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U.S. DEPARTMENT OF ENERGY

OFFICE OF INSPECTOR GENERAL

OFFICE OF AUDIT SERVICES

AUDIT OF THE U.S. DEPARTMENT OF ENERGY'S CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(As of September 30, 1995)

REPORT NUMBER: IG-FS-96-01 FEBRUARY 29, 1996

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U.S. Department of Energy
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United States Government Department of Energy

memorandum

DATE: February 29, 1996

REPLY TO
ATTN OF: IG-1

SUBJECT: INFORMATION: Report on "Audit of the Department of Energy's Consolidated Statement of Financial Position as of September 30, 1995"

TO: The Secretary

BACKGROUND:

The subject report is provided to inform you of the results of our audit.

DISCUSSION:

The Office of Inspector General was unable to express an opinion on the reasonableness of the Department's Statement of Financial Position as of September 30, 1995. Increased management involvement in identifying unfunded liabilities, and strengthened controls over property and equipment are needed in order for the Department to prepare future financial statements that present fairly, in all material respects, its financial position. The Office of Chief Financial Officer agreed with our findings and recommendations, and has initiated actions to respond to them. These initiatives will require top management support throughout the Department to ensure their success.

CHALLENGES TO THE DEPARTMENT:

Although the Office of Inspector General was unable to express an opinion on the Statement, the preparation and audit of the Fiscal Year (FY) 1995 Statement of Financial Position was noteworthy because it was a first-time effort by the Department. As such, the Department did not have the benefit of past plans and experience to draw on in organizing, planning, coordinating, and executing the preparation and audit of the statement. Additionally, the Department was faced with the unique challenges posed by its changing mission environment which had a dramatic impact on the Department's FY 1995 Statement of Financial Position.

Key challenges posed by the uniqueness of the effort included organizing and coordinating Departmental resources to prepare the statement for audit. Especially challenging was organizing program managers' involvement in the process to obtain their representations about the accuracy and completeness of their information in the financial statement. Another major challenge was coordinating multiple sources of information to provide the timely submission of consolidated financial information for audit purposes. Although progress was made in responding to these challenges during FY 1995, increased efforts need to be made during the preparation of the FY 1996 financial statements to obtain greater management involvement in the process, as well as to provide timely information for audit.

Recognizing the financial impact of the Department's changing mission also posed major challenges to the preparation of the statement. Major international developments have lessened the need for many of the Department's national security mission related assets. Accordingly, the Department initiated a major effort in FY 1995 to identify and revalue facilities and inventories that were surplus to its mission needs. During FY 1995, the Department also recognized unfunded environmental liabilities of almost $200 billion related to the cleanup of environmental contamination caused by past activities of the Department and its predecessor agencies. While we found the estimate to be based on some assumptions that are uncertain, the estimate is historic because of its magnitude and is likely to be one of the major unfunded liabilities of the entire Federal Government. Recognition of these unfunded environmental liabilities resulted in the Department reporting that it had a negative net position of approximately $127 billion as of September 30, 1995.

MANAGMENT RESPONSE:

The Office of the Chief Financial Officer concurred with the results of the audit and initiated recommended corrective actions. In responding to our report, the Office of the Chief Financial Officer stated that the Department's accounting system was auditable and was not a factor in the Inspector General's inability to render an opinion on the Statement of Financial Position. The Office also believed that the Department had not experienced many of the financial system problems surfaced during many first-time financial statement audits of other Federal agencies.

MEETING THE CHALLENGE:

The Department's experience in responding to the challenges described above provides valuable lessons for the preparation and audit of the FY 1996 financial statements. Greater management involvement in the financial statement process, as well as more timely availability of financial information for audit, will be needed during FY 1996.

John C. Layton

John C. Layton
Inspector General

Attachment

cc: Deputy Secretary
Acting Under Secretary
Chief Financial Officer

U.S. DEPARTMENT OF ENERGY
OFFICE OF INSPECTOR GENERAL

AUDIT OF

THE U.S. DEPARTMENT OF ENERGY'S

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(As of September 30, 1995)

Report Number: IG-FS-96-01
Date of Issue: February 29, 1996

Capital Regional Audit Office
Germantown, MD 20874

AUDIT OF THE U.S. DEPARTMENT OF ENERGY'S
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
(As of September 30, 1995)

TABLE OF CONTENTS

U.S. Department of Energy
Office of Inspector General
Office of Audit Services

SUMMARY

Report Number: IG-FS-96-01

In preparation for fulfilling our responsibilities under the Government Management Reform Act of 1994, we planned to conduct an audit of the Department of Energy's FY 1995 Consolidated Statement of Financial Position. As discussed in the accompanying reports, the Office of Inspector General (OIG) could not express an opinion on the reasonableness of the value of assets and liabilities of the Department because of matters outside the control of the auditors that restricted the scope of their work. Although the OIG could not express an opinion, the audit disclosed reportable conditions in the Department's internal control structure that adversely affected its ability to manage and account for its assets and liabilities. Corrective management actions on these reportable conditions should help the Department in preparing its Fiscal Year (FY) 1996 Statement of Financial Position.

