY
OFFICE OF ENVIRONMENTAL MANAGEMENT
URANIUM ENRICHMENT DECONTAMINATION AND
DECOMMISSIONING FUND

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**UNITED STATES DEPARTMENT OF ENERGY
OFFICE OF ENVIRONMENTAL MANAGEMENT
URANIUM ENRICHMENT DECONTAMINATION AND DECOMMISSIONING FUND**

The Energy Policy Act of 1992 (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 at the K-25 site in Oak Ridge, Tennessee; Paducah, Kentucky; and Portsmouth, Ohio (diffusion facilities). The Act transferred the uranium enrichment enterprise to the United States Enrichment Corporation (USEC) as of July 1, 1993, and 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 \$480million 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 cleanup costs. The Fund's cash and investment transactions since inception are described in the following paragraph.

Between 1993 and 1995, contributions to the Fund were roughly \$812 million, including approximately \$481 million from domestic utilities, and \$331 million from Government appropriations. Approximately \$31 million of interest has been received. Expenditures from the Fund approximate \$576 million, leaving an unexpended balance of cash and investments, totaling approximately \$267 million on September 30, 1995.

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. Two teams manage 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 USEC, which is leasing the facilities, returns control of the facilities to the Department. The Oak Ridge Operations Office provides day-to-day oversight of D&D Fund activities. Budgeting, accounting, contracting and other activities are supported through matrix organizations in the Department.

The estimated cost of decontamination and decommissioning the gaseous diffusion plants contained in the Fund's fiscal year (FY) 1994 financial statements was based on a study titled Executive Summary Environmental Restoration of the Gaseous Diffusion Plants, Technical Summary Document, October 1991. The estimate of \$16.1 billion in FY 1992 dollars was based on the cleanup standard in the Nuclear Regulatory Commission's Nuclear Regulatory Guide 1.86, "Termination of Operating Licenses for Nuclear Reactors," June 1974. The guide specifies cleanup sufficient to permit "unrestricted use", known as Prompt Dismantlement in the commercial nuclear power industry.

In 1995, a team reviewed and revised the cleanup strategy and the estimate. The current strategy for cleanup emphasizes metal recycling from the facilities and industrial reuse of the sites and is estimated to cost \$9.2 billion in FY 1996 dollars. Gaseous Diffusion Facilities Decontamination and Decommissioning Estimate Report, ES/ER/TM-171, December 1995 summarizes the estimate and the assumptions used in its development. The first work began in FY1988 at the K-25 site and completion of the last plant is estimated to occur in FY 2023 assuming that the Paducah and Portsmouth plants are shut down in FY 2005. Preliminary activities such as removal of hazardous materials, engineering

design, and obtaining permits from regulatory authorities are to be accomplished prior to the start of D&D at the three sites. The major physical decontamination effort at Oak Ridge starts in 1998 and is projected to take 9 years. Portsmouth is projected to take 9 years, from 2007 to 2015, while Paducah is projected to take 8 years, from 2015 to 2023. Decommissioning start dates at Portsmouth and Paducah are dependent on the return of the facilities by the USEC 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 will be available when needed. The financial statements show the liability for D&D at the plants to be \$9.2 billion at September 30, 1995.

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 audits of costs incurred by the licensees.

Significant uncertainties facing the D&D Fund include the following:

- The Yankee Atomic Electric Company has filed a suit against the Department which challenges the validity of the special assessments. The United States Court of Federal Claims entered judgment against the Government in September 1995. Should the ruling be upheld in the appeals process, a new mechanism for the special assessment would be necessitated.
- The current estimated liability for D&D of \$9.2 billion exceeds the revenue and interest to be collected by the fund under the Act. This shortfall could be eliminated by extending the contribution period from 2007 to 2010 or by increasing the annual revenues to \$575 million, and requiring that the Fund's resources be expended only to accomplish D&D.

- The majority of current collections in the 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 \$4.6 billion (FY 1995 dollars). This cost estimate is included in the Baseline Environmental Management Report (BEMR) submitted to Congress in FY 1995 (BEMR, Volume II). The financial statements reflect only those remedial action costs funded by enacted appropriations. The use of the D&D Fund for remedial action activities will impact the availability of funds to accomplish D&D.
- Government contributions through September 30, 1995, were approximately \$690 million less than authorized by the Act. Government contributions in FY 1995 were \$134 million. In November 1995 the Department received FY 1996 funding at the level authorized by the Act. The Department will request funds to replace the shortfall as they are needed to perform work.
- At the present time the Department is assessing alternate uses for depleted uranium hexafluoride (UF6). Through FY1998 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 hexafluoride owned by the Department is \$1.4 billion based on November 1995 revisions to the Cost Study for the D&D of the GDP's, Depleted Uranium Management and Conversion, dated September 1991. The financial statements do not reflect any liabilities for cost of disposition of depleted UF6.

