U.S. Department of Energy
Office of Inspector General
Office of Audits and Inspections

# Audit Report

# Department of Energy's Uranium Enrichment Decontamination and Decommissioning Fund's Fiscal Year 2012 Financial Statement Audit

OAS-FS-14-07

March 2014

**Department of Energy**
Washington, DC 20585

March 20, 2014

MEMORANDUM FOR THE SENIOR ADVISOR FOR ENVIRONMENTAL MANAGEMENT

FROM: Rickey R. Hass
Deputy Inspector General
for Audits and Inspections
Office of Inspector General

SUBJECT: INFORMATION: Audit Report on "Department of Energy's Uranium Enrichment Decontamination and Decommissioning Fund's Fiscal Year 2012 Financial Statement Audit"

The attached report presents the results of the independent certified public accountants' audit of the Department of Energy's (Department) Uranium Enrichment Decontamination and Decommissioning Fund's (D&D Fund) Fiscal Year 2012 balance sheets and the related statements of net cost, changes in net position and budgetary resources.

To fulfill the Office of Inspector General's audit responsibilities, we contracted with the independent public accounting firm of KPMG, LLP (KPMG) to conduct the audit, subject to our review. 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 in which 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, 2012 and 2011, and its net costs, changes in net position, and budgetary resources for the years then ended, in conformity with United States generally accepted accounting principles.

As part of this review, the auditors also considered the D&D Fund's internal controls over financial reporting. The audit identified a deficiency, related to recording of environmental liabilities that is considered to be a material weakness, and other deficiencies, related to unclassified network and information systems security that is considered to be a significant deficiency. The following material weakness and significant deficiency were noted in the report:

- Environmental Liabilities – A deficiency was identified over the D&D Fund's management review procedures to prevent and detect errors and omissions in environmental liabilities. Even though the D&D Fund established additional control procedures in Fiscal Year 2012, misstatements were identified that indicated a continuing reasonable possibility that a material misstatement would not be prevented, detected and corrected on a timely basis.

- Unclassified Network and Information Systems Security – Deficiencies over network vulnerabilities and weaknesses in access and other security controls in the Department's unclassified computer information systems were identified. The identified weaknesses and vulnerabilities increase the risk that malicious destruction or alteration of data or unauthorized processing could occur.

The auditors' 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* or applicable Office of Management and Budget Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements,* as amended.

Report No.: OAS-FS-14-07

Attachment

cc: Deputy Assistant Secretary for Program Planning and Budget, EM-60
Deputy Chief Financial Officer, CF-2
Director, Office of Finance and Accounting, CF-10
Acting Director, Office of Financial Risk, Policy and Controls, CF-50
Assistant Director, Office of Financial Risk, Policy and Controls, CF-50
Audit Resolution Specialist, Office of Financial Risk, Policy and Controls, CF-50
Team Leader, Office of Financial Risk, Policy and Controls, CF-50

Attachment

KPMG

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

Financial Statements

September 30, 2012 and 2011

(With Independent Auditors' Reports Thereon)

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

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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 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 continued through FY 2011 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.

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 2024 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 2012:

| | **Planned** | **Completed** |
|---|---|---|
| Release site completion | 1 | — |
| Facility completion | 13 | 12 |

Oak Ridge planned and completed eight facilities, and no release sites were planned. Paducah targeted one facility that was not completed due to funding constraints. Paducah did not target any release sites. Portsmouth planned and completed four facilities. Portsmouth targeted one release site that was not completed due to funding being redirected.

**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:

- No excess uninvested daily cash balances

There were no instances of excessive uninvested daily cash balances during both FY 2012 and FY 2011.

During FY 2012 and FY 2011, the D&D Fund earned approximately 2.49% and 3.01%, 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**
Suite 12000
1801 K Street, NW
Washington, DC 20006

# 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, 2012 and 2011, 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) 2012 audit, we also considered the D&D Fund's internal control 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, 2012 and 2011 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 a deficiency, related to recording of environmental liabilities, that we consider to be a material weakness, and a deficiency, 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.