BACKGROUND

The Department of Energy is responsible for a wide variety of missions and programs focusing on national defense, environmental cleanup, research and development, and energy resources. To carry out these missions and programs, the Department manages over $90 billion in assets through a staff of over 20,000 Federal employees and more than 120,000 contractor employees. These employees are located nationwide at over 40 major Departmental field locations. The Department's financial management system operates through a decentralized system composed of integrated contractors, field offices, and Headquarters offices.

SCOPE AND METHODOLOGY

The Government Management Reform Act of 1994 requires Federal agencies, including the Department of Energy, to issue audited financial statements by March 1, 1997. Because the Department did not have audited consolidated financial statements prior to FY 1995, the OIG determined that it would be more practical to accomplish the audit objectives of the Act through a multi-phase strategy. The audit of the FY 1995 Statement of Financial Position was the first phase of the strategy. It was intended to provide audited opening balances for the FY 1996 audit of the Statement of Financial Position and facilitate the audit of the Statement of Operations for FY 1996.

The OIG determined the account balances that were material to the Department's Statement of Financial Position. As a result, the OIG selected 15 major accounts that represented over 95 percent of the Department's assets, liabilities, and equity accounts. Audit procedures on these accounts were conducted nationwide at 29 of the 62 entities reporting financial information. These audit procedures included tests of internal controls, compliance with applicable laws and regulations, and substantive tests of account balances.

The OIG audit effort was augmented through agreed upon procedures applied by an independent public accounting firm, as well as audit procedures applied by internal audit staffs of six of the Department's integrated managing and operating contractors. The OIG provided quality assurance procedures throughout the audit to ensure accuracy, completeness, and consistency for all work performed. Responsibility for the reports on the Department's Statement of Financial Position rests solely with the OIG.

RESULTS IN BRIEF

The OIG was not able to satisfy itself as to the reasonableness of the value of assets and liabilities of the Department as of September 30, 1995. The scope of audit, as described in the accompanying audit reports, was not sufficient to express an opinion, and the OIG did not express an opinion, on the Statement of Financial Position.

As part of the audit, the OIG identified reportable internal control weaknesses that could adversely affect the Department's preparation of complete and accurate financial statements. The OIG determined that the Department did not have a system to ensure that program managers were sufficiently involved in the process to identify all unfunded liabilities confronting the Department. Additionally, the OIG determined that the Department did not have adequate controls over its property and equipment to ensure proper accountability for these assets. The Department's automated financial management system was not capable of producing adjusted consolidated financial statements, and required an "off-line," personal computer-based system to record adjusting, eliminating, and consolidating entries.

A review of Departmental compliance with laws and regulations that could have a direct and material impact on the financial statements did not disclose any additional areas beyond those disclosed by the Department in its statements.

Actions to correct matters discussed in the accompanying reports will improve the Department's management and accounting controls over its financial management system. Such improvements are a prerequisite to the preparation of financial statements that reasonably represent the Department's financial position and results of operations.

U. S. Department of Energy
Office of Inspector General
Office of Audit Services

REPORT OF THE OFFICE OF INSPECTOR GENERAL

The Secretary
U.S. Department of Energy

In preparation for fulfilling our responsibilities under the Government Management Reform Act of 1994, we planned to conduct an audit of the Department of Energy's FY 1995 Consolidated Statement of Financial Position. This statement is the responsibility of the Department's management.

The Department's Consolidated Statement of Financial Position (Statement) was prepared in conformity with the hierarchy of accounting principles and standards approved by the principals of the Federal Accounting Standards Advisory Board, as described in Note 1 to the Statement. This hierarchy is a comprehensive basis of accounting other than generally accepted accounting principles.

In conducting the examination, several conditions impacted our ability to audit the Consolidated Statement of Financial Position of the Department as of September 30, 1995. For the reasons described below, it was not practicable to extend our auditing procedures to determine the extent to which the Statement may have been affected by these conditions.

The Department's Unfunded Environmental Liabilities of $196.9 billion did not include an estimate of the costs to remediate contamination associated with currently active facilities, as discussed in Note 12 to the Statement. The costs to remediate active facilities such as the Y-12 Plant, Pantex, Oak Ridge National Laboratory, Lawrence Livermore National Laboratory, and Sandia National Laboratories were not included in the Consolidated Statement of Financial Position as of September 30, 1995. We, therefore, were not able to apply our auditing procedures to the unfunded environmental liabilities applicable to these and other active facilities.