Performance Measures

Program Performance Measures:

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 (GPR 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. The following table summarizes the performance measures for D&D Fund projects in 1995 and 1994:

PERFORMANCE MEASURES

	<u>FY 1995</u>		<u>FY 1994</u>	
	<u>Scheduled</u>	<u>Completed</u>	<u>Scheduled</u>	<u>Completed</u>
Assessments	7	7	3	3
Interim Actions	4	4	4	4
Remedial Actions	8	8	5	5
D&D	2	2	2	2

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 GPR Act and reports actions completed in FY 1995. There were seven assessments completed, three at Portsmouth, three at OakRidge (K-25), and one at Paducah.

There were four interim actions completed in FY95 as follows: two at K-25, one at Paducah, and one at Portsmouth. The Peter Kiewit Landfill Seep Treatment Project at Portsmouth demonstrates the actions being accomplished. The Peter Kiewit Landfill was used to dispose of construction spoils and associated waste materials. Runoff caused seepage problems. To prevent hazardous constituents from migrating into Big Run Creek, a 1,000-foot section of the creek was redirected and a groundwater collection system was installed.

There were eight final remedial actions completed in FY95: three at K-25, four at Portsmouth, and one at Paducah. Most noteworthy was the construction of a pilot groundwater treatment facility at Paducah to contain the source of the Northwest groundwater plume. The Northwest offsite groundwater plume is the Department's largest offsite plume, extending nearly three miles offsite. The facility is intended to operate for two years and is designed to remove plume contaminants including trichloroethylene, a carcinogen, and Technetium-99, a radionuclide.

Finally, there were two D&D final actions completed at K-25 in FY95. Fourteen facilities were demolished as a part of the Powerhouse decommissioning project, including the main powerhouse facility. Under the Cooling Tower Demolition Project, all six out-of-service cooling tower superstructures were demolished. The superstructures, which are each roughly half the area of a football field and as high as a six story building, were constructed primarily of wood with corrugated cement/asbestos board siding. The wood was contaminated with chemical preservatives, including chromated copper arsenic.

Environmental Management is making progress in environmental cleanup of the gaseous diffusion plants. In addition to the performance measures completed under the GPR Act, Environmental Management had these other major accomplishments:

- The Department has completed preliminary assessments of all known release sites at all three plants. Subsequent remediation work will be prioritized using this data.

- Through a combination of assessments and cleanups, the three plants have completed action at 110 of the total 388 release sites.
- Over 32,000 drums of sludge from waste ponds were repackaged and 11,000 have been shipped to an offsite disposal contractor; 878,000 pounds of liquid radioactive and hazardous waste from Paducah and Portsmouth were incinerated at Oak Ridge. Another 900,000 pounds of mixed waste and 408,000 pounds of low-level radioactive waste was shipped to an offsite disposal facility from Portsmouth and Paducah.
- Portsmouth has taken interim actions to prevent offsite migration of contaminants. At this time, no contaminants have been detected offsite.
- Other significant accomplishments include removal of over nine miles of friable asbestos, disposal of 300,000 gallons of contaminated lubrication oil, and upgrades to contamination control stations.
- The program also conducts surveillance and maintenance activities for approximately 12 million square feet of floor space in over 65 facilities, including five diffusion process buildings.
- In 1994, Environmental Management piloted a contracting strategy which uses fixed-price contracts and incentives for meeting project performance objectives, thus linking profit to performance. In 1995, the average number of bidders increased from under two for non-incentive contracts to seven on incentive contracts.
- 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. In 1995, Environmental Management completed its strategy for the K-25 site with input from stakeholders and regulators.

- The Office of Southwestern Area Programs has received \$176 million in claims for cleanup costs already incurred from 14 uranium/thorium licensees. Payments for FY 1994 totaled \$40.4 million and for FY 1995 totaled \$41.7 million. The remaining claims balance of \$94 million, subject to audit adjustments, 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 D&D Fund in accordance with the requirements of the Energy Policy Act of 1992. As of September 30, 1995, no specific financial performance measures have been established to evaluate the 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 remittance of assessments by utilities; and (2) excessive uninvested daily cash balances.

Timeliness of Receipts

Two late payments totaling \$2.1 million were received during FY1995. Interest of \$247 was charged on the late payments.

Uninvested Daily Cash Balances

A review of the D&D Fund's daily investment activities concluded that there were no instances of excessive uninvested daily cash balances.

Financial Management Performance Measures:

Although no specific performance measures have been identified in this area for the D&D Fund, during FY 1995 the Fund earned 6.03 percent from investments in short term Treasury securities as compared to 4.01 percent in FY 1994. As of September 30, 1995, the book value of Treasury notes, bills, and overnight investments was about \$266 million, at a market value of about \$268 million. At September 30, 1994, the book value of Treasury notes and bills was about \$304 million with a market value of about \$304 million.

Earnings from investment activities in FY 1995 and FY 1994 were \$24 million and \$11 million respectively.

The D&D Fund adheres to sound financial management practices and strategies. Bills are paid in a timely manner, accounts receivable collection efforts are properly managed, and sound internal controls are in place. In addition, reviews of the D&D Fund are performed by both internal and external auditors.