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, 2012 and 2011, 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, 2012 and 2011, 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 1.m. to the financial statements, the D&D Fund changed its presentation for reporting the Statement of Budgetary Resources in fiscal year 2012, based on new reporting requirements under OMB Circular No. A-136, *Financial Reporting Requirements*. As a result, the D&D Fund's Statement of Budgetary Resources for fiscal year 2011 has been adjusted to conform to the current year presentation.

As discussed in note 4 to the financial statements, the D&D Fund has recorded a liability of approximately $13,463 million and $14,091 million at September 30, 2012 and 2011, 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 2024 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, 2012 consists of the funding for such costs provided by Congress in the D&D Fund appropriation for FY 2013, $106 million, plus the unexpended portion of such appropriations for current and previous fiscal years, $5 million. The D&D Fund's recorded liability for remedial action at September 30, 2011 consists of the funding for such costs provided by Congress in the D&D Fund appropriation for FY 2012, $76 million, plus the unexpended portion of such appropriations for current and previous fiscal years, $14 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 $2,744 million and $2,668 million as of September 30, 2012 and 2011, respectively. The remaining liability for the estimated future cost of remedial action at the Diffusion Facilities is recorded by the Department. Subsequent to September 30, 2012, the Paducah life cycle cost estimate was revised to reflect an extension of the remedial action completion date from FY 2019 to FY 2032. The potential impact on the environmental liability balances for Paducah is an increase of approximately $900 million, which will be updated as more information becomes available. 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.

U.S. generally accepted accounting principles require that the information in the Overview and Required Supplementary Information sections be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Federal Accounting Standards Advisory Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

**Internal Control Over Financial Reporting**

Our consideration of the 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 internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, in our fiscal year 2012 audit, we identified a deficiency in internal control over financial reporting that we consider to be a material weakness and a deficiency that we consider to be a significant deficiency.

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 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. We consider the deficiency described below and in more detail in Exhibit I to be a material weakness.

- ***Environmental liabilities*** – We identified a deficiency in the D&D Fund's management review procedures to prevent and detect errors and omissions in environmental liabilities. This deficiency resulted in a material misstatement of the environmental liabilities that was corrected in the FY 2011 financial statements. Even though the D&D fund established additional control procedures in FY 2012, we identified misstatements in FY 2012 indicating that there is a continuing reasonable possibility that a material misstatement will not be prevented, or detected and corrected on a timely basis. The D&D Fund should establish additional control procedures related to recording of environmental liabilities to ensure that recorded amounts are accurate, complete, and supported by appropriate documentation.

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. We consider the deficiency described below and in more detail in Exhibit II to be a significant deficiency.

- ***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 III presents the status of the prior year material weakness and significant deficiencies.

**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 herein under *Government Auditing Standards* or OMB Bulletin No. 07-04, as amended.

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### Responsibilities

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

**Auditors' Responsibilities.** Our responsibility is to express an opinion on the fiscal year 2012 and 2011 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. Those standards and OMB Bulletin No. 07-04 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.

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 2012 audit, we considered the D&D Fund's internal control over financial reporting by obtaining an understanding of the D&D Fund'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 D&D Fund's internal control over financial reporting. 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 2012 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, and contracts applicable to the D&D Fund. However, providing an opinion on compliance with laws, regulations, and contracts was not an objective of our audit and, accordingly, we do not express such an opinion.

The D&D Fund's written responses to the findings identified in our audit and presented in Exhibit I and Exhibit II were not subjected to the auditing procedures applied in the audit of the D&D Fund's financial statements and, accordingly, we express no opinion on them.

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

February 7, 2014

## Independent Auditors' Report

## Exhibit I – Material Weakness

### Environmental Liability Estimates (Finding 10-EM-01)

We identified a deficiency in the Decontamination and Decommissioning (D&D) Fund's internal controls over recording environmental liabilities related to decontamination and decommissioning and remedial action. The control deficiency resulted in a misstatement of environmental liabilities that was corrected in the FY 2012 financial statements. The misstatement was caused by a calculation error related to the Portsmouth Paducah Project Office (PPPO) environmental liability estimates. PPPO incorrectly calculated the contingency amount for the D&D and Remedial Action liability estimates.

This error resulted in an overstatement of the D&D liability of approximately $34 million in the D&D Fund financial statements and an understatement of the Future Remedial Action footnote disclosure of approximately $34 million in the notes to the D&D Fund financial statements as of September 30, 2012.

