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(08-93)
United States Government **Department of Energy**

Memorandum

DATE: June 14, 2011

REPLY TO
ATTN OF: IG-35 (A10FN003)

SUBJECT: Uranium Enrichment Decontamination and Decommissioning Fund's Fiscal Year 2010 Financial Statement Audit – Report No.: OAS-FS-11-07

TO: Assistant Secretary for Environmental Management, EM-1
Deputy Assistant Secretary for Program Planning and Budget, Office of Environmental Management, EM-60

The attached report presents the results of the independent certified public accountants' audit of the United States Department of Energy's Uranium Enrichment Decontamination and Decommissioning Fund's (D&D Fund) Fiscal Year (FY) 2010 balance sheet and the related statements of net cost, changes in net position, and budgetary resources.

The Office of Inspector General (OIG) engaged the independent public accounting firm of KPMG LLP (KPMG) to perform an audit of the D&D Fund's FY 2010 financial statements. KPMG is responsible for expressing an opinion on the D&D Fund's financial statements and reporting on applicable internal controls and compliance with laws and regulations. The OIG monitored audit progress and reviewed the audit report and related documentation. This review disclosed no instances where KPMG did not comply, in all material respects, with generally accepted Government auditing standards. The OIG did not express an independent opinion on the D&D Fund's financial statements.

KPMG concluded that the financial statements present fairly, in all material respects, the financial position of the D&D Fund as of September 30, 2010, and its net costs, changes in net position, and budgetary resources, in conformity with U.S. generally accepted accounting principles.

The auditors' review of the D&D Fund's internal controls over financial reporting disclosed one significant deficiency. The significant deficiency is listed below.

- Unclassified network and information systems security – Network vulnerabilities and weaknesses in access and other security controls in the Department's unclassified computer information systems continue to exist. While some progress has been made, continued efforts are needed to strengthen the management review process.

The Department concurs with the recommendation as presented, with the recognition that the Department's Office of the Chief Information Officer is the lead office in affecting changes on the Department's information systems.

There were no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* or Office of Management and Budget Bulletin No. 07-04, as amended.

Daniel M. Weeber

Daniel M. Weeber, Director
Environment, Technology, and Corporate
Audits Division
Office of Inspector General

Attachment

cc w/attachment:
Chief Financial Officer, CF-1
Director, Office of Financial Control and Reporting, CF-12
Director, Energy Finance and Accounting Service Center, CF-11
Assistant Director, Office of Risk Management and Financial Policy, CF-50
Team Leader, Office of Risk Management and Financial Policy, CF-50
Audit Resolution Specialist, Office of Risk Management and Financial Policy, CF-50
Audit Liaison, Oak Ridge Office
Audit Liaison, Portsmouth/Paducah Project Office
Audit Liaison, Environmental Management, EM-4.1

KPMG

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

Financial Statements

September 30, 2010 and 2009

(With Independent Auditors' Reports Thereon)

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

Table of Contents

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

Overview

September 30, 2010

Unaudited – See accompanying independent auditors' report

The Energy Policy Act of 1992 (Energy Policy Act) established the United States (U.S.) Department of Energy's (the Department) Uranium Enrichment Decontamination and Decommissioning Fund (D&D Fund) to pay for the costs of decontaminating and decommissioning three gaseous diffusion facilities (Diffusion Facilities) located in Oak Ridge, Tennessee; Paducah, Kentucky; and Portsmouth, Ohio. The Energy Policy Act also authorized the D&D Fund to pay remedial action costs associated with the U.S. Government (Government) operation of the Diffusion Facilities to the extent funds are available and to reimburse uranium and thorium licensees for the costs of decontaminating, decommissioning, reclamation, and other remedial actions, which are incident to sales to the Government.

The Energy Policy Act, as amended, authorizes the collection of revenues for 15 years to pay for the environmental remediation costs. Balances in the D&D Fund were to be invested in Treasury securities, and any interest earned would be available to pay the costs of environmental remediation.

The Energy Policy Act, as amended, specifies annual revenues as follows: $480.0 million for the period from Fiscal Year (FY) 1992 to FY 1998; $488.3 million for the period from FY 1999 to FY 2001; and $518.2 million for FY 2002 through FY 2007. 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 the authorized funding required by the Energy Policy Act and the utility assessment.

Government contributions to the D&D Fund were scheduled to end with the FY 2007 contribution. However, Government appropriations and resulting Government contributions through September 30, 2007 were approximately $918.6 million less than authorized by the Energy Policy Act. The ability of the D&D Fund to fulfill its responsibilities is contingent upon the receipt of these contributions. Therefore, the Department continued to ask Congress for annual Government contributions to meet the Government's obligation. Congress provided additional contributions in FYs 2008 and 2009, and also designated $390 million of FY 2009 American Recovery and Reinvestment Act (ARRA) funding for the D&D Fund's cleanup mission. These follow-on actions have satisfied the Government's original obligation to the D&D Fund. Although the Government satisfied its original obligation to the D&D Fund in FY 2009, the Department has continued to ask Congress for annual contributions to help offset lost interest earnings that resulted from the Government not making its required contributions to the D&D Fund within the prescribed time frame.

The ARRA funding is a separate appropriation from the D&D Fund and is not available for investment in Treasury securities like the normal D&D Fund appropriations. Therefore, the ARRA funding is neither a deposit into the D&D Fund nor additional spending authority from the D&D Fund. The ARRA funding does, however, function as a contribution to the D&D Fund's cleanup mission by paying for work scope that would otherwise have to be paid from the D&D Fund. Since the ARRA funding provides a dollar-for-dollar reduction in the required future outlays from the D&D Fund's invested balances, the Department recognizes the $390 million of ARRA funding as an offset to the Government's contribution shortfall.

(Continued)

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

Overview

September 30, 2010

Unaudited – See accompanying independent auditors' report

The Office of Environmental Management (EM) within the Department is responsible for oversight of the resources of the D&D Fund and environmental remediation activities at the Diffusion Facilities. The Diffusion Facilities have approximately 40 million square feet of floor space under 500 acres of roof containing processing and handling equipment, which will be remediated under the D&D Fund. The Oak Ridge Office, Oak Ridge, Tennessee, and the Portsmouth/Paducah Project Office, Lexington, Kentucky, provide day-to-day management of D&D Fund activities. Budgeting, accounting, contracting, and other activities are supported through matrix organizations in the Department.