Limitations of the Financial Statements:

The accompanying financial statements were prepared to report the financial position and results 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 appropriations; and that the payment of all liabilities, other than those resulting from contractual obligations, can be abrogated by the Department of Energy.

60 East South Temple
Suite 900
Salt Lake City, UT 84111

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, 1995 and 1994, 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*, 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 discussed in note 5, during fiscal year 1995 the D&D Fund reduced its estimate of the costs to decontaminate and decommission the gaseous diffusion facilities in Oak Ridge, Tennessee; Paducah, Kentucky; and Portsmouth, Ohio (Diffusion Facilities) from \$17.3 billion to \$9.2 billion. This reduction was based on a review (1995 estimate) of the Department of Energy's (Department) previous decontamination and decommissioning estimate published in September 1991 (1991 estimate). The estimated costs of decontamination and decommissioning under the 1995 estimate range from \$3.9 billion to \$14.1 billion, with a most likely cost of \$9.2 billion. The 1995 estimate maintained the engineering data from the 1991 estimate but revised certain assumptions, including the approaches to decontamination, waste management, and contract management, and certain changes in regulatory requirements. The 1995 estimate also assumes the recycle of certain metals in the diffusion process equipment and emphasizes waste minimization. The 1991 estimate emphasized the recovery of uranium from the diffusion process equipment, which entailed the construction of expensive decontamination facilities.

(continued)

As discussed in note 2, the United States Court of Federal Claims (Court) entered a judgment in September 1995 requiring the Department to refund assessments paid by Yankee Atomic Electric Company (Yankee) totaling nearly \$2.9 million, plus interest at eight percent. This judgment is based on the Court's ruling that the D&D Fund's assessments against Yankee amount to a retroactive price increase for uranium enrichment services, in violation of the fixed-price provisions of its contracts. If the judgment is upheld, Yankee will not pay future assessments amounting to more than \$10 million on its purchases of uranium enrichment services. In addition, the validity of substantially all past and future assessments by the Fund against other domestic utilities would be in question. The Government has appealed the judgment and management believes that the Government will ultimately prevail in this action. No provision for any loss resulting from this litigation is recorded in the accompanying financial statements.

As discussed in note 7, 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, 1995 consists only of \$174.5 million of future appropriations for remedial action costs that have been signed into law, plus unexpended appropriations of \$63.1 million. The D&D Fund will make additional accruals of remedial action costs if Congress appropriates additional funds for that purpose. The estimated future cost of remedial action at the Diffusion Facilities is \$4.6 billion as of September 30, 1995.

As discussed in note 10, 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, 1995, its share of the cost of depleted UF-6 will range from \$1.3 billion to \$3.1 billion, with a probable cost of \$1.4 billion, excluding adjustments for inflation after September 30, 1995. 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. No provision for the cost of depleted UF-6 disposal is included in the accompanying financial statements, because the Department is presently unable to determine what portion of the stockpile will require disposal.

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, 1995 and 1994, 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.

In accordance with *Government Auditing Standards*, we have also issued reports dated December 18, 1995 on the Fund's compliance with laws and regulations and on our consideration of the Fund's internal control structure.

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.

(continued)

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 Real Manure LLP

December 18, 1995

UNITED STATES DEPARTMENT OF ENERGY
OFFICE OF ENVIRONMENTAL MANAGEMENT
URANIUM ENRICHMENT DECONTAMINATION AND
DECOMMISSIONING FUND

Statements of Financial Position

September 30, 1995 and 1994
(in thousands)

<u>Assets</u>	<u>1995</u>	<u>1994</u>
Intragovernmental:		
Cash	\$ 1	4,148
Cash equivalents	25,836	52,653
Cash and cash equivalents (note 3)	25,837	56,801
U.S. Treasury securities, net (notes 3 and 4)	240,626	247,154
Accrued interest receivable	3,810	2,350
Due from other program	-	1,168
Governmental:		
Assessments receivable from domestic utilities (note 9):		
Current	141,205	138,300
Long-term	1,759,005	1,874,941
Collateral funds and other deposits	451	2
Total assets	<u>\$ 2,170,934</u>	<u>2,320,716</u>
<u>Liabilities and Net Position</u>		
Intragovernmental - due to other program	\$ 4,019	2,812
Governmental:		
Liabilities covered by budgetary resources:		
Decontamination and decommissioning (note 5)	10,008	14,891
Uranium and thorium licensee claims (note 6)	-	40,369
Remedial action (note 7)	63,090	72,887
Other accrued expenses	1,028	1,009
Total funded liabilities	<u>78,145</u>	<u>131,968</u>
Liabilities not covered by budgetary resources:		
Decontamination and decommissioning (notes 1(g) and 5)	9,213,992	17,381,488
Uranium and thorium licensee claims (notes 1(g) and 6)	251,380	287,292
Remedial action (note 7)	174,495	190,831
Total unfunded liabilities	<u>9,639,867</u>	<u>17,859,611</u>
Total liabilities	<u>9,718,012</u>	<u>17,991,579</u>
Net position (deficit):		
Balances:		
Unexpended appropriations with U.S. Treasury:		
Unobligated	32	9
Obligated	234	233
Invested capital	451	-
Cumulative results of operations	2,092,072	2,188,506
Future funding requirements	<u>(9,639,867)</u>	<u>(17,859,611)</u>
Total net position (deficit)	<u>(7,547,078)</u>	<u>(15,670,863)</u>
Commitments and contingencies (notes 1(g), 2, 5, 6, 7, 8, and 10)		
Total liabilities and net position (deficit)	<u>\$ 2,170,934</u>	<u>2,320,716</u>