We also noted similar deficiencies and misstatements during the FY 2011 and FY 2010 audits. The D&D Fund overstated the D&D liability by approximately $171 million and understated the Future Remedial Action footnote disclosure by approximately $175 million as of September 30, 2011 due to spreadsheet errors and omissions of adjustments. The D&D Fund overstated the D&D liability by approximately $26 million as of September 30, 2010 due to spreadsheet errors. Even though the D&D fund established additional control procedures in FY 2012, we identified misstatements in FY 2012 indicating that there is a continuing reasonable possibility that a material misstatement will not be prevented, or detected and corrected on a timely basis.

### Recommendation

We recommend that the D&D Fund Manager, in conjunction with the Financial Management Analyst at PPPO, strengthen and follow established procedures and controls related to recording of environmental liabilities to ensure that recorded amounts are accurate, complete, and supported by appropriate documentation.

### Management's Response

Concur. Oak Ridge and PPPO will work together to develop a more detailed procedure that is specific to the calculation of the D&D and remedial action liabilities.

## Independent Auditors' Report

## Exhibit II – Significant Deficiency

**Unclassified Network and Information Systems Security (Finding numbers reported separately in DOE consolidated financial statement management letter – information technology dated December 21, 2012)**

The United Sates Department of Energy (the Department or DOE) uses a series of interconnected unclassified networks and information systems. Federal and Departmental directives, included in DOE Order 205.1B, *Department of Energy Cyber Security Program*, 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, at the time of our testing, these corrective actions had not been completed. The frequency of network security weaknesses reported by KPMG has decreased when compared to the prior year weaknesses, but remains slightly higher than fiscal year (FY) 2010. The severity of these weaknesses remains consistent with prior year weaknesses. The Department recognizes the need to enhance its unclassified cybersecurity program and has categorized unclassified cybersecurity as a leadership challenge in its *Federal Managers' Financial Integrity Act* assurance statement for FY 2012. Improvements are still needed in the areas of system and application access and related access privileges, password management, configuration and vulnerability management, restriction of network services, and integrity of web applications.

Our FY 2012 audit disclosed information system security deficiencies similar in type and risk level to our findings in prior years. We identified similar weaknesses at sites where we had not reviewed security controls in the prior year. Specifically, we noted weaknesses within layered security controls for network servers and devices, desktop systems, and business applications. We identified multiple instances of easily guessed login credentials or unrestricted access controls on network systems that could permit unauthorized access to those systems and their data. We also found weak account management and monitoring controls for review, approval, provisioning, and termination of administrative and user accounts that may increase the risk of malicious or unauthorized access to systems and data.

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. The affected systems included workstations used by financial application users and system administrators with privileged levels of access to financial systems and other network systems. We also noted numerous weaknesses in web application integrity as a result of design flaws in those applications. We identified web applications that did not properly validate the form or content of input data against an application's database, which could result in unauthorized access to application functionality, sensitive data stored in the applications, and other network systems and applications.

While many of these cybersecurity weaknesses were corrected immediately after we identified and reported them to site management, deficiencies in the process and procedures for identifying, monitoring, and remediating such deficiencies have continued from prior years. We also identified inconsistent risk management practices at several sites and noted that site management had not established a risk acceptance process to fully document acceptance of risk. We further noted that multiple sites were continuing to develop and implement site-level Implementation Plans in accordance with the Department's Risk Management Approach (RMA) to address these weaknesses. However, these risk management enhancements were incomplete at the time of our testing.

The Department's Office of Inspector General (OIG) reported on these deficiencies in its evaluation report on *The Department's Unclassified Cyber Security Program – 2012*, dated November 2012. The OIG noted that identified weaknesses occurred, in part, because Departmental entities had not ensured that cybersecurity requirements were fully developed and implemented. The OIG reported that programs and sites had not always effectively monitored performance to ensure that appropriate controls were in place. The OIG noted that the Department's Plans of Action and Milestones were not always effectively used to report, prioritize, and track cybersecurity weaknesses through remediation. The OIG also reported deficiencies in physical and logical access controls and configuration management at several sites where, even when policies and procedures were established, implementation of those policies and procedures were not aligned with the Federal requirements.