Also, we were not able to verify the Department's Property and Equipment, Net balance of $23.9 billion. Past practices and current weaknesses in the Department's accountability system made it impractical to rely on $1.3 billion in property and equipment at the Idaho National Engineering Laboratory and the Rocky Flats Environmental Technology Site. Other material weaknesses further impacted the reliance that could be placed on the Department's system of accounting for property and equipment. For example, the Department had not reduced to their net realizable value some surplus, excess, and obsolete facilities and equipment in the Property and Equipment, Net balance.

In addition, we were not able to verify the reasonableness of the write-down of about $3 billion to the Property and Equipment, Net balance for facilities related to the treatment, storage, or disposal of legacy waste. Such facilities are required to be written down consistent with Issue No. 90-8 of the Financial Accounting Standards Board Emerging Issues Task Force. Although the Department initiated actions to write-down these assets, estimates of the balances to be recorded were not received until after yearend closing, and there was not sufficient time to extend our audit procedures to validate the adjustments.

Further, we were not able to audit the Pension and Other Actuarial Liabilities balance because the Department did not have a systematic process in place to implement Statement of Financial Accounting Standards No. 87. This pronouncement specifies accounting requirements applicable to integrated contractor pension plans. Since a systematic process was not in place for recording contractor pension costs and only limited pension liability amounts were recorded in the Department's Consolidated Statement of Financial Position as of September 30, 1995, we were not able to audit this unfunded liability.

We also were not able to audit the Department's disclosure of over $1.9 billion in potential unfunded liabilities for activities that must be completed to comply with environment, safety, and health laws and regulations, as described in Note 16 to the Statement. Because data supporting this disclosure was not identified until after yearend, there was not sufficient time to extend our audit procedures to validate the disclosure.

Finally, we could not determine what portion of the Bonneville Power Administration's assets and liabilities were attributable to the Department of Energy. Bonneville's assets and liabilities are owned by multiple Government agencies and are audited separately under the provisions of the Chief Financial Officers Act. In performing the audit, we were not able to obtain adequate assurance that the balances attributable to Bonneville and included in the Department's Consolidated Statement of Financial Position were accurate and complete.

DISCLAIMER OF OPINION

Because the scope of our work was not sufficient to enable us to express an opinion as discussed in the above paragraphs, we cannot and do not express an opinion on the U.S. Department of Energy's Consolidated Statement of Financial Position as of September 30, 1995.

MATTERS OF EMPHASIS

In addition to the matters discussed above, several other matters of importance should be noted in understanding the Department's Consolidated Statement of Financial Position as of September 30, 1995. As described in Note 12 to the Statement, the Department's environmental remediation liability of $196.9 billion is based on cost estimates that are highly uncertain. The uncertainty is due to the length of time over which the remediation work is planned; the lack of knowledge as to what remedies will be considered acceptable to regulators and the public; the uncertainty as to whether Congressional appropriations will be received at the levels anticipated in the estimate; potential cost increases caused by future inflation; the uncertainty as to whether geological repositories will be available to receive wastes when planned; and the uncertainty inherent in the estimating process. In addition, the cost estimates assume that the Department's Environmental Management Program will increase its productivity by 20 percent over the period beginning with FY 1996 and ending with FY 2000 and by 1 percent in each year thereafter until the completion of the environmental management program. It is uncertain whether the Department will achieve the assumed level of productivity improvements.

Also, the Department has significant quantities of nuclear materials that are excess to national security needs, as discussed in Note 8 to the Statement. Departmental officials are presently determining whether alternative uses exist for these materials. For such materials determined to have no alternative use, the Department should recognize a liability for storage and disposition costs associated with the materials. Since a final decision on this material has not been made, the Department was unable to determine the amount of storage and disposition costs that will ultimately be recognized.

The Department also is a party to various administrative proceedings, legal actions, and tort claims that may ultimately result in settlements or decisions adverse to the Government, as discussed in Note 15 to the Statement. The Office of General Counsel, in responding to our inquires about these matters, was not able to form a conclusion as to the likely outcome or potential loss resulting from litigation, claims, and assessments against the Department. Readers of the Department's Consolidated Statement of Financial Position should, therefore, be aware that the Statement may be affected by uncertainties concerning the outcome of claims described in Note 15 which are not currently susceptible to reasonable estimation.