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)

Years ended September 30, 1995 and 1994
(in thousands)

	<u>1995</u>	<u>1994</u>
Revenues and financing sources:		
Appropriations (note 8):		
Transfer from uranium enrichment	\$ -	68,531
Defense environmental restoration and waste management	133,700	129,805
Assessments against domestic utilities (note 9)	47,386	34,847
Interest income	<u>23,806</u>	<u>11,251</u>
Total revenues and financing sources	<u>204,892</u>	<u>244,434</u>
Expenses and financing uses:		
Decontamination and decommissioning (note 5)	(8,105,080)	483,490
Uranium and thorium licensee claims (note 6)	5,922	327,661
Remedial action (note 7)	<u>180,265</u>	<u>192,163</u>
Total expenses and financing uses	<u>(7,918,893)</u>	<u>1,003,314</u>
Excess (deficiency) of revenues and financing sources over expenses and financing uses	8,123,785	(758,880)
Net position (deficit), beginning balance	<u>(15,670,863)</u>	<u>(14,911,983)</u>
Net position (deficit), ending balance	<u>\$ (7,547,078)</u>	<u>(15,670,863)</u>

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

Years ended September 30, 1995 and 1994
(in thousands)

	<u>1995</u>	<u>1994</u>
Cash flows from operating activities:		
Excess (deficiency) of revenues and financing sources over expenses and financing uses	\$ 8,123,785	(758,880)
Adjustments to reconcile excess (deficiency) of revenues and financing sources over expenses and financing uses to net cash provided by (used in) operating activities:		
Net amortization and accretion of premiums and discounts on U.S. Treasury securities	(6,282)	(6,728)
Loss on sale of U. S. Treasury securities	-	1
(Increase) decrease in operating assets:		
Assessments receivable from domestic utilities	113,031	137,668
Accrued interest receivable	(1,460)	(2,350)
Due from other program	1,168	(1,168)
Collateral funds and other deposits	(449)	(2)
Increase (decrease) in operating liabilities:		
Decontamination and decommissioning	(8,172,379)	427,463
Uranium and thorium licensee claims	(76,281)	327,661
Remedial action	(26,133)	21,727
Other accrued expenses	19	1,009
Due to other program	1,207	2,812
Net cash provided by (used in) operating activities	<u>(43,774)</u>	<u>149,213</u>
Cash flows from investing activities:		
Purchases of U. S. Treasury securities	(498,249)	(807,126)
Proceeds from maturities of U.S. Treasury securities	511,059	550,500
Proceeds from sale of U.S. Treasury securities	-	16,199
Net cash provided by (used in) investing activities	<u>12,810</u>	<u>(240,427)</u>
Net decrease in cash and cash equivalents	(30,964)	(91,214)
Cash and cash equivalents, beginning of year	56,801	148,015
Cash and cash equivalents, end of year	<u>\$ 25,837</u>	<u>56,801</u>

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
Years ended September 30, 1995 and 1994
(in thousands)

<u>Program Name</u>	Budget				Actual	
	Resources		Obligations		Expenses	
	1995	1994	1995	1994	1995	1994
Uranium enrichment decontamination and decommissioning fund	<u>\$301,336</u>	<u>287,325</u>	<u>301,304</u>	<u>287,316</u>	<u>(7,918,893)</u>	<u>1,003,314</u>
<u>Budget Reconciliation</u>						
Total expenses					\$ (7,918,893)	1,003,314
Add:						
Bond acquisition					449	2
Current year budgetary resources charged to operations in prior year:						
Decontamination and decommissioning					57,291	56,027
Remedial action					138,707	170,436
Uranium and thorium licensee claims					41,835	-
Adjustment to unfunded decontamination and decommissioning liability					8,115,088	-
Less:						
Expenses not covered by available budgetary resources:						
Decontamination and decommissioning					-	483,490
Remedial action					115,094	192,163
Uranium and thorium license claims					5,922	287,292
Accrued expenditures, direct					\$ <u>313,461</u>	<u>266,834</u>

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, 1995 and 1994

(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.

UNITED STATES DEPARTMENT OF ENERGY
OFFICE OF ENVIRONMENTAL MANAGEMENT
URANIUM ENRICHMENT DECONTAMINATION AND
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(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 5). 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 6). 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 7). 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 records transactions on an accrual basis and a budgetary basis. Under the accrual method, revenues are recognized when earned and expenses are recognized when a liability is incurred, without regard to receipt or payment of cash. Budgetary accounting facilitates compliance with legal constraints and controls over the use of federal funds.