The Office of Disposal Operations (EM-43) is responsible for managing the Title X Uranium/Thorium Reimbursement Program. The Environmental Management Consolidated Business Center (EMCBC) is responsible for evaluating claims submitted by the uranium and thorium licensees and making reimbursement recommendations to EM-43. The Defense Contract Audit Agency provides support for financial audits of the claims.

The Department is currently unable to estimate the impact of certain factors on the recorded liabilities and the receipt of future Government appropriations by the D&D Fund. More specifically, the following are significant uncertainties impacting the D&D Fund:

- Because the decontamination and decommissioning work is scheduled to be completed in approximately 2020 at the gaseous diffusion facility located in Oak Ridge and the decontamination and decommissioning work at the Paducah and Portsmouth gaseous diffusion facilities is currently estimated to extend until 2044, 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 estimates on which the recorded decontamination and decommissioning and remedial action liabilities are based do not include an estimate of the impact of inflation on such costs, the actual costs may be significantly higher than the recorded liabilities. There is also uncertainty with respect to whether Congressional appropriations will be received at the levels assumed by the estimates, and there is uncertainty inherent in the estimating process.

- The Energy Policy Act provides that the annual cost of remedial action at the Diffusion Facilities will be paid from the D&D Fund to the extent the amount available in the D&D Fund is sufficient. To the extent the amount in the D&D Fund is insufficient to pay remedial action costs, the Energy Policy Act provides that the Department will be responsible for such costs. The use of the D&D Fund for remedial action activities will impact the availability of funds to accomplish decontamination and decommissioning.

Program Performance Measures

The program performance measures are the current metric for evaluating progress in EM. Under these program performance measures, environmental restoration progress is measured as the number of "release sites" completed and the number of "facilities" decommissioned.

A "release site" is defined as a unique location where a hazardous, radioactive, or mixed waste release has occurred or is suspected to have occurred. It is usually associated with an area where wastes or substances contaminated with wastes have been disposed of, treated, stored, and/or used. A "facility" is generally defined as a uniquely identifiable building or structure. Sometimes a facility is a room or part of a building or structure.

A release site is completed or a facility decommissioned when the documentation supporting a "no action" decision or the completion of physical cleanup has been submitted to regulatory authorities.

The following summarizes the performance measures for D&D Fund projects in FY 2010:

	Planned	Completed
Release site completion	23	32
Facility completion	37	39

The Oak Ridge gaseous diffusion facility completed 17 release sites, which exceeded the 8 release sites planned. This acceleration is a result of early completions to ensure work flow occurred in the most efficient manner according to current work plans. Oak Ridge also completed 39 facilities, which was more than the 37 facilities planned. The two facilities that were reported as completed early were sold and, therefore, removed from the Oak Ridge EM program. Portsmouth did not target the completion of any release sites or facility completions in FY 2010. Paducah did not target the completion of any facilities in FY 2010. Paducah completed 15 release sites, meeting the FY 2010 target of completing 15.

Financial Performance Measures

The Department is required to collect payments from appropriations, invest excess cash, and make disbursements from the D&D Fund in accordance with the requirements of the Energy Policy Act. One financial performance measure is used to assess performance:

- Uninvested Daily Cash Balances

There were no instances of excessive uninvested daily cash balances during both FY 2010 and FY 2009.

During FY 2010 and FY 2009, the D&D Fund earned approximately 3.39% and 3.78%, respectively, from investments in Treasury securities.

Financial Statement Limitations

The accompanying financial statements were prepared to report the financial position and results of operations of the D&D Fund pursuant to the requirement of the Energy Policy Act.

While the statements have been prepared from the books and records of the D&D Fund in accordance with accounting principles generally accepted in the United States of America, the statements are different from the financial reports used to monitor and control budgetary resources that are prepared from the same books and records.

The statements should be read with the realization that they relate to the D&D Fund owned and managed by the Government, 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 Government.

Analysis of Systems, Controls, and Legal Compliance

Analysis of systems, controls, and legal compliance is performed, reported, and audited at the Departmental level. The results of these reviews and assessments are incorporated in the Department's Performance and Accountability Report.

Federal Managers' Financial Integrity Act

The Federal Managers' Financial Integrity Act (FMFIA) of 1982 requires that agencies establish internal control and financial systems to provide reasonable assurances that the integrity of Federal programs and operations are protected. Furthermore, it requires that the head of the agency provide an annual assurance statement on whether the agency has met this requirement and whether any material weaknesses exist.

In response to the FMFIA, the Department developed an internal control program that holds managers accountable for the performance, productivity, operations, and integrity of their programs through the use of management controls. Annually, senior managers at the Department are responsible for evaluating the adequacy of the internal controls surrounding their activities and determining whether they conform to the principles and standards established by the Office of Management and Budget, and the Government Accountability Office. The results of these evaluations and other senior management information are used to determine whether there are any internal control problems to be reported as material weaknesses. The Departmental Internal Control and Audit Review Council, the organization responsible for oversight of the Management Control Program, makes the final assessment and decision for the Department.

KPMG LLP
2001 M Street, NW
Washington, DC 20036-3389

Independent Auditors' Report

Office of Inspector General and Office of Environmental Management
United States Department of Energy:

We have audited the accompanying balance sheets of the Department of Energy (the Department) Uranium Enrichment Decontamination and Decommissioning Fund (D&D Fund) as of September 30, 2010 and 2009, and the related statements of net cost, changes in net position, and budgetary resources (hereinafter referred to as financial statements) for the years then ended. The objective of our audits was to express an opinion on the fair presentation of these financial statements. In connection with our fiscal year (FY) 2010 audit, we also considered the D&D Fund's internal controls over financial reporting and tested the D&D Fund's compliance with certain provisions of applicable laws, regulations, and contracts that could have a direct and material effect on these financial statements.

Summary

As stated in our opinion on the financial statements, we concluded that the D&D Fund's financial statements as of and for the years ended September 30, 2010 and 2009 are presented fairly, in all material respects, in conformity with U.S. generally accepted accounting principles.

Our consideration of internal control over financial reporting resulted in identifying certain deficiencies, related to unclassified network and information systems security, that we consider to be a significant deficiency, as defined in the Internal Control over Financial Reporting Section of this report.

We did not identify any deficiencies in internal control over financial reporting that we considered to be material weaknesses, as defined in the Internal Control over Financial Reporting section of this report.

The results of our tests of compliance with certain provisions of laws, regulations, and contracts disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*, issued by the Comptroller General of the United States, and Office of Management and Budget (OMB) Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements*, as amended.

The following sections discuss our opinion on the D&D Fund's financial statements; our consideration of the D&D Fund's internal control over financial reporting; our tests of the D&D Fund's compliance with certain provisions of applicable laws, regulations, and contracts; and management's and our responsibilities.