MATTERS REQUIRING CONSIDERATION WHICH DO NOT AFFECT THE OPINION

We planned to perform our audit for the purpose of forming an opinion on the Department's Consolidated Statement of Financial Position as of September 30, 1995, taken as a whole. An *Overview of the Reporting Entity* and *Supplemental Financial and Management Information* are not required parts of the Department's financial statements, but are supplementary information specified by Office of Managment and Budget Bulletin No. 94-01, *Form and Content of Agency Financial Statements*. As of the completion of field work, management had not completed preparation of the *Overview of the Reporting Entity* and *Supplemental Financial and Management Information*. Because we were not provided this additional information and were not able to express an opinion on the Consolidated Statement of Financial Position as of September 30, 1995, we cannot and do not express an opinion on the *Overview of the Reporting Entity* and *Supplemental Financial and Management Information* to the Department's Fiscal Year 1995 financial statements.

REFERENCE TO OTHER REPORTS

In accordance with *Government Auditing Standards*, we have also issued a report dated December 29, 1995, on our consideration of the Department's internal control structure and a report dated December 29, 1995, on its compliance with laws and regulations.

Office of Inspector General
December 29, 1995

U.S. Department of Energy
Office of Inspector General
Office of Audit Services

REPORT OF THE OFFICE OF INSPECTOR GENERAL ON INTERNAL CONTROL STRUCTURE

The Secretary
U.S. Department of Energy

In preparation for fulfilling our responsibilities under the Government Management Reform Act of 1994, we planned to conduct an audit of the Department of Energy's FY 1995 Consolidated Statement of Financial Position, and have issued our report thereon dated December 29, 1995. Because of problems described in that report, we disclaimed an opinion on the Consolidated Statement of Financial Position.

The management of the Department is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that the following objectives are met:

1. Transactions are executed in accordance with management's authorization and are properly recorded and accounted for to permit the preparation of reliable financial reports in accordance with applicable accounting policies and to maintain accountability over the assets.

2. Funds, property, and other assets are safeguarded against loss from unauthorized use or disposition.

3. Transactions, including those related to obligations and costs, are executed in compliance with laws and regulations that could have a direct and material effect on the financial statements, and in compliance with any other laws and regulations that Office of Management and Budget (OMB), Departmental management, or the Inspector General have identified as being significant and for which compliance can be objectively measured and evaluated.

4. Data that support reported performance measures are properly recorded and accounted for to permit preparation of reliable and complete performance information.

Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

In planning and performing our testwork of the Department's Statement of Financial Position as of September 30, 1995, we considered its internal control structure in order to determine our audit procedures for the purpose of expressing an opinion on that financial statement. Our consideration included obtaining an understanding of the significant internal control structure policies and procedures, determining whether they had been placed in operation, assessing the level of control risk relevant to all significant account balances, and performing sufficient tests to assess whether internal controls are effective and working as designed. Our evaluation of the internal control structure was conducted to determine whether it met the objectives identified in the previous paragraph and not to provide an opinion on the internal control structure. Accordingly, we do not express such an opinion.

We did not evaluate the internal control system related to the proper accumulation, validation, and presentation of performance information because the Department had not developed such a system. Performance information was not presented with the Department's FY 1995 Statement of Financial Position.

In evaluating the internal control structure, we considered matters reported by the Department in compliance with the Federal Managers' Financial Integrity Act, our prior and current audit reports, and other independent auditor reports on financial matters and internal accounting control policies and procedures. The Appendix to this report lists audit reports published by the Office of Inspector General during FY 1995 that were considered in our evaluation of the internal control structure.

We noted certain matters involving the internal control structure and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants and OMB Bulletin No. 93-06, *Audit Requirements for Federal Financial Statements*. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the Department's ability to ensure that the objectives of the internal control structure, as previously defined, are being achieved. The conditions that we consider to be reportable conditions are discussed in Exhibits I and II to this report.

A reportable condition is classified as a material weakness when the design or operation of one or more of the internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts material to the financial statement being audited, or material to performance measures or the aggregation of performance data, may occur and not be detected within a timely period in the normal course of business. We considered all conditions discussed in Exhibit I to this report to be material weaknesses. Management should consider these weaknesses when preparing its yearend assurance memorandum on management controls.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above.

During our review of the FY 1995 Federal Managers' Financial Integrity Act compliance activities, we also noted certain matters that may affect the Department's internal control structure in future periods. The Department underwent a number of significant changes in its internal control structure during FY 1995. These changes included a realignment of Departmental missions and functions, significant reductions in Federal and contractor staffing levels, severe budget restrictions imposed by the Congress, changes in how management and operating contractors are managed, and the adoption of performance-based contracting approaches. Because of the magnitude of these changes, we were not able to fully evaluate whether these changes would significantly impact the future operations of the Department. While these matters did not impact our testwork in our examination of the FY 1995 Statement of Financial Position, they may significantly impact the Department's internal control structure in subsequent periods.

We also noted other matters involving the internal control structure and its operation that we have reported to the Department in a separate management report.