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 FY 2012, the Department had taken steps to enhance its unclassified cybersecurity program under the collaborative leadership of the DOE Information Management Governance Council (IMGC) and IMGC Working Group. The Joint Cybersecurity Coordination Center (JC3) Governance Model was approved in May 2012 to implement the requirements of DOE Order 205.1B related to continuous monitoring and risk management. The Department also continued ongoing efforts to improve awareness of Cybersecurity initiatives, including role-based training and workforce development, and to promote effective channels of communication and collaboration.

**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 progress has been made, continued efforts are needed to effectively manage the evolving nature of cybersecurity threats, including strengthening the management review process and monitoring of field sites to ensure the adequacy of cybersecurity program performance; fully implementing revised and ongoing risk management processes; and expanding the use of automated tools in the resolution of the vulnerabilities and control weaknesses described above to ensure that systems are properly configured, implemented, and updated throughout the lifetime of those systems.

Therefore, we recommend that the Under Secretary for Nuclear Security, Under Secretary of Energy, and the Under Secretary for Science, in coordination with the Department and National Nuclear Security Administration Chief Information Officers, fully implement policies and procedures to meet Federal cybersecurity standards, protect networks and information systems against unauthorized access, and implement an adequate performance monitoring program, such as the use of periodic evaluations by Headquarters management, to improve the effectiveness of sites' cybersecurity program implementation. Detailed recommendations to address the issues discussed above have been separately reported to the cognizant management officials.

**Management's 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 III – Status of Prior Year Findings**

| Material weakness or significant deficiency from FY 2011 (with parenthetical disclosure of year first reported) | Status at September 30, 2012 |
|---|---|
| Unclassified Information System Security (2001) | Reported in Exhibit II as a significant deficiency for FY 2012 |
| Environment Liability Estimates (2010) | Reported in Exhibit I as a material weakness for FY 2012 |
| Statement of Budgetary Resources (FY 2011) | Finding closed |

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

Balance Sheets

As of September 30, 2012 and 2011

(In thousands)

| **Assets** | | **2012** | **2011** |
|---|---|---|---|
| Entity assets: | | | |
| Intragovernmental: | | | |
| Fund balance with treasury | $ | 17,448 | 74,016 |
| Investments, net | | 4,152,702 | 4,543,751 |
| Accrued interest receivable | | 35,898 | 44,218 |
| Other intragovernmental assets | | 55,991 | 51,173 |
| Total entity assets | $ | 4,262,039 | 4,713,158 |
| **Liabilities and Net Position** | | | |
| Liabilities covered by budgetary resources: | | | |
| Decontamination and decommissioning | $ | 38,589 | 61,672 |
| Remedial action | | 4,517 | 14,103 |
| Uranium and thorium licensee claims | | — | 15,003 |
| Accounts payable and other accruals | | 101,068 | 145,550 |
| DOE interfund accounts payable | | 307 | 1,414 |
| Total funded liabilities | | 144,481 | 237,742 |
| Liabilities not covered by budgetary resources: | | | |
| Decontamination and decommissioning | | 13,424,384 | 14,029,569 |
| Remedial action | | 106,453 | 75,805 |
| Uranium and thorium licensee claims | | 197,815 | 194,361 |
| Total unfunded liabilities | | 13,728,652 | 14,299,735 |
| Total liabilities | | 13,873,133 | 14,537,477 |
| Net position: | | | |
| Unexpended appropriations – other funds | | 8,182 | 50,245 |
| Cumulative results of operations – earmarked funds | | (9,619,276) | (9,874,564) |
| Total net position | | (9,611,094) | (9,824,319) |
| Total liabilities and net position | $ | 4,262,039 | 4,713,158 |

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

For the fiscal years ended September 30, 2012 and 2011

(In thousands)

| | | 2012 | 2011 |
|---|---|---|---|
| Environmental quality program costs: | | | |
| Decontamination and decommissioning | $ | 468,171 | 619,171 |
| Storage and disposition | | 9,428 | 21,093 |
| Uranium and thorium licensee claims | | 15,006 | 9,287 |
| Postclosure liability administration | | 25,387 | 18,722 |
| Net program costs | | 517,992 | 668,273 |
| Cost applied to the reduction of legacy liabilities | | (500,599) | (655,128) |
| Costs not assigned | | 94,557 | 679,750 |
| Exchange revenues | | (276,634) | (316,844) |
| Net (revenue from) cost of operations | $ | (164,684) | 376,051 |