Opinion on the Financial Statements

We have audited the accompanying balance sheets of the D&D Fund as of September 30, 2010 and 2009 and the related statements of net cost, changes in net position, and budgetary resources for the years then ended.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the D&D Fund as of September 30, 2010 and 2009, and its net costs, changes in net position, and budgetary resources for the years then ended, in conformity with U.S. generally accepted accounting principles.

As discussed in note 4 to the financial statements, the D&D Fund has recorded a liability of approximately $14,177 million and $14,048 million at September 30, 2010 and 2009, respectively, to decontaminate and decommission the gaseous diffusion facilities (Diffusion Facilities) located in Oak Ridge, Tennessee; Paducah, Kentucky; and Portsmouth, Ohio. However, the Department is presently unable to determine the impact of time and inflation on the liability for decontamination and decommissioning costs. Because the decontamination and decommissioning work at the gaseous diffusion facility located in Oak Ridge is scheduled to be completed in FY 2020 and the decontamination and decommissioning work at the Paducah and Portsmouth gaseous diffusion facilities is currently estimated to extend until 2044, the length of time over which the work will be performed and the uncertainty inherent in the estimating process create 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.

As discussed in note 5 to the financial statements, the Energy Policy Act of 1992 (Energy Policy 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 D&D Fund is insufficient to pay remedial action costs, the Energy Policy Act provides that the Department, not the D&D Fund, will be responsible for such costs. Because the Department may be responsible for remedial action costs, the D&D Fund's recorded liability for remedial action at September 30, 2010 consists of the funding for such costs provided by Congress in the D&D Fund appropriation for FY 2011, $128 million, plus the unexpended portion of such appropriations for current and previous fiscal years, $29 million. The D&D Fund's recorded liability for remedial action at September 30, 2009 consists of the funding for such costs provided by Congress in the D&D Fund appropriation for FY 2010, $109 million, plus the unexpended portion of such appropriations for current and previous fiscal years, $56 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, which is only recorded in the accompanying financial statements to the extent described above, is approximately $2,224 million and $2,298 million as of September 30, 2010 and 2009, respectively. The remaining liability for the estimated future cost of remedial action at the Diffusion Facilities is recorded by the Department. The estimate 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 there is uncertainty inherent in the estimating process. The Department is presently unable to determine the impact of these factors on the estimated remedial action costs.

The information in the Overview and Required Supplementary Information sections is not a required part of the financial statements, but is supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of this information. However, we did not audit this information, and accordingly, we express no opinion on it.

Internal Control over Financial Reporting

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

Our consideration of internal control over financial reporting was for the limited purpose described in the Responsibilities section of this report and was not designed to identify all deficiencies in the internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. In our FY 2010 audit, we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses as defined above. However, we identified the following deficiency in internal control over financial reporting, described in Exhibit I, that we consider to be a significant deficiency in internal control over financial reporting. A significant deficiency is a deficiency or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

- **Unclassified Network and Information Systems Security** – We noted network vulnerabilities and weaknesses in access and other security controls in the Department's unclassified computer information systems. The identified weaknesses and vulnerabilities increase the risk that malicious destruction or alteration of data or unauthorized processing could occur. The Department should fully implement policies and procedures to improve its network and information systems security.

Exhibit II presents the status of prior year significant deficiencies.

We noted certain additional matters involving internal control over financial reporting that we will report to management in a separate letter.

Compliance and Other Matters

The results of our tests of compliance as described in the Responsibilities section of this report disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* or OMB Bulletin No. 07-04, as amended.

* * * * * * *

Responsibilities

Management's Responsibilities: Management is responsible for the financial statements; establishing and maintaining effective internal control; and complying with laws, regulations, and contracts applicable to the D&D Fund.

Auditors' Responsibilities: Our responsibility is to express an opinion on the FY 2010 and FY 2009 financial statements of the D&D Fund based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Bulletin No. 07-04, as amended. Those standards and OMB Bulletin No. 07-04, as amended, require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the D&D Fund's internal control over financial reporting. Accordingly, we express no such opinion.

KPMG

An audit also includes:

- Examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements;
- Assessing the accounting principles used and significant estimates made by management; and
- Evaluating the overall financial statement presentation.

We believe that our audits provide a reasonable basis for our opinion.

In planning and performing our fiscal year 2010 audit, we considered the D&D Fund's internal control over financial reporting by obtaining an understanding of the Department's internal control, determining whether internal controls had been placed in operation, assessing control risk, and performing tests of controls as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements but not for the purpose of expressing an opinion on the effectiveness of the D&D Fund's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Department's internal control over financial reporting. Furthermore, we did not test all controls relevant to operating objectives as broadly defined by the *Federal Managers' Financial Integrity Act of 1982*.

As part of obtaining reasonable assurance about whether the D&D Fund's fiscal year 2010 financial statements are free of material misstatement, we performed tests of the D&D Fund's compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the determination of the financial statement amounts, and certain provisions of other laws and regulations specified in OMB Bulletin No. 07-04, as amended. We limited our tests of compliance to the provisions described in the preceding sentence, and we did not test compliance with all laws, regulations, contracts, and grant agreements applicable to the D&D Fund. However, providing opinion on compliance with laws, regulations, contracts, and grant agreements was not an objective of our audit, and accordingly, we do not express such an opinion.

The D&D Fund's response to the finding identified in our audit is presented in Exhibit I. We did not audit the D&D Fund's response, and accordingly, we express no opinion on it.

This report is intended solely for the information and use of the D&D Fund's management, the Department's Office of Inspector General, OMB, the U.S. Government Accountability Office, and the U.S. Congress and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

May 27, 2011

Independent Auditors' Report
Exhibit I – Significant Deficiency

Unclassified Network and Information Systems Security

The Department uses a series of interconnected unclassified networks and information systems. Federal and Departmental directives require the establishment and maintenance of security over unclassified information systems, including financial management systems. Past audits identified significant weaknesses in selected systems and devices attached to the computer networks at some Department sites. The Department has implemented corrective actions to address many of the identified weaknesses at the sites whose security controls we, and the Department's Office of Health, Safety and Security, reviewed in prior years. However, we continued to identify similar weaknesses in security controls at the sites we reviewed in fiscal year 2010. The Department recognizes the need to enhance its unclassified cyber security program and has categorized unclassified cyber security as a leadership challenge in its *Federal Managers' Financial Integrity Act* assurance statement for fiscal year 2010. Improvements are still needed in the areas of system and application access and related access privileges, password management, configuration management, and restriction of network services.