This report is intended for the information of the management of the U.S. Department of Energy. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

Office of Inspector General

December 29, 1995

Liabilities Not Covered by Budgetary Resources

Background: The Department, based on past events and its continuing mission, is subject to a number of liabilities that cannot be calculated with certainty. These liabilities, particularly those related to environmental management activities and contractor employee pension plans, involve resource outflows that will not occur until well into the future and, as such, are not covered by budgetary resources. Exact amounts for these liabilities cannot be determined because of uncertainties such as the amount and timing of Congressional appropriations, the amount and extent of environmental contamination at uncharacterized facilities, and pension plan unknowns such as the actual return on plan investments and participant lifespans. While exact dollar amounts cannot be determined, Departmental management is responsible for developing estimates of such liabilities that are complete and independently verifiable.

Finding 1: Estimating Liabilities of a Contingent Nature

OMB Bulletin No. 94-01, *Form and Content of Agency Financial Statements*, and generally accepted accounting principles require the Department to identify and report all liabilities not covered by budgetary resources in its Statement of Financial Position. The Department's method of identifying and validating estimated liabilities, however, is not completely effective. We found the following problems:

- The Department relied primarily on the FY 1995 Baseline Environmental Management Report (BEMR) as the basis for recording its unfunded environmental liability and did not estimate or record a liability for the cost of remediating environmental damage associated with currently active facilities;

- The BEMR cost estimate omitted certain items and contained other errors that amounted to a net overstatement of about $800 million;

- The Department did not require all contractors with defined benefit pension plans to implement Statement of Financial Accounting Standards No. 87 (SFAS 87), *Employers' Accounting for Pensions*, and is therefore unable to estimate the effect of pension costs on its liabilities; and

- The Office of Chief Financial Officer was unaware of an estimate developed by management that purported to represent a $1.9 billion liability related to noncompliance with Environment, Safety and Health (ES&H) laws and regulations.

These problems occurred because the Department's management had not developed and implemented a system or systems to ensure that:

- Cognizant program elements identify issues that may result in contingent liabilities and, when required, develop estimates to support accruals for such liabilities;

- All aspects or components of an issue are addressed or considered when developing such estimates; and

- Completed estimates are evaluated for reasonableness and conform to applicable accounting guidance.

The conditions identified above result in a misstatement of the Department's Statement of Financial Position with respect to the balance reported for liabilities not covered by budgetary resources. Although the total dollar effect cannot be determined because current estimates of remediation costs for active facilities were not prepared and because actuarial reports required for SFAS 87 valuations were not obtained, we believe that the misstatement is most likely material.

Recommendation: Management officials, in coordination with the Office of Chief Financial Officer, should develop a system or systems to ensure that amounts recorded by the Department for liabilities not covered by budgetary resources are complete and that estimates prepared to support the accrual are evaluated for reasonableness and conform to applicable accounting guidance.

More detailed recommendations regarding unfunded environmental liabilities and implementation of SFAS 87 are included in the detailed findings and recommendations that follow. A detailed finding related to the purported $1.9 billion liability for noncompliance with ES&H related laws and regulations has not been included because the Department provided disclosure and is working to validate and refine the estimate.

Management Reaction: Management concurred with the finding and recommendation and stated that the Office of Chief Financial Officer has and will continue to reach out to field and program officials. Such efforts will help support preparation of the financial statements, including the discovery and reporting of unfunded liabilities. As in the past, the Office of the Chief Financial Officer will rely on cognizant program offices for validation of estimates.

Auditor Response. Management's proposed actions are generally responsive to our recommendation. We agree that outreach efforts should form an integral part of our recommended approach. Such efforts must also include increased coordination and interaction between the Office of Chief Financial Officer and field and program management officials. To be successful, outreach efforts must inform program officials of the character and nature of items that may require financial statement recognition. Program officials must also understand the extent and type of evidence necessary to support the financial statement disclosure or accrual of contingent liabilities.

Unfunded Environmental Liabilities

Background: The Department relied on the FY 1995 BEMR as the primary basis for recording its unfunded environmental liabilities. This study, required by the National Defense Authorization Act of 1994, estimated that the cost of remediating environmental damage related to the Environmental Management Program would range from $200 billion to $350 billion, with a mid-range estimate of $230 billion. This estimate included $24 billion for costs related to the treatment, storage, and disposal of future waste streams generated by ongoing operations.

The Chief Financial Officer appropriately concluded that costs related to future waste streams generated by ongoing operations did not presently constitute a liability. Based on that conclusion, the Department recorded unfunded environmental liabilities of $206 billion, the mid-range BEMR cost estimate ($230 billion) less the portion of the estimate attributable to ongoing operations ($24 billion). Funding received during FY 1995 and other adjustments further reduced total unfunded environmental liabilities to $196.9 billion as of September 30, 1995. The amount recorded does not, however, include remediation costs associated with currently active facilities.