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 in the absence of other guidance in the first three parts of this hierarchy, to the extent that the use of such accounting standards improves the meaningfulness of the financial statements.

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(d) Cash Equivalents

Cash equivalents of \$25.8 million at September 30, 1995 and \$52.7 million at September 30, 1994, 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 are 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, 1995 are used in environmental cleanup activities.

(g) Long-term Liabilities

The Department records its environmental remediation liabilities, including the D&D Fund's liabilities for decontamination and decommissioning and uranium and thorium licensee claims, in current cost, which is the amount that would be paid if all equipment, facilities, and services included in the cost estimate were acquired during the current period. In years that a new or revised current cost estimate is not prepared, liabilities are reduced by current expenditures and are adjusted for estimated cost increases or decreases based on changes in the Consumer Price Index for all urban customers (Consumer Price Index), as published by the Department of Labor.

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(h) 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 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.

(i) 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.

(j) Use of Estimates

The Department has made a number of estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities to prepare these financial statements in conformity with the basis of accounting described above. Actual results could differ from those estimates.

(k) Reclassifications

Certain reclassifications have been made to the 1994 amounts to conform to the 1995 presentation.

(2) Litigation

The Fund is involved in various actions related to the validity of assessments against domestic utilities. In August 1994, the Yankee Atomic Electric Company (Yankee) filed a claim in the United States Court of Federal Claims (Court). Yankee's claim alleged that the Government's assessments against Yankee amount to a retroactive price increase for uranium enrichment services, in violation of the fixed price terms of its contracts. The Court ruled in favor of Yankee, and entered a judgment against the Government in September 1995. The judgment requires the refund of assessments paid by Yankee totaling nearly \$2.9 million, plus interest at eight percent. On November 13, 1995, the Government filed an appeal of the judgment, and management believes that the Government will ultimately prevail in this action.

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(2) Litigation (continued)

Should Yankee prevail against the Government in the action discussed in the preceding paragraph, Yankee will not pay future assessments amounting to more than \$10 million, included in the Fund's assessments receivable from domestic utilities. In addition, the validity of substantially all past and future assessments against domestic utilities would be in question.

In December 1995, two other domestic utilities filed claims with the Court alleging that the Government's assessments amount to a retroactive price increase in violation of the fixed-price terms of their contracts.

Domestic utilities have filed six appeals with the Department's Office of Hearings and Appeals, arising from the implementation of rules governing the assessment of domestic utilities under 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 appeals and will vigorously contest them. Management believes that any liabilities arising from these appeals will not have a material effect on the financial position of the Fund.

The Department anticipates that domestic utilities will file additional claims and appeals related to the assessments.

(3) Cash and Cash Equivalents

Cash and cash equivalents at September 30, 1995 and 1994, consist of the following funds with the U.S. Treasury (in thousands):

	<u>1995</u>	<u>1994</u>
Restricted	\$ 188,052	172,913
Accrued but not paid	74,126	129,156
Due to other appropriations, net	4,019	1,644
Obligated appropriations	234	233
Unobligated appropriations	<u>32</u>	<u>9</u>
Total fund balance with Treasury	266,463	303,955
Less U.S. Treasury securities	<u>240,626</u>	<u>247,154</u>
Cash and cash equivalents	<u>\$ 25,837</u>	<u>56,801</u>

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Notes to Financial Statements

(4) U.S. Treasury Securities

All Treasury securities held at September 30, 1995 and 1994, are classified as held-to-maturity. The market value of Treasury securities held by the D & D Fund as of September 30, 1995 and 1994, was as follows (in millions):

	<u>1995</u>	<u>1994</u>
Maturity:		
91 days to 1 year	\$ 140.4	246.7
1 to 5 years	<u>101.7</u>	<u>-</u>
Total	<u>\$ 242.1</u>	<u>246.7</u>

During fiscal year 1995, all securities were held to their maturity dates. In 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.

(5) Decontamination and Decommissioning

During fiscal year 1995, the D&D Fund reduced its estimate of the costs to decontaminate and decommission the Diffusion Facilities from \$17.3 billion to \$9.2 billion, based on a review (1995 estimate) of the decontamination and decommissioning estimate published in September 1991 (1991 estimate). The estimated costs of decontamination and decommissioning under the 1995 estimate range from \$3.9 billion to \$14.1 billion, with a most likely cost of \$9.2 billion. The 1995 estimate maintained the engineering data from the 1991 estimate but revised certain assumptions, including the approaches to decontamination, waste management, and contract management, and certain changes in regulatory requirements. The 1995 estimate also assumes the recycle of certain metals in the diffusion process equipment and emphasizes waste minimization. The 1991 estimate emphasized the recovery of uranium from the diffusion process equipment, which entailed the construction of expensive decontamination facilities. Both estimates include the costs of surveillance and maintenance prior to and during the decontamination and decommissioning.