Our fiscal year 2010 audit disclosed information system security deficiencies consistent with our findings in prior years. Specifically, we noted weaknesses within layered security controls for network servers, desktop systems, and business applications. We identified multiple instances of blank or easily guessed administrator or user passwords on network systems that could permit unauthorized access to those systems and their data. We also found weak access controls for shared directories and files, in which unauthorized users could potentially gain access to sensitive data, including personally identifiable information, or modify configuration settings.

In the area of configuration and vulnerability management, we identified deficiencies in the patch management process for timely and secure installation of critical software patches, with numerous instances in which security patches had not been applied to correct known vulnerabilities more than three months after the patches became available. We also identified instances where sites had not correctly configured their vulnerability scanning software to ensure known vulnerabilities were identified and remediated in a timely manner, or had not fully implemented an effective vulnerability and patch management program as a result of having insufficient vulnerability scanning licenses to scan all systems.

While many of these cyber security deficiencies were corrected immediately after we identified and reported them to site management, weaknesses in the process for identifying, monitoring, and remediating such deficiencies have continued from prior years. In several instances, the sites had not fully implemented procedures designed to ensure that minimum cyber security requirements were met. Furthermore, even when policies and procedures were established, implementation of those policies and procedures were sometimes inconsistent and sites had not always validated, through testing or other means, that the procedures were operating effectively.

The Department's Office of Inspector General (OIG) reported on these deficiencies in its evaluation report on *The Department's Unclassified Cyber Security Program - 2010*, dated October 2010. The OIG noted that identified weaknesses occurred, in part, because Departmental elements had not always ensured that cyber security requirements were effectively implemented. Consistent with prior year findings, the OIG reported that the National Nuclear Security Administration (NNSA) had begun, but not fully implemented, a program for management oversight and periodic evaluation of the cyber security practices of its Federal

Independent Auditors' Report
Exhibit I – Significant Deficiency

sites offices and associated field sites. The OIG also identified deficiencies in configuration management processes at several sites in which, contrary to the Department's policies and procedures, systems were placed into operation prior to completing required system security plans or following incomplete testing of security controls.

The identified vulnerabilities and control weaknesses in unclassified network and information systems increase the possibility that malicious destruction or alteration of data or unauthorized processing could occur. Because of our concerns, we performed supplemental procedures and identified compensating controls that mitigate the potential effect of these security weaknesses on the integrity, confidentiality, and availability of data in the Department's financial applications.

During fiscal year 2010, the Department has taken positive steps to enhance its unclassified cyber security program, including establishing a Computer Security Governance Council at the Under Secretary level to oversee its cyber security reform efforts, refining cyber security policies and procedures, and initiating the implementation of an automated tool to aid in cyber security and performance reporting.

Recommendation

Because the D&D Fund does not have the ability to affect changes on the Department's network security, no further action is needed by the D&D Fund other than to monitor the progress of the Office of the Chief Information Officer (OCIO). While some progress has been made, continued efforts are needed to strengthen the management review process to include better monitoring of field sites to ensure the adequacy of cyber security program performance, fully implement government-wide security configuration standards that establish minimum baseline security controls, and employ the use of automated tools compatible with the baseline standards in the resolution of the vulnerabilities and control weaknesses described above.

Therefore, we recommend that the Department's Chief Information Officer (CIO), in conjunction with NNSA and other cognizant program officials, fully implement policies and procedures to ensure that the Federal cyber security standards are met, that networks and information systems are adequately protected against unauthorized access, and that an adequate performance monitoring program is implemented, such as the use of periodic evaluations by Headquarters management, to ensure the effectiveness of sites' cyber security program implementation. Detailed recommendations to address the issues discussed above have been separately reported to the program offices and the OCIO.

Management Response

Management concurs with the recommendation as presented, with the recognition that the Department's OCIO is the lead office in affecting change on the Department's information systems.

Independent Auditors' Report
Exhibit II – Status of Prior Year Finding

Significant deficiency from FY 2008 (with parenthetical disclosure of year first reported)	Status at September 30, 2010
Unclassified Information System Security (2001)	Again reported in Exhibit I as a significant deficiency for FY 2010

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

Balance Sheets

September 30, 2010 and 2009

(In thousands)

Assets		**2010**	**2009**
Entity assets:			
Intragovernmental:			
Fund balance with treasury	$	200,218	355,907
Investments, net		4,924,638	4,871,255
Accrued interest receivable		49,980	50,291
Total entity assets	$	5,174,836	5,277,453
Liabilities and Net Position			
Liabilities covered by budgetary resources:			
Decontamination and decommissioning	$	217,763	383,350
Remedial action		29,071	56,202
Uranium and thorium licensee claims		24,375	38,129
Accounts payable and other accruals		145,013	101,810
DOE interfund accounts payable		9,431	8,478
Total funded liabilities		425,653	587,969
Liabilities not covered by budgetary resources:			
Decontamination and decommissioning		13,959,512	13,665,032
Remedial action		128,418	108,672
Uranium and thorium licensee claims		191,222	187,476
Total unfunded liabilities		14,279,152	13,961,180
Total liabilities		14,704,805	14,549,149
Net position:			
Unexpended appropriations – other funds		175,306	340,769
Cumulative results of operations – earmarked funds		(9,705,275)	(9,612,465)
Total net position		(9,529,969)	(9,271,696)
Total liabilities and net position	$	5,174,836	5,277,453

See accompanying notes to financial statements.

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

Statements of Net Cost

Years ended September 30, 2010 and 2009

(In thousands)

		2010	2009
Environmental quality program costs:			
Decontamination and decommissioning	$	692,961	520,084
Storage and disposition		44,301	60,430
Uranium and thorium licensee claims		13,836	31,972
Postclosure liability administration		20,399	26,083
Net program costs		771,497	638,569
Cost applied to the reduction of legacy liabilities		(741,788)	(599,440)
Costs not assigned		966,949	102,295
Exchange revenues		(241,867)	(183,792)
Net cost of operations	$	754,791	(42,368)

See accompanying notes to financial statements.