Finding 2: Determining Remediation Costs for Currently Active Facilities

Generally accepted accounting principles require that a liability be recorded, with a corresponding charge to expense, for all discrete environmental remediation projects associated with past activities that can be identified and for which costs can be estimated. The Department did not include an estimate of environmental remediation costs associated with currently active facilities in its unfunded environmental liabilities balance as of September 30, 1995. Examples of costs excluded are those required to remediate most contaminated facilities at the Y-12 Plant located in Oak Ridge, Tennessee; the Pantex Plant located near Amarillo, Texas; and those located at some of the Department's multi-program research laboratories. Estimates of remediation costs for these facilities were not developed during preparation of the FY 1995 BEMR because the Department considered such costs to be outside the scope of its Environmental Management Program. The exclusion of active facilities' remediation costs understates the Department's unfunded environmental liabilities. It is not possible to estimate the total impact of these omissions because current cost estimates were not prepared; however, the omission most likely resulted in a material misstatement of the Department's unfunded environmental liabilities.

Recommendation: The Department should develop an estimate of the remediation costs for active facilities using a methodology consistent with that of the BEMR and should adjust its unfunded environmental liabilities accordingly.

Management Reaction: Management generally concurred with the finding and agreed that remediation costs associated with active facilities are probable and reasonably estimable. However, management believes that the cost to complete studies normally used to estimate eventual remediation costs (remedial investigations and feasibility studies) consistent with the BEMR methodology would outweigh any benefit derived. Therefore, management is evaluating other methods of estimating remediation costs for active facilities to meet accounting requirements.

Auditor Comments: Management's planned actions are generally responsive to our recommendation. Should management choose an estimating methodology other than that used to develop the BEMR estimate, such methodology must produce an estimate that is complete, reasonably consistent, and readily verifiable.

Finding 3: Preparation of the BEMR Cost Estimate

As a component of its overall internal control structure, the Department is responsible for establishing a system of controls to provide reasonable assurance that estimates supporting accruals of unfunded environmental liabilities are complete and readily verifiable. The Department's control system was not totally effective in preventing or detecting errors and omissions in the data used to develop the BEMR. Our review disclosed examples of the following problems:

- Supporting documentation for certain project cost estimates could not be produced;
- Project cost estimates could not be traced to support;
- Certain project costs were omitted from estimates; and
- Estimates contained mathematical and modeling errors.

Such problems occurred because the BEMR estimate was not initially intended to support a financial statement accrual and because the estimate was produced in an extremely short time frame. The monetary impact of errors ranged from $221 million to $3.4 billion, with a net overstatement of about $800 million.

Recommendation: The Department should establish internal controls to provide reasonable assurance that estimates used to support accruals of environmental liabilities are reasonable and that significant errors or omissions in such estimates are prevented or detected.

Management Reaction: Management generally concurred with our finding and recommendation and has completed or initiated corrective actions. The Office of Environmental Management commented, however, that the items identified did not materially affect the BEMR cost estimate.

Auditor Comments: Management's proposed actions are generally responsive to our recommendation.

Contractor Pension Plans

Background: The majority of contractors performing work for the Department sponsor defined benefit pension plans for their employees. Although pension costs for these plans are related to private sector employees, the Department approves and is ultimately liable for the payment of such costs. Because Federal accounting standards are silent on costs related to private sector employees, the Department should account for liabilities associated with such costs based on requirements established for private sector pension costs.

The Department's current policy is to authorize contributions to these plans and to recognize pension costs only to the extent required by the Employee Retirement Income Security Act (PL 93-406). Such practice is contrary to SFAS 87, which recognizes that pension costs are a component of compensation expense and requires that they be recognized in the period during which employees render services.

Finding 4: Implementation of SFAS 87, *Employers' Accounting for Pensions*

OMB Bulletin No. 94-01 establishes a hierarchy of accounting standards for Federal agencies. Because Federal accounting standards are silent on accounting for contractor pension plans, the Department is required to follow generally accepted accounting principles prescribed for private sector entities. The Department did not, however, require that all contractors with defined benefit pension plans adopt SFAS 87. The accounting standard was not adopted because the Department did not make a firm decision or issue guidance to its integrated contractors requiring implementation during FY 1995. The dollar value effect of not implementing SFAS 87 could not be determined because the Department did not obtain required actuarial valuation reports. Not implementing SFAS 87 constitutes a material departure from generally accepted accounting principles.

Recommendation: The Department should adopt SFAS 87 during FY 1996. In so doing, the Department should develop specific guidance to field activities illustrating how SFAS 87 pension costs and position are to be calculated, recorded, and disclosed. Actuarial valuations obtained for FY 1996 should also provide the basis for adjusting the Financial Statements to reflect a FY 1995 implementation date.