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(5) Decontamination and Decommissioning (continued)

In fiscal year 1994, the Fund recorded a provision of \$483.5 million for estimated cost increases during the year, because the 1991 estimate did not include adjustments for anticipated inflation. Changes in the liability for decontamination and decommissioning from October 1, 1993 through September 30, 1995 may be summarized as follows (in thousands):

Balance, October 1, 1993	\$16,968,916
Decontamination and decommissioning costs incurred	(56,027)
Provision for estimated cost increases	<u>483,490</u>
Balance, September 30, 1994	17,396,379
Decontamination and decommissioning costs incurred	(67,299)
Adjustment to new current cost estimate	<u>(8,105,080)</u>
Balance, September 30, 1995	<u>\$ 9,224,000</u>

Of the total liability of \$9.224 billion for decontamination and decommissioning as of September 30, 1995, \$10 million is covered by budgetary resources and \$9.214 billion is not covered by budgetary resources. Of the total liability of \$17.396 billion as of September 30, 1994, \$15 million was covered by budgetary resources and \$17.381 billion was not covered by budgetary resources.

Because the decontamination and decommissioning work is scheduled to be completed in 2023, the length of time over which the work will be performed creates significant uncertainty as to the actual cost of the work. In addition, because the estimate on which the recorded liability 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. The Department is presently unable to determine the impact of time and inflation on the liability for decontamination and decommissioning costs.

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(6) 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 received through September 30, 1995 amounted to \$176 million. The Department expects that total claims will equal or exceed the maximum reimbursement limits.

Changes in the liability for reimbursement of uranium and thorium licensee claims during the years ended September 30, 1994 and 1995 may be summarized as follows (in thousands):

Balance, October 1, 1993	\$ —
Provision for estimated claims reimbursement	<u>327,661</u>
Balance, September 30, 1994	327,661
Claims reimbursed	(82,060)
Audit costs	(143)
Provision for estimated increase in claims reimbursement and audit costs	<u>5,922</u>
Balance, September 30, 1995	\$ <u>251,380</u>

The provision for estimated claims reimbursement in fiscal year 1994 included the maximum reimbursement limits established by the Energy Policy Act, plus adjustments for inflation through September 30, 1994, based on the change in the Consumer Price Index. The fiscal year 1995 provision consists of adjustments for inflation through September 30, 1995, plus a provision for audit costs.

The liability of \$251.4 million for uranium and thorium licensee claims at September 30, 1995 is not covered by budgetary resources. Of the total liability of \$327.7 million at September 30, 1994, \$40.4 million was covered by budgetary resources and \$287.3 million was not covered by budgetary resources.

(7) 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.

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(7) Remedial Action (continued)

Changes in the liability for remedial action during the years ended September 30, 1994 and 1995, may be summarized as follows (in thousands):

Balance, October 1, 1993	\$ 241,991
Remedial action costs incurred	(170,436)
Provision for remedial action costs	<u>192,163</u>
Balance, September 30, 1994	263,718
Remedial action costs incurred	(206,398)
Provision for remedial action costs	<u>180,265</u>
Balance, September 30, 1995	<u>\$ 237,585</u>

Of the total liability of \$237.6 million for remedial action as of September 30, 1995, \$63.1 million is covered by budgetary resources and \$174.5 million is not covered by budgetary resources. Of the total liability of \$263.7 million as of September 30, 1994, \$72.9 million was covered by budgetary resources and \$190.8 million was 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.

The Department updated its estimate of the future cost of remedial action at the Diffusion facilities in fiscal year 1995. The estimated cost of \$4.6 billion does not include an estimate of the impact of inflation on the cost of the work; therefore, the actual cost may be significantly higher than the estimate. There is also uncertainty with respect to whether Congressional appropriations will be received at the level assumed by the estimate, and the uncertainty inherent in the estimating process. The Department is presently unable to determine the impact of the factors discussed above on the estimated remedial action costs.

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(8) 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 1993 through 1995, actual appropriations have not equaled the amounts authorized by the Act. The Fund received appropriations of \$133.7 million during fiscal year 1995. 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 as of September 30, 1995 (in millions):

<u>Year ended</u> <u>September 30,</u>	<u>Appropriations</u> <u>authorized</u>	<u>Appropriations</u> <u>received</u>	<u>Authorized,</u> <u>not received</u>
1993	\$ 331.4	-	331.4
1994	342.8	198.3	144.5
1995	348.2	133.7	214.5
	<u>\$ 1,022.4</u>	<u>332.0</u>	<u>690.4</u>

Government contributions of \$350 million have been appropriated for fiscal year 1996.

(9) 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 entire amount of assessments over the fifteen-year assessment period authorized by the Energy Policy Act was recorded as revenue by the Fund during fiscal year 1993. Current and future assessments are adjusted each year based on changes in the Consumer Price Index.

During fiscal years 1995 and 1994, the Fund recognized revenue of \$47.4 million and \$34.8 million, respectively, from reconciliation adjustments and the increase in the current and future assessments against domestic utilities resulting from the increase in the Consumer Price Index during the fiscal year. Management believes all assessments against domestic utilities are collectible.

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(10) 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. 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, 1995, its share of the cost of depleted UF-6 disposition will range from \$1.3 billion to \$3.1 billion, with a probable cost of \$1.4 billion, excluding adjustments for inflation after September 30, 1995. 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.