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

Statements of Changes in Net Position

Years ended September 30, 2010 and 2009

(In thousands)

	2010		
	Earmarked funds	**Other funds**	**Total**
Cumulative results of operations:			
Beginning balance	$ (9,612,465)	—	(9,612,465)
Budgetary financing sources:			
Appropriations used	—	164,463	164,463
Net transfers in without reimbursement	25,096	—	25,096
Other financing sources:			
Imputed financing from costs absorbed by others	9,422	—	9,422
Other appropriations transferred from DOE, net of adjustments	463,000	—	463,000
Total financing sources	497,518	164,463	661,981
Net cost of operations	(590,328)	(164,463)	(754,791)
Net change	(92,810)	—	(92,810)
Total cumulative results of operations	(9,705,275)	—	(9,705,275)
Unexpended appropriations:			
Beginning balance	—	340,769	340,769
Budgetary financing sources:			
Appropriations used	—	(164,463)	(164,463)
Appropriations transferred	—	(1,000)	(1,000)
Total budgetary financing sources	—	(165,463)	(165,463)
Total unexpended appropriations	—	175,306	175,306
Net position	$ (9,705,275)	175,306	(9,529,969)

	2009		
	Earmarked funds	**Other funds**	**Total**
Cumulative results of operations:			
Beginning balance	$ (10,194,832)	—	(10,194,832)
Budgetary financing sources:			
Appropriations used	—	49,231	49,231
Net transfers in without reimbursement	14,500	—	14,500
Other financing sources:			
Imputed financing from costs absorbed by others	13,268	—	13,268
Other appropriations transferred from DOE, net of adjustments	463,000	—	463,000
Total financing sources	490,768	49,231	539,999
Net cost of operations	91,599	(49,231)	42,368
Net change	582,367	—	582,367
Total cumulative results of operations	(9,612,465)	—	(9,612,465)
Unexpended appropriations:			
Beginning balance	—	—	—
Budgetary financing sources:			
Appropriations received	—	390,000	390,000
Appropriations used	—	(49,231)	(49,231)
Total budgetary financing sources	—	340,769	340,769
Total unexpended appropriations	—	340,769	340,769
Net position	$ (9,612,465)	340,769	(9,271,696)

See accompanying notes to financial statements.

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

Statements of Budgetary Resources

Years ended September 30, 2010 and 2009

(In thousands)

		2010	2009
Budgetary resources:			
Unobligated balance brought forward, October 1	$	53,124	2,497
Recovery of prior year obligations		142,332	—
Budget authority, appropriation		573,850	925,503
Temporarily not available pursuant to public law		(1,000)	—
Total budgetary resources	$	768,306	928,000
Status of budgetary resources:			
Obligations incurred – direct	$	758,008	874,876
Unobligated balance available		10,298	49,224
Apportioned for subsequent periods		—	3,900
Total status of budgetary resources	$	768,306	928,000
Change in obligated balance:			
Unpaid obligations, brought forward, October 1	$	540,565	251,905
Obligations incurred		758,008	874,876
Less gross outlays		(733,888)	(586,216)
Unpaid obligations, net, end of period	$	564,685	540,565
Outlays:			
Gross outlays	$	733,888	586,216
Less distributed offsetting receipts		(586,366)	(618,720)
Net outlays	$	147,522	(32,504)

See accompanying notes to financial statements.

(1) Summary of Significant Accounting Policies

(a) Reporting Entity

The Energy Policy Act of 1992 (Energy Policy Act) requires the United States (U.S.) Department of Energy (the Department) to retain responsibility for the costs of environmental remediation resulting from the U.S. Government's (Government) operation of the three gaseous diffusion facilities (Diffusion Facilities) located in Oak Ridge, Tennessee; Paducah, Kentucky; and Portsmouth, Ohio, prior to that date.

The Energy Policy Act established the Uranium Enrichment Decontamination and Decommissioning Fund (D&D Fund) within the Department as of October 24, 1992 to pay for the costs of decontaminating and decommissioning the Diffusion Facilities (note 4). The Energy Policy Act further provides that the D&D Fund will reimburse licensees operating uranium or thorium processing sites for the costs of environmental remediation at those sites, subject to maximum reimbursement limits (note 6). The Energy Policy Act, as amended, also provides for payment of the costs of remedial action at the Diffusion Facilities, to the extent that the amount available in the D&D Fund is sufficient (note 5). To pay for these activities, the Energy Policy Act and subsequent legislation authorized funding over a 15-year period, adjusted annually using the Consumer Price Index for All Urban Consumers (Consumer Price Index), as published by the Department of Labor. The funding is to be obtained from Government appropriations (note 7) and from assessments on domestic utilities that were completed in Fiscal Year (FY) 2007.

Government contributions to the Fund were scheduled to end with the FY 2007 contribution. However, Government appropriations and resulting Government contributions through September 30, 2007 were approximately $918.6 million less than authorized by the Energy Policy Act. The ability of the D&D Fund to fulfill its responsibilities is contingent upon the receipt of these contributions. Therefore, the Department continued to ask Congress for annual Government contributions to meet the Government's obligation. Congress provided additional contributions in FYs 2008 and 2009, and also designated $390 million of FY 2009 American Recovery and Reinvestment Act (ARRA) funding for the Fund's cleanup mission. These follow-on actions have satisfied the Government's original obligation to the Fund. Although the Government satisfied its original obligation to the Fund in FY 2009, the Department has continued to ask Congress for annual contributions to help offset lost interest earnings that resulted from the Government not making its required contributions to the Fund within the prescribed time frame. In FY 2010, Congress appropriated $463 million for the fund.

The ARRA funding is a separate appropriation from the D&D Fund and is not available for investment in Treasury securities like the normal D&D Fund appropriations. Therefore, the ARRA funding is neither a deposit into the Fund nor additional spending authority from the Fund. The ARRA funding, however, does function as a contribution to the Fund's cleanup mission by paying for work scope that would otherwise have to be paid from the D&D Fund. Since the ARRA funding provides a dollar-for-dollar reduction in the required future outlays from the D&D Fund's invested balances, the Department recognizes the $390 million of ARRA funding as an offset to the Government's contribution shortfall.

Since the Department considers the D&D Fund as an entity to be broader than just the invested balances with Treasury, the financial statement amounts capture both the traditional D&D Fund appropriation and these designated ARRA funds.

(b) Basis of Presentation

These financial statements have been prepared from the accounting records of the D&D Fund in conformance with accounting principles generally accepted in the United States of America.

The Department's expenses are summarized in its statement of net cost by business line. The Environmental Quality business line includes, among other activities, all D&D Fund expenses. The purpose of environmental quality activities is to understand and reduce environmental, safety, and health risks and threats and to develop the technologies and institutions required for solving domestic and global environmental problems.