Management Reaction: Management concurred with the finding and recommendation and will require contractor pension liabilities to be accrued in accordance with SFAS 87 in FY 1996.

Auditor Comments: Management's planned actions are responsive to our recommendation.

Property, Plant and Equipment

Background: The Department is charged with the responsibility of protecting and maintaining accountability over about $23.9 billion of Government property. Management of the vast majority of such property is delegated to the contractors that operate the Department's facilities across the country. These contractors are responsible for implementing financial and physical property accounting controls that are consistent with guidance promulgated by the Department and other cognizant Government bodies. As detailed in the following findings, the Department needs to strengthen its internal control system for property, plant and equipment in a number of areas.

Finding 5: Property Accountability Systems for Completed Property, Plant and Equipment (CPP&E)

Generally accepted accounting principles require the maintenance of property accounting records sufficient to support management's assertion that account balances are accurate. However, the Department cannot support the assertion that CPP&E account balances for the Rocky Flats Environmental Technology Site and the Idaho National Engineering Laboratory (INEL) are accurate. During FY 1995, one contractor replaced five separate contractors at INEL, while the management and operating contractor at Rocky Flats was replaced by a single integrating contractor. These successor contractors did not accept responsibility for CPP&E balances at contract inception because of past practices and current weaknesses in the Department's property accountability system at their respective sites. Therefore, the Department has no assurance that the combined net CPP&E balance of about $1.3 billion for these sites is reliable and free of material misstatement.

The Department has initiated action to remedy these problems by requiring that successor contractors complete wall-to-wall inventories at each of the sites.

Recommendation: The Department should monitor the contractors' actions to ensure that the inventories are completed in a timely manner and that all required account adjustments are accomplished prior to the end of FY 1996.

Management Reaction: Management concurred with our finding and recommendation and stated that the required corrective action would be taken.

Auditor Comments: Management's proposed actions are responsive to our recommendation.

Finding 6: Application of Accounting Policies, Principles, and Procedures Related to Property, Plant and Equipment

Departmental accounting directives specify property, plant and equipment accounting policies, principles, and procedures that are applicable to all Departmental elements. These directives and other policy guidance delineate the appropriate accounting treatment for a broad spectrum of events and transactions. Despite this detailed guidance, the Department's internal control system to prevent or detect the inconsistent or misapplication of accounting policies, principles, and procedures was not entirely effective. The following general problem areas illustrate the deficiencies observed and summarize separate audit findings issued to various Departmental field activities:

- Some surplus, excess, or inactive facilities and equipment remained on the accounting records at cost rather than being reduced to their net realizable value;

- Certain general and administrative costs were inappropriately included in the cost of capitalized purchased assets;

- Standard service lives specified by accounting guidance were not always used for capitalized assets;

- Subsidiary ledgers were not reconciled to control accounts; and

- Physical property accounting systems contained major omissions and errors as to the status, location, and type of property.

These problems occurred because contractors misinterpreted certain requirements and Heads of Field Elements did not ensure that contractors consistently applied applicable accounting criteria. Because of these problems, the Department cannot provide adequate assurance that its CPP&E account balance is correct and not materially misstated.

Recommendation: The Department should strengthen its internal control system over property, plant and equipment accounting by reasserting that Heads of Field Elements are responsible for ensuring that contractors implement the provisions of

Departmental accounting instructions. No further recommendations are made with regard to separately issued audit findings because those findings will be addressed in management reports issued at the field element level.

Management Reaction: Management generally concurred with our finding and recommendation and indicated that the required corrective action would be taken.

Auditor Comments: Management's proposed action is responsive to our recommendation.

Finding 7: Transfer of Costs Accumulated in the Construction Work in Progress (CWIP) Account

Departmental accounting guidance requires that the cost of constructed assets be removed from the CWIP account and transferred to other accounts when construction and costing are complete, when beneficial occupancy occurs, or when the project is canceled or abandoned. However, the Department's internal control system for ensuring that costs accumulated in its CWIP account are closed in a timely manner is ineffective. We observed problems related to the untimely closure of projects at each of the reporting entities covered by our audit of this account. The Department's contractors retained projects in the CWIP account long after beneficial occupancy occurred or after the project had been abandoned. We specifically identified about $525 million of costs that should have been closed to CPP&E accounts or written off. These costs were not transferred as required because contractors did not remove costs for beneficially occupied projects until all subprojects were fully costed and the Department did not provide timely authorization for the write-off of canceled projects. Retention of these costs in the CWIP account resulted in the misstatement of the yearend Accumulated Depreciation and CPP&E account balances.

The Department completed an initiative during FY 1995 that succeeded in reducing the CWIP account balance by about $2.8 billion. That initiative also identified a number of projects, in addition to those identified by our audit, with accumulated costs of $439 million as candidates for closure. We specifically considered the initiative when developing our recommendation.