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

For the fiscal years ended September 30, 2012 and 2011

(In thousands)

| | 2012 | | |
|---|---|---|---|
| | **Earmarked funds** | **Other funds** | **Total** |
| Cumulative results of operations: | | | |
| Beginning balance | $ (9,874,564) | — | (9,874,564) |
| Budgetary financing sources: | | | |
| Appropriations used | — | 42,063 | 42,063 |
| Net transfers in without reimbursement | 46,551 | — | 46,551 |
| Other financing sources: | | | |
| Imputed financing from costs absorbed by others | 1,990 | — | 1,990 |
| Other appropriations transferred from DOE, net of adjustments | — | — | — |
| Total financing sources | 48,541 | 42,063 | 90,604 |
| Net revenue from (cost of) operations | 206,747 | (42,063) | 164,684 |
| Net change | 255,288 | — | 255,288 |
| Total cumulative results of operations | (9,619,276) | — | (9,619,276) |
| Unexpended appropriations: | | | |
| Beginning balance | — | 50,245 | 50,245 |
| Budgetary financing sources: | | | |
| Appropriations used | — | (42,063) | (42,063) |
| Appropriations transferred | — | — | — |
| Total budgetary financing sources | — | (42,063) | (42,063) |
| Total unexpended appropriations | — | 8,182 | 8,182 |
| Net position | $ (9,619,276) | 8,182 | (9,611,094) |

| | 2011 | | |
|---|---|---|---|
| | **Earmarked funds** | **Other funds** | **Total** |
| Cumulative results of operations: | | | |
| Beginning balance | $ (9,705,275) | — | (9,705,275) |
| Budgetary financing sources: | | | |
| Appropriations used | — | 125,061 | 125,061 |
| Net transfers in without reimbursement | 40,413 | — | 40,413 |
| Other financing sources: | | | |
| Imputed financing from costs absorbed by others | 7,655 | — | 7,655 |
| Other appropriations transferred from DOE, net of adjustments | 33,633 | — | 33,633 |
| Total financing sources | 81,701 | 125,061 | 206,762 |
| Net cost of operations | (250,990) | (125,061) | (376,051) |
| Net change | (169,289) | — | (169,289) |
| Total cumulative results of operations | (9,874,564) | — | (9,874,564) |
| Unexpended appropriations: | | | |
| Beginning balance | — | 175,306 | 175,306 |
| Budgetary financing sources: | | | |
| Appropriations used | — | (125,061) | (125,061) |
| Appropriations transferred | — | — | — |
| Total budgetary financing sources | — | (125,061) | (125,061) |
| Total unexpended appropriations | — | 50,245 | 50,245 |
| Net position | $ (9,874,564) | 50,245 | (9,824,319) |

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

For the fiscal years ended September 30, 2012 and 2011

(In thousands)

| | | 2012 | 2011 |
|---|---|---|---|
| Budgetary resources: | | | |
| Unobligated balance brought forward, October 1 | $ | 80 | 10,298 |
| Recoveries of prior year unpaid obligations | | — | 22 |
| Unobligated balance from prior year budget authority, net | | 80 | 10,320 |
| Budget authority, appropriations | | 472,930 | 508,000 |
| Temporarily not available pursuant to public law | | (750) | (10,916) |
| Total budgetary resources | $ | 472,260 | 507,404 |
| Status of budgetary resources: | | | |
| Obligations incurred — direct | $ | 472,238 | 507,324 |
| Unobligated balance, end of year: | | | |
| Apportioned | | — | 58 |
| Unapportioned | | 22 | 22 |
| Total unobligated balance, end of year | | 22 | 80 |
| Total budgetary resources | $ | 472,260 | 507,404 |
| Change in obligated balance: | | | |
| Unpaid obligations, brought forward, October 1 | $ | 241,506 | 564,685 |
| Obligations incurred | | 472,238 | 507,324 |
| Outlays, gross | | (563,889) | (688,149) |
| Recoveries of prior year unpaid obligations | | — | (142,354) |
| Obligated balance, unpaid obligations, end of year, net | $ | 149,855 | 241,506 |
| Budget authority and outlays, net: | | | |
| Budget authority, net | $ | 472,180 | 497,084 |
| Outlays, gross | $ | 563,889 | 688,149 |
| Distributed offsetting receipts | | (159,238) | (173,860) |
| Outlays, net | $ | 404,651 | 514,289 |

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, 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). 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). 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.