The Department's headquarters, field offices, and the management and integrating (M&I) contractor (at Oak Ridge) and non-integrating contractors conducting environmental remediation activities at the Department's facilities discussed in note 1(a) record D&D Fund activity in their accounting systems. The M&I contractor integrates its accounting system with the Department through the use of reciprocal accounts. The M&I contractor is required to comply with Departmental accounting practices and procedures, which provide for the unique identification of D&D Fund transactions. These financial statements are prepared by extracting and adjusting D&D Fund-related data from the financial records of the Department and the M&I contractor.

(c) Basis of Accounting

The D&D Fund's financial statements are prepared using 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 D&D Fund also uses budgetary accounting to facilitate compliance with legal constraints and to monitor its budget authority at the various stages of execution, including allotment, obligation, and eventual outlay.

(d) Earmarked Funds

The D&D Fund has adopted Statement of Federal Financial Accounting Standards (SFFAS) No. 27, *Identifying and Reporting Earmarked Funds*, which requires separate identification of earmarked funds on the balance sheets, statements of changes in net position, and in the notes. Earmarked funds are financed by specifically identified revenues, often supplemented by other financing sources, which remain available over time. These specifically identified revenues and other financing sources are required by statute to be used for designated activities, benefits, or purposes, and must be accounted for separately from the Government's general revenues.

(Continued)

(e) Fund Balance with Treasury

Funds with the Treasury primarily represent funds left uninvested on the last day of the fiscal year (September 30) to cover any unanticipated disbursements that occur after the September 30 overnight investment has been made with Treasury. This approach helps the D&D Fund avoid ending the fiscal year with a negative cash balance due to unanticipated disbursements.

(f) Investments

The Energy Policy Act requires the D&D Fund to invest in Treasury obligations. The D&D Fund's investments in Treasury securities are classified as held-to-maturity. Held-to-maturity securities are those securities that the D&D Fund has the ability and intent to hold until maturity. 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 held-to-maturity are included in earnings and are derived using the specific-identification method for determining the cost of securities sold.

(g) 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 remediation. All plant and equipment held by the D&D Fund at September 30, 2010 and 2009 are used in environmental remediation.

(h) Environmental Remediation Liabilities

The D&D Fund's environmental remediation liabilities are recorded at current cost, which is the amount that would be paid if all equipment, facilities, and services included in the related cost estimates were acquired during the current period. Each fiscal year, the liabilities are increased for inflation, reduced by current expenditures, and adjusted for estimated cost increases or decreases.

(i) Government Appropriations

Government appropriations are 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 (OMB), or the date the appropriations legislation is signed into law.

(j) Imputed Costs and Financing Sources

Certain salaries, employee benefits, and other costs allocable to the D&D Fund are funded under separate appropriations, and are included in the accompanying financial statements through allocations by entities outside the D&D Fund in accordance with SFFAS No. 4, *Managerial Cost Accounting Concepts for the Federal Government*. An equivalent amount is included in imputed financing.

(k) Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(l) Tax Status

The D&D Fund, as a Federal entity, is not subject to Federal, state, or local income taxes. Accordingly, no provision for income taxes is recorded in the accompanying financial statements.

(m) Reclassifications

Certain FY 2009 amounts have been reclassified to conform to the FY 2010 presentation.

(2) Fund Balance with Treasury

Summary of the status of fund balances with the U.S. Treasury for appropriated funds as of September 30, 2010 and 2009 are as follows (in thousands):

		2010	2009
Unobligated budgetary resources:			
Available	$	4,526,187	4,556,497
Obligated balance not yet disbursed:			
Undelivered orders		268,000	430,358
Accounts payable and other liabilities		154,352	110,207
Budgetary resources invested in Treasury securities		(4,748,321)	(4,741,155)
Fund balance with Treasury	$	200,218	355,907

(Continued)

(3) Investments, Net

The D&D Fund invests in nonmarketable market-based Treasury securities. All Treasury securities held at September 30, 2010 and 2009 are classified as held-to-maturity. The components of Treasury securities held as of September 30, 2010 and 2009 are as follows (in thousands):

		2010	2009
Face value	$	4,760,922	4,760,775
Unamortized premiums		168,376	118,116
Unamortized discounts		(4,660)	(7,636)
		4,924,638	4,871,255
Unrealized gains		238,626	206,396
Total	$	5,163,264	5,077,651

The market value of Treasury securities held as of September 30, 2010 and 2009 is as follows (in thousands):

		2010	2009
Maturity:			
Maturing within 1 year	$	981,563	1,145,418
Maturing after 1 year through 5 years		4,156,803	3,932,233
Maturing after 5 years through 10 years		24,898	—
Total	$	5,163,264	5,077,651

During FY 2010 and FY 2009, the D&D Fund recognized interest revenue of $169 million and $184 million, respectively.

The Government does not set aside assets to pay for expenditures associated with the funds for which the Department holds Treasury securities. These Treasury securities are an asset to the Department and a liability to Treasury. Because the Department and Treasury are both parts of the Government, these assets and liabilities offset each other from the standpoint of the Government as a whole. For this reason, they do not represent an asset or a liability in the Government-wide financial statements.

Treasury securities provide the Department with authority to draw upon the Treasury to make expenditures, subject to available appropriations and OMB apportionments. When the Department requires redemptions of these securities, the Government finances those expenditures out of accumulated cash balances by raising taxes or other receipts, by borrowing from the public or repaying less debt, or by curtailing other expenditures. This is the same way the Government finances all other expenditures.

(Continued)

(4) Decontamination and Decommissioning

The Department's estimate of the costs to decontaminate and decommission the Diffusion Facilities is based on an aggressive contracting strategy intended to maximize cost savings and enhance scheduling through the use of performance-based contracts. Environmental remediation, which includes both decontamination and decommissioning and remedial action (note 5) activities, will be completed through fixed-price contracts where appropriate.

Changes in the liability for decontamination and decommissioning from October 1, 2008 through September 30, 2010 are summarized as follows (in thousands):

Balance, October 1, 2008	$	14,485,629
Provision for inflation		231,770
Decontamination and decommissioning costs incurred		(399,772)
Adjustment to new cost estimate		(269,295)
Balance, September 30, 2009		14,048,332
Provision for inflation		233,203
Decontamination and decommissioning costs incurred		(586,739)
Adjustment to new cost estimate		482,429
Balance, September 30, 2010	$	14,177,225

Of the total liability of $14,177 million for decontamination and decommissioning as of September 30, 2010, $218 million is covered by appropriations for current and previous fiscal years (budgetary resources) and $13,959 million is not covered by budgetary resources. Of the total liability of $14,048 million for decontamination and decommissioning as of September 30, 2009, $383 million is covered by appropriations for current and previous fiscal years (budgetary resources) and $13,665 million is not covered by budgetary resources.