60 East South Temple
Suite 900
Salt Lake City, UT 84111

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, 1995, and have issued our report thereon dated December 18, 1995.

We conducted our audit in accordance with generally accepted auditing standards; *Government Auditing Standards*, 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.

The results of our tests disclosed the following instance of noncompliance that is required to be reported herein under *Government Auditing Standards* for which the ultimate resolution can not presently be determined. Accordingly, the financial statement impact that may result has not been recognized in the financial statements.

Government Appropriations

Audit Comment

In our report on compliance with laws and regulations for the year ended September 30, 1994 (1994 report), we reported that 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.

The following is a summary of Government appropriations authorized but not received by the D&D Fund, as of September 30, 1995 (in millions):

<u>Year ended September 30,</u>	<u>Appro- priations authorized</u>	<u>Appro- priations received</u>	<u>Authorized, not received</u>
1993	\$ 331.4	-	331.4
1994	342.8	198.3	144.5
1995	348.2	133.7	214.5
	<u>\$ 1,022.4</u>	<u>332.0</u>	<u>690.4</u>

The table above indicates that the appropriations received by the Fund are more than \$690 million below the \$1.022 billion of government funding required by the Act for the Fund's first three years.

Our 1994 report recommended that the Department consider requesting a supplemental appropriation, including inflation adjustments, to make up the cumulative shortfall in appropriations to the D&D Fund.

Management's response indicated that 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. Management further indicated that 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. Since there is no shortfall in funding to accomplish the work, no supplemental appropriation will be requested.

The Department requested an appropriation to the Fund of \$350 million for fiscal year 1996, the full amount authorized by the Act for that year. On November 13, 1995, a \$350 million appropriation to the Fund for fiscal year 1996 was enacted as part of the 1996 Energy and Water Development Appropriation. The Department has therefore complied with the requirements of the Act for fiscal year 1996, and management of the D&D Fund has indicated that the Fund expects to have sufficient funding to accomplish the work planned for the foreseeable future.

Audit Recommendation

No further recommendation is necessary at this time.

Management Response

We concur with the audit recommendation.

* * * * *

We considered the instance of noncompliance described above in forming our opinion on whether the D&D Fund's 1995 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 18, 1995.

Except as described above, the results of our tests of compliance disclosed no instances of noncompliance that are required to be reported herein under *Government Auditing Standards* or 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. However, this restriction is not intended to limit distribution of this report, which is a matter of public record.

KPMG Peat Marwick LLP

December 18, 1995

60 East South Temple
Suite 900
Salt Lake City, UT 84111

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, 1995, and have issued our report thereon dated December 18, 1995.

We conducted our audit in accordance with generally accepted auditing standards; *Government Auditing Standards*, 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.

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, D&D Fund 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 executed in accordance with management's authorization and 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.

In planning and performing our audit of the financial statements of the D&D Fund for the year ended September 30, 1995, we obtained an understanding of the internal control structure. With respect to the internal control structure, we obtained an understanding of the design of relevant policies and procedures, determined if they have been placed in operation, assessed control risk, and performed tests of the control structure. Our consideration of the control structure was conducted in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control structure. Accordingly, we do not express such an opinion.

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.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be material weaknesses under standards established by the American Institute of Certified Public Accountants and OMB Bulletin 93-06. A material weakness is a condition in which the design or operation of one or more of the specific 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 to a performance measure or aggregation 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. We noted no matters involving the internal control structure and its operations that we consider to be material weaknesses as defined above.

However, we 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 18, 1995. We have not considered the internal control structure since the data of our report.

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 18, 1995

Peat Marwick LLP

60 East South Temple
Suite 900
Salt Lake City, UT 84111

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, 1995, and have issued our report thereon dated December 18, 1995. 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.

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.

Our consideration of the internal control structure is described in our Independent Auditors' Report on the Internal Control Structure, dated December 18, 1995. 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. Our 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 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 18, 1995

Member Firm of
Klynveld Peat Marwick Goerdeler

DOE Chief Financial Officer

Standard General Ledger Implementation**Audit Comment**

Office of Management and Budget (OMB) Circular A-127, *Financial Management Systems* (A-127), requires Federal agencies to record financial events throughout their financial management systems by implementing the U. S. Treasury's Standard General Ledger (SGL) at the transaction level, effective October 1, 1993. To comply with A-127, agencies must prepare financial reports and record transactions in a manner consistent with SGL rules, and should have supporting transaction detail readily available for SGL accounts.

Department field offices use the Departmental Integrated Standardized Core Accounting System (DISCAS) to process accounting transactions. DISCAS information is transmitted to the Department's Financial Information System (FIS) which summarizes and reports Department-wide financial information. Both DISCAS and FIS utilize the Department's chart of accounts rather than SGL accounts. The Department has prepared a program that crosswalks FIS balances to the appropriate SGL accounts; however, the use of a crosswalk does not comply with the requirements to implement the SGL at the transaction level.