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 strategic goal and objective. The Secure Our Nation strategic goal includes, among other activities, all D&D Fund expenses. The purpose of the activities within this strategic goal includes reducing the footprint of contaminated sites, while bringing to bear the Department's formidable research and development assets to develop and deploy transformational technologies.

The Department's headquarters, field offices, and the management and integrating (M&I) contractor (at Oak Ridge) and nonintegrating 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.

***(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.

***(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, 2012 and 2011 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) Comparative Data*

In fiscal year 2012, changes to the presentation of the Statement of Budgetary Resources were made, in accordance with Guidance provided in OMB Circular No. A-136, and as such, fiscal year 2011 activity and balances reported on the Statement of Budgetary Resources have been reclassified to conform to the presentation in the current year.

## (2) Fund Balance with Treasury

A summary of the status of fund balances with the U.S. Treasury for appropriated funds as of September 30, 2012 and 2011 is as follows (in thousands):

| | | 2012 | 2011 |
|---|---|---|---|
| Unobligated budgetary resources: | | | |
| Available | $ | — | 58 |
| Unavailable | | 22 | 22 |
| Obligated balance not yet disbursed: | | | |
| Undelivered orders | | 48,479 | 94,541 |
| Accounts payable and other liabilities | | 101,375 | 146,964 |
| Budgetary resources invested in Treasury securities | | (132,428) | (167,569) |
| Fund balance with Treasury | $ | 17,448 | 74,016 |

**(3) Investments, Net**

The D&D Fund invests in nonmarketable market-based Treasury securities. All Treasury securities held at September 30, 2012 and 2011 are classified as held-to-maturity. The components of Treasury securities held as of September 30, 2012 and 2011 are as follows (in thousands):

| | | 2012 | 2011 |
|---|---|---|---|
| Face value | $ | 4,021,665 | 4,372,476 |
| Unamortized premiums | | 131,265 | 173,534 |
| Unamortized discounts | | (228) | (2,259) |
| | | 4,152,702 | 4,543,751 |
| Unrealized gains | | 107,802 | 174,077 |
| Total | $ | 4,260,504 | 4,717,828 |

The market value of Treasury securities held as of September 30, 2012 and 2011 is as follows (in thousands):

| | | 2012 | 2011 |
|---|---|---|---|
| Maturity: | | | |
| Maturing within 1 year | $ | 1,101,355 | 1,171,459 |
| Maturing after 1 year through 5 years | | 3,159,149 | 3,546,369 |
| Maturing after 5 years through 10 years | | — | — |
| Total | $ | 4,260,504 | 4,717,828 |

During FY 2012 and FY 2011, the D&D Fund recognized interest revenue of $108 million and $142 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.

**(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, 2010 through September 30, 2012 are summarized as follows (in thousands):

| | | |
|---|---|---|
| Balance, October 1, 2010 | $ | 14,177,275 |
| Provision for inflation | | 199,900 |
| Decontamination and decommissioning costs incurred | | (576,517) |
| Adjustment to new cost estimate | | 290,583 |
| Balance, September 30, 2011 | | 14,091,241 |
| Provision for inflation | | 232,506 |
| Decontamination and decommissioning costs incurred | | (462,137) |
| Adjustment to new cost estimate | | (398,637) |
| Balance, September 30, 2012 | $ | 13,462,973 |

Of the total liability of $13,463 million for decontamination and decommissioning as of September 30, 2012, $39 million is covered by appropriations for current and previous fiscal years (budgetary resources) and $13,424 million is not covered by budgetary resources. Of the total liability of $14,091 million for decontamination and decommissioning as of September 30, 2011, $62 million is covered by appropriations for current and previous fiscal years (budgetary resources) and $14,029 million is not covered by budgetary resources.