Approximately $151 million of the FY 2010 costs incurred and approximately $17 million of the FY 2009 costs incurred were from ARRA funding rather than the D&D Fund's investment balances. As of September 30, 2010 and 2009, approximately $152 million and $303 million, respectively, of the $320 million designated by ARRA for D&D Fund cleanup scope remains available to address the liability. These amounts are included in the $218 million and $383 million of budgetary resources at September 30, 2010 and 2009, respectively, discussed above. Note 1(a) to the financial statements provides additional discussion on the ARRA funding.

Because the decontamination and decommissioning work at the gaseous diffusion facility located in Oak Ridge is scheduled to be completed in FY 2020 and the decontamination and decommissioning work at the Paducah and Portsmouth gaseous diffusion facilities is currently estimated to extend until 2044, the length of time over which the work will be performed and the uncertainty inherent in the estimating process create 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.

(5) Remedial Action

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

Because the Energy Policy Act places primary responsibility for remedial action costs with the Department if sufficient resources are not available in the D&D Fund, the D&D 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.

Changes in the liability for remedial action from October 1, 2008 through September 30, 2010 are summarized as follows (in thousands):

Balance, October 1, 2008	$	231,144
Provision for inflation and remedial action costs		106,700
Remedial action costs incurred		(172,970)
Balance, September 30, 2009		164,874
Provision for inflation and remedial action costs		141,171
Remedial action costs incurred		(148,556)
Balance, September 30, 2010	$	157,489

Of the total liability of $157 million for remedial action as of September 30, 2010, $29 million is covered by budgetary resources and $128 million is not covered by budgetary resources. Of the total liability of $165 million for remedial action as of September 30, 2009, $56 million is covered by budgetary resources and $109 million is not covered by budgetary resources.

The estimated future cost of remedial action at the Diffusion Facilities, which is only recorded in the accompanying financial statements to the extent described above, is approximately $2,224 million and $2,298 million as of September 30, 2010 and 2009, respectively. The remaining liability for the estimated future cost of remedial action at the Diffusion Facilities is recorded by the Department. The estimate 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

(Continued)

estimating process. The Department is presently unable to determine the impact of these factors on the estimated remedial action costs.

(6) Uranium and Thorium Licensee Claims

The Energy Policy Act, as amended, provides that the D&D Fund will reimburse licensees operating uranium or thorium processing sites for the costs of environmental remediation at those sites, subject to maximum reimbursements of $350 million for the uranium licensees and $365 million for the thorium licensee, plus adjustments for inflation.

As of September 30, 2010 and 2009, the Department has approved for payment $653 million and $638 million, respectively, of uranium and thorium licensee claims, and has paid $619 million and $605 million, respectively, to licensees. Approved but unpaid claims will be paid to licensees when additional funds are appropriated for that purpose. The Department receives additional claims from licensees as remediation occurs, and expects that total reimbursements of uranium and thorium licensee claims will reach the limits set by legislation.

The D&D Fund's liability for reimbursement of uranium and thorium licensee claims consists of the maximum reimbursements authorized by legislation less amounts paid, adjusted annually for inflation. Changes in the liability for reimbursement of uranium and thorium licensee claims from October 1, 2008 through September 30, 2010 are summarized as follows (in thousands):

Balance, October 1, 2008	$	253,421
Provision for inflation		4,156
Claims reimbursed		(31,972)
Balance, September 30, 2009		225,605
Provision for inflation		3,746
Claims reimbursed		(13,754)
Balance, September 30, 2010	$	215,597

Of the total liability of $216 million as of September 30, 2010, $24 million is covered by budgetary resources and $192 million is not covered by budgetary resources. Of the total liability of $226 million as of September 30, 2009, $38 million is covered by budgetary resources and $188 million is not covered by budgetary resources.

All $14 million of FY 2010 reimbursements and $32 million of FY 2009 reimbursements were paid from ARRA funding rather than the D&D Fund's investment balances. Therefore, approximately $24 million of the $70 million designated by ARRA for uranium and thorium reimbursements remains available and represents the budgetary resources available at September 30, 2010 to address the $216 million liability. Note 1(a) to the financial statements provides additional discussion on the ARRA funding.

(7) Government Appropriations

The Energy Policy Act and subsequent amendments require annual Government appropriations to the D&D Fund through FY 2007, equal to the difference between authorized funding, adjusted annually for inflation using the Consumer Price Index, and the assessment against domestic utilities. Authorized funding was initially established at $480.0 million per year by the Energy Policy Act. That amount remained unchanged until FY 1999, when legislation increased authorized funding to $488.3 million per year. Legislation enacted during FY 2002 increased authorized funding to $518.2 million per year.

The ability of the D&D Fund to fulfill its responsibilities is contingent upon receipt of funds from these sources. The D&D Fund received a payment of $452.0 million in FY 2007 from Defense Environmental Restoration and Waste Management. This was the final Government payment authorized by the legislation discussed above.

Cumulative Government appropriations received through FY 2007 of $5,362.4 million were less than the full amount authorized by the Energy Policy Act of $6,281.0 million, resulting in funding authorized but not received of $918.6 million as of September 30, 2007. The ability of the D&D Fund to fulfill its responsibilities is contingent upon the receipt of these contributions. Therefore, the Department continued to ask Congress for annual Government contributions to meet the Government's obligation. Congress provided additional contributions in FY 2008 and FY 2009, and also designated $390 million of FY 2009 ARRA funding for the Fund's cleanup mission. These follow-on actions have satisfied the Government's original obligation to the Fund. Although the Government satisfied its original obligation to the Fund in FY 2009, the Department has continued to ask Congress for annual contributions to help offset lost interest earnings that resulted from the Government not making its required contributions to the Fund within the prescribed time frame. In FY 2010, Congress appropriated $463 million for the fund.

The ARRA funding is a separate appropriation from the D&D Fund and is not available for investment in Treasury securities like the normal D&D Fund appropriations. Therefore, the ARRA funding is neither a deposit into the Fund nor additional spending authority from the Fund. The ARRA funding does, however, function as a contribution to the Fund's cleanup mission by paying for work scope that would otherwise have to be paid from the D&D Fund. Since the ARRA funding provides a dollar for dollar reduction in the required future outlays from the D&D Fund's invested balances, the Department recognizes the $390 million of ARRA funding as an offset to the Government's contribution shortfall.