The department intends to convert DISCAS data fields to utilize Treasury's SGL account numbers, which would then provide SGL data at the transaction level. However, due to shortages of programming personnel and funding, the Department is unable to determine when the DISCAS modifications will be completed.

Audit Recommendation

The Department should complete modifications in its Federal financial systems to satisfy the SGL requirements as soon as possible.

Management Response

We concur with this finding that we are not at the transaction level as required by OMB Circular A-127, "Financial Management Systems." Our plan has always been to implement the SGL transaction level with the implementation of our new Management Analysis Reporting System (MARS) which has been delayed due to budget constraints. Phase II of MARS has come on-line in January of this year. Transaction level implementation will occur in Phase III of MARS. Since we are unable to determine when Phase III of MARS will come in-line, we are unable to determine the date for transaction level implementation. The Decontamination and Decommissioning Fund will implement SGL at the same time as the rest of the Department.

Office of Environmental Management

Costs of Depleted Uranium Hexafluoride Disposal

Audit Comment

Generally accepted accounting principles require recognizing the liability for potential costs of known contingencies. In our report on the internal control structure for the year ended September 30, 1994 (1994 report), we reported that 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 \$1.4 billion as of September 30, 1995.

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 possible 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, 1995.

Our 1994 report recommended that the Department 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 responded that 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.

Audit Recommendation

No further recommendation is necessary at this time.

Management Response

We concur with the audit recommendation.

The following comments relate to management reviews of environmental restoration and waste management projects at the gaseous diffusion facilities. These comments summarize our findings and represent a relatively common theme for all three projects reviewed.

Manage to a Current Baseline

Audit Comment

Sound project management principles require measurement of performance against the current project plan.

An approved baseline proposal or baseline change proposal constitutes the reporting baseline for the projects we reviewed. Changes to an approved baseline occur due to such events as scope changes, schedule changes which are not caused by performance, or funding changes. When such changes occur, the contractor must prepare and submit a change proposal for approval. Depending on the level of approval required, this process from preparation to approval can be lengthy. For each project reviewed, we found multiple changes to the project plan that were not reflected for reporting purposes. As a result, each project manager was working to the revised plan while measuring performance against the last approved baseline change proposal. The delays in updating the planning baselines diminished the effectiveness of measuring performance against the baselines and had a significant negative effect on the value of performance measurement as a management tool during fiscal year 1995. In addition, management and reporting credibility can suffer when such delays occur, as support can be lost from those in the field responsible for successful project completion.

A more timely update to reporting baselines would facilitate more accurate reports and generate confidence in performance reporting, avoid the need to maintain two sets of books, and create support from those in the organization responsible for successfully executing the plan.

Audit Recommendation

The Department should update reporting baselines for environmental restoration and waste management projects on a timely basis.

Management Response

We concur with the audit recommendation. Headquarters and the field have agreed to change approval authority for baseline change proposals permitting more baseline change proposals to be approved at the field office level, Level 2, instead of Headquarters, Level 1.

Use Consistent, Objective Performance Measures

Audit Comment

Sound project management practices require measurement of performance using indicators that are consistent, objective, and meaningful.

One of the most frequent indicators used to assess progress for the three projects reviewed was level of effort (i.e., funds expended), which is of limited value. Use of such inappropriate indicators does not support a credible assessment of project status. Where possible, objective indicators such as units of measure, milestones attained, or percentage of work completed should be used. Methods of assessment for each project should be established when planning the work, and assessment should be the responsibility of the assigned task manager in conjunction with representatives of the project manager.

Audit Recommendation

The Department should require objective performance indicators for environmental and waste management projects.

Management Response

We concur with the audit recommendation. We have recognized the problem and changes are being made to reduce the number of level of effort projects and to improve the performance measurement methods.

Ensure Appropriate Project Visibility

Audit Comment

Sound project management principles require reports to management at a level of detail sufficient to facilitate meaningful analysis. Present reports to top management report environmental restoration and waste management activities at the activity data sheet (ADS) level. This level of detail is inadequate for ADS 5302 at Paducah. ADS 5302 includes the Northwest Plume Treatment Facility, along with several other projects. The design and construction phase of the Northwest Plume was completed in June 1995 at a cost of \$16.8 million, which was \$5.5 million over plan and one year behind schedule, due to the termination of the facility construction subcontractor. Our review disclosed that several active projects in ADS 5302 are not in the approved baseline; therefore, actual costs for these projects distort measurement of planned and actual costs for the other projects. This distortion, coupled with the lack of visibility of the Northwest Plume due to its inclusion in ADS 5302 with numerous other projects, may have prevented the Northwest Plume construction problems from receiving the management attention they deserved.

Audit Recommendation

The Department should require the inclusion of project details in reports to management in instances where the size and scope of individual projects warrant, such as the Northwest Plume Treatment Facility at Paducah.

Management Response

We concur with the audit recommendation. Beginning in fiscal year (FY) 1996, all information is reported and tracked at the "cost center" Activity Data Sheet (CCADS) level, which is lower than the ADS level. CCADS has been used since FY 1994 for incentive task order projects. It will make project tracking much easier to follow than the former ADS level reports.