Recommendation:. The Department should strengthen or improve its internal control system and augment or expand its management initiative as necessary to ensure that project costs accumulated in the CWIP account are removed in a timely manner.

Management Reaction: Management generally concurred with our finding and recommendation. As resources permit, the Office of Chief Financial Officer will require field activities to monitor the CWIP account on a monthly basis. The Office will also monitor related accounting information on a monthly basis and will use a risk-based approach to ensure that completed or abandoned projects are removed from the CWIP account in a timely manner.

Auditor Comments: Management's proposed actions are responsive to our recommendation.

Financial Management System

Background: The Department's financial management system operates through a decentralized system composed of integrated contractors, field offices, and Headquarters offices. This system was developed and implemented a number of years before the Department became subject to the requirement to produce consolidated financial statements. The Department is now involved in a multi-phased effort to develop and implement a major enhancement to its financial management system. This enhancement, known as the Management Analysis Reporting System, was designed to update the system and to increase its usefulness. As indicated by the following finding, the Department's financial management system, in its present state of development, does not provide sufficient functionality to permit the entry of financial statement-level adjusting, eliminating and consolidating entries necessary to produce adjusted consolidated financial statements.

Finding 8: Production of Adjusted Consolidated Financial Statements

Sound financial management practices require that financial management systems be capable of recording financial statement-level adjusting, eliminating and consolidating entries necessary to produce yearend financial statements. However, the Department's financial management system is not directly capable of making such entries. To compensate for this problem, Departmental officials rely on an "off-line" system, maintained on a personal computer, to record adjustments, eliminations, and consolidating entries and to produce the adjusted consolidated financial statements. Adjusting entries accumulated in the "off-line" system are not posted until the subsequent fiscal year, and information attributable to the power marketing administrations (PMA) is not recorded in the financial management system. This situation occurs because the Department's financial management system does not include features that permit financial statement-level adjustments. As a result, the Department's financial management system does not accurately reflect its consolidated position and results of operations.

Recommendation: The Department should modify its financial management system to:

- Eliminate the need for ancillary "off-line" information systems;
- Incorporate appropriate management and systems level controls; and
- Permit the entry of statement-level adjusting, eliminating and consolidating entries necessary to accurately reflect the Department's consolidated position and results of operations.

Management Response: Management generally concurred with our finding and recommendation. The Office of Chief Financial Officer recognized the need to improve controls over off-line adjustments and will endeavor to limit the use of such adjustments when preparing the Department's FY 1996 financial statements. Adequate review and approval processes are to be implemented for Headquarters level adjustments and options for recording such entries directly into the financial management system will be examined. In addition, efforts to conform PMA financial data to U.S. Government Standard General Ledger format will continue with the ultimate goal of directly including such data in the Department's financial management system.

Auditor Comments: Management's planned actions are generally responsive to our recommendations.

Office of Inspector General
FY 1995 Audit Reports

Report Number	Report Title	Date Report Issued
IG-0359	Audit of Two of Bonneville Power Administration's Residential Conservation Programs	November 14, 1994
IG-0360	Audit of the Transfer of Government-Owned Property at the Mound and Pinellas Plants	November 14, 1994
IG-0361	Audit of Overtime Payments to Exempt Employees at the Savannah River Site	November 22, 1994
IG-0362	Audit of Light Vehicle Fleet Management in the Department of Energy	December 5, 1994
IG-0364	Audit of Administration of the Department of Energy's Small Disadvantaged Business Program	December 19, 1994
IG-0366	Audit of Management of the Site Characterization Program at Yucca Mountain	February 15, 1995
IG-0368	Audit of the Richland Operations Office Site Characterization Program	March 20, 1995
IG-0370	Audit of Staffing Requirements for the Strategic Petroleum Reserve	March 29, 1995
IG-0371	Audit of the Department of Energy's Environmental Molecular Sciences Laboratory	April 7, 1995
IG-0373	Audit of Administration of Cooperative Research and Development Agreements at DOE National Laboratories	May 19, 1995
IG-0374	Audit of the Department of Energy's Commercial Laboratory Quality Assurance Evaluation Program	June 21, 1995
IG-0375	Audit of the Department of Energy's Management of Precious Metals	June 20, 1995
IG-0376	Audit of Program Administration by the Office of Energy Research	August 2, 1995
IG-0379	Audit of Bonneville Power Administration's Energy Resource Programs	September 8, 1995

Office of Inspector General
FY 1995 Audit Reports

Report Number	Report Title	Date Report Issued
AP-B-95-01	Audit of Management and Control of Information Resources at Sandia National Laboratories	November 1, 1994
CR-B-95-01	Audit of Effectiveness and Efficiency of the Rocky Flats Analytical Services Program	November 3, 1994
CR-B-95-02	Audit of