(8) Pension and Postretirement Benefit Liabilities

The D&D Fund's primary integrated contractor maintains a defined benefit pension plan and is a party to two defined benefit postretirement (PRB) plans, under which they promise to pay participants specified benefits, such as a percentage of the final average pay for each year of service, or a percentage of actual medical expenses in retirement. The D&D Fund follows multiemployer accounting for these plans in accordance with Statement of Financial Accounting Standards (SFAS) No. 87, *Employers' Accounting for Pensions*, and SFAS No. 106, *Employers' Accounting for Postretirement Benefits Other Than Pensions*. The D&D Fund is required to reimburse the contractor for its share of the annual contractor contributions to those plans based on planned funding between the EM Defense Funds and the D&D Fund as determined by the Department's budget planning assumptions. Payment of such amounts is included as program cost on the statements of net cost. For the years ended September 30, 2010 and 2009, the D&D Fund provided funding for approximately $6 million and $16 million to the contractor's defined benefit pension plan, and $8 million and $11 million related to PRB plans, respectively.

(9) Earmarked Funds

		FY 2010			FY 2009		
		Earmarked funds	**Other funds**	**Total**	**Earmarked funds**	**Other funds**	**Total**
Balance sheet							
Assets:							
Fund balance with Treasury	$	4,977	195,241	200,218	9,749	346,158	355,907
Investments		4,924,638	—	4,924,638	4,871,255	—	4,871,255
Accrued interest receivable		49,980	—	49,980	50,291	—	50,291
Total assets	$	4,979,595	195,241	5,174,836	4,931,295	346,158	5,277,453
Liabilities and net position:							
Environmental liabilities	$	14,550,361	—	14,550,361	14,438,861	—	14,438,861
Accounts payable		125,083	19,930	145,013	96,421	5,389	101,810
Other liabilities		9,415	16	9,431	8,478	—	8,478
Unexpended appropriations		—	175,306	175,306	—	340,769	340,769
Cumulative results of operations		(9,705,264)	(11)	(9,705,275)	(9,612,465)	—	(9,612,465)
Total liabilities and net position	$	4,979,595	195,241	5,174,836	4,931,295	346,158	5,277,453
Statement of net costs							
Program costs	$	607,112	164,385	771,497	589,338	49,231	638,569
Costs applied to the reduction of legacy liabilities		(741,788)	—	(741,788)	(599,440)	—	(599,440)
Costs not assigned		966,871	78	966,949	102,295	—	102,295
Exchange revenues		(241,867)	—	(241,867)	(183,792)	—	(183,792)
Net cost of operations	$	590,328	164,463	754,791	(91,599)	49,231	(42,368)
Statement of changes in net position							
Cumulative results of operations, beginning balance	$	(9,612,465)	—	(9,612,465)	(10,194,832)	—	(10,194,832)
Appropriations used		—	164,463	164,463	—	49,231	49,231
Net transfers-out without reimbursement		25,096	—	25,096	14,500	—	14,500
Imputed financing from costs absorbed		9,422	—	9,422	13,268	—	13,268
Other financing sources		463,000	—	463,000	463,000	—	463,000
Net cost of operations		(590,328)	(164,463)	(754,791)	91,599	(49,231)	42,368
Cumulative results of operations, ending balance	$	(9,705,275)	—	(9,705,275)	(9,612,465)	—	(9,612,465)
Unexpended appropriations, beginning balance	$	—	340,769	340,769	—	—	—
Appropriations received		—	—	—	—	390,000	390,000
Appropriations used		—	(164,463)	(164,463)	—	(49,231)	(49,231)
Appropriations transferred in/out		—	(1,000)	(1,000)	—	—	—
Unexpended appropriations, ending balance	$	—	175,306	175,306	—	340,769	340,769

(10) Reconciliation of Net Cost of Operations to Budget

The objective of this information is to provide an explanation of the differences between budgetary and financial (proprietary) accounting. This is accomplished by means of a reconciliation of budgetary obligations and nonbudgetary resources available to the reporting entity with its net cost of operations.

		2010	2009
Resources used to finance activities:			
Obligations incurred	$	758,008	874,876
Less offsetting receipts		(586,366)	(618,720)
Less spending authority from recoveries		(142,332)	—
Net obligations		29,310	256,156
Imputed financing from costs absorbed by others		9,422	13,268
Transfers out		25,096	14,500
Other – appropriations transferred from DOE		463,000	463,000
Total resources used to finance activities		526,828	746,924
Resources used to finance items not part of the net cost of operations:			
Change in budgetary resources obligated for goods, services, and benefits ordered but not yet provided		162,072	(229,888)
Resources that finance the acquisition of assets		(31,357)	(6,420)
Resources that fund expenses recognized in prior periods		(741,788)	(597,542)
Other resources and adjustments		596	(11,018)
Total resources used to finance items not part of the net cost of operations		(610,477)	(844,868)
Net cost of items that do not require or generate resources in current period:			
Increase in unfunded liability estimates		957,527	87,129
Amortization of premiums and discounts on treasury investments		(9,788)	19,983
Other		(109,299)	(51,536)
Total net cost of items that do not require or generate resources in current period		838,440	55,576
Net cost of operations	$	754,791	(42,368)

REQUIRED SUPPLEMENTARY INFORMATION

Deferred Maintenance

Deferred maintenance is maintenance that was not performed when it should have been or was scheduled to be performed and which, therefore, is put off or delayed to a future period. The United States Department of Energy (the Department) has developed an estimate for deferred maintenance in the amount of approximately $21 million as of September 30, 2010 for the structures and facilities at the gaseous diffusion facilities (Diffusion Facilities) located in Oak Ridge, Tennessee; Paducah, Kentucky; and Portsmouth, Ohio, and has determined that there is no deferred maintenance with respect to capital equipment at the Diffusion Facilities.

The Department developed its deferred maintenance estimate for buildings and other structures and facilities using the condition assessment survey (periodic inspections) method, except for some structures and facilities, such as underground pipe systems, where physical barriers prevent inspection. In such cases, a deferred maintenance estimate was developed for deficiencies identified during normal operations but not corrected when scheduled. Where complete condition assessments were not available for all assets, estimates were extrapolated from results of condition assessments performed for similar assets. Where appropriate, results from previous condition assessments were adjusted to estimate current conditions. Deferred maintenance for excess property, including structures and facilities awaiting decontamination and decommissioning, was reported only where maintenance is needed for worker and public health and safety concerns. In accordance with standards identified by the *National Association of College and University Business Officers*, the Department has designated the acceptable operating condition standard as a Facility Condition Index of less than or equal to 5%.