Approximately $27 million of the FY 2012 costs incurred and approximately $117 million of the FY 2011 costs incurred were from ARRA funding rather than the D&D Fund's investment balances. As of September 30, 2012 and 2011, approximately $8 million and $35 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 $39 million and $62 million of budgetary resources at September 30, 2012 and 2011, 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 2024 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, 2010 through September 30, 2012 are summarized as follows (in thousands):

| | | |
|---|---|---|
| Balance, October 1, 2010 | $ | 157,489 |
| Provision for inflation and remedial action costs | | 15,577 |
| Remedial action costs incurred | | (83,158) |
| Balance, September 30, 2011 | | 89,908 |
| Provision for inflation and remedial action costs | | 45,070 |
| Remedial action costs incurred | | (24,008) |
| Balance, September 30, 2012 | $ | 110,970 |

Of the total liability of $111 million for remedial action as of September 30, 2012, $5 million is covered by budgetary resources and $106 million is not covered by budgetary resources. Of the total liability of $90 million for remedial action as of September 30, 2011, $14 million is covered by budgetary resources and $76 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 $2,744 million and $2,668 million as of September 30, 2012 and 2011, respectively. The remaining liability for the estimated future cost of remedial action at the Diffusion Facilities is recorded by the Department. Subsequent to September 30, 2012, the Paducah life cycle cost estimate was revised to reflect an extension of the remedial action completion date from FY 2019 to FY 2032. The potential impact on the environmental liability balances for Paducah is an increase of approximately $900 million, which will be updated as more information becomes available. 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 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, 2012 and 2011, the Department has approved for payment $681 million and $662 million, respectively, of uranium and thorium licensee claims, and has paid $643 million and $628 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, 2010 through September 30, 2012 are summarized as follows (in thousands):

| | | |
|---|---|---|
| Balance, October 1, 2010 | $ | 215,597 |
| Provision for inflation | | 3,040 |
| Claims reimbursed | | (9,273) |
| Balance, September 30, 2011 | | 209,364 |
| Provision for inflation | | 3,454 |
| Claims reimbursed | | (15,003) |
| Balance, September 30, 2012 | $ | 197,815 |

Of the total liability of $198 million as of September 30, 2012, $0 million is covered by budgetary resources and $198 million is not covered by budgetary resources. Of the total liability of $209 million as of September 30, 2011, $15 million is covered by budgetary resources and $194 million is not covered by budgetary resources.

All $15 million of FY 2012 reimbursements and $9 million of FY 2011 reimbursements were paid from ARRA funding rather than the D&D Fund's investment balances. As of September 30, 2012, the total of $70 million designated by ARRA for uranium and thorium reimbursements has been expended for this purpose. 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.

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, 2012 and 2011, the D&D Fund provided funding of approximately $10 million and $5 million to the contractor's defined benefit pension plan, respectively, and $11 million and $9 million related to PRB plans, respectively.

## (9) Earmarked Funds

| | FY 2012 | | | FY 2011 | | |
|---|---|---|---|---|---|---|
| | Earmarked funds | Other funds | Total | Earmarked funds | Other funds | Total |
| **Balance sheet** | | | | | | |
| Assets: | | | | | | |
| Fund balance with Treasury | $ 4,990 | 12,458 | 17,448 | 4,969 | 69,047 | 74,016 |
| Investments | 4,152,702 | — | 4,152,702 | 4,543,751 | — | 4,543,751 |
| Accrued interest receivable | 35,898 | — | 35,898 | 44,218 | — | 44,218 |
| Other intragovernmental assets | 55,991 | — | 55,991 | 51,173 | — | 51,173 |
| Total assets | $ 4,249,581 | 12,458 | 4,262,039 | 4,644,111 | 69,047 | 4,713,158 |
| Liabilities and net position: | | | | | | |
| Environmental liabilities | $ 13,771,758 | — | 13,771,758 | 14,390,513 | — | 14,390,513 |
| Accounts payable | 96,792 | 4,276 | 101,068 | 126,748 | 18,802 | 145,550 |
| Other liabilities | 307 | — | 307 | 1,414 | — | 1,414 |
| Unexpended appropriations | — | 8,182 | 8,182 | — | 50,245 | 50,245 |
| Cumulative results of operations | (9,704,034) | 84,758 | (9,619,276) | (9,874,564) | — | (9,874,564) |
| Total liabilities and net position | $ 4,164,823 | 97,216 | 4,262,039 | 4,644,111 | 69,047 | 4,713,158 |
| **Statement of net costs** | | | | | | |
| Program costs | $ 475,929 | 42,063 | 517,992 | 543,212 | 125,061 | 668,273 |
| Costs applied to the reduction of legacy liabilities | (500,599) | — | (500,599) | (655,128) | — | (655,128) |
| Costs not assigned | 94,557 | — | 94,557 | 679,750 | — | 679,750 |
| Exchange revenues | (276,634) | — | (276,634) | (316,844) | — | (316,844) |
| Net (revenue from) cost of operations | $ (206,747) | 42,063 | (164,684) | 250,990 | 125,061 | 376,051 |
| **Statement of changes in net position** | | | | | | |
| Cumulative results of operations, beginning balance | $ (9,874,564) | — | (9,874,564) | (9,705,275) | — | (9,705,275) |
| Appropriations used | — | 42,063 | 42,063 | — | 125,061 | 125,061 |
| Net transfers-in without reimbursement | 46,551 | — | 46,551 | 40,413 | — | 40,413 |
| Imputed financing from costs absorbed | 1,990 | — | 1,990 | 7,655 | — | 7,655 |
| Other appropriations transferred from DOE | — | — | — | 33,633 | — | 33,633 |
| Net revenue from (cost of) operations | 206,747 | (42,063) | 164,684 | (250,990) | (125,061) | (376,051) |
| Cumulative results of operations, ending balance | $ (9,619,276) | — | (9,619,276) | (9,874,564) | — | (9,874,564) |
| Unexpended appropriations, beginning balance | $ — | 50,245 | 50,245 | — | 175,306 | 175,306 |
| Appropriations received | — | — | — | — | — | — |
| Appropriations used | — | (42,063) | (42,063) | — | (125,061) | (125,061) |
| Appropriations transferred in/out | — | — | — | — | — | — |
| Unexpended appropriations, ending balance | $ — | 8,182 | 8,182 | — | 50,245 | 50,245 |

**(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.

| | | 2012 | 2011 |
|---|---|---|---|
| Resources used to finance activities: | | | |
| Obligations incurred | $ | 472,238 | 507,324 |
| Less offsetting receipts | | (159,238) | (173,860) |
| Less spending authority from recoveries | | — | (22) |
| Net obligations | | 313,000 | 333,442 |
| Imputed financing from costs absorbed by others | | 1,990 | 7,654 |
| Transfers in | | 46,551 | 40,413 |
| Other – appropriations transferred from DOE | | — | 33,633 |
| Total resources used to finance activities | | 361,541 | 415,142 |
| 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 | | 46,063 | 173,744 |
| Resources that finance the acquisition of assets | | (47,046) | (53,096) |
| Resources that fund expenses recognized in prior periods | | (500,653) | (656,264) |
| Other resources and adjustments | | 8,320 | 5,476 |
| Total resources used to finance items not part of the net cost of operations | | (493,316) | (530,140) |
| Net cost of items that do not require or generate resources in current period: | | | |
| Increase in unfunded liability estimates | | 92,622 | 673,233 |
| Amortization of premiums and discounts on treasury investments | | 38,063 | 26,590 |
| Other | | (163,594) | (208,774) |
| Total net cost of items that do not require or generate resources in current period | | (32,909) | 491,049 |
| Net (revenue from) cost of operations | $ | (164,684) | 376,051 |

# 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 $106 million as of September 30, 2012 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. In FY 2013, the Department announced that it will cease uranium enrichment operations at Paducah and the Diffusion Facilities currently leased by the United States Enrichment Corporation (USEC) will be transitioned back to the Department. While a time line for completion of this transition has not been finalized, the Department's estimate for deferred maintenance is expected to increase as these facilities are returned.

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%.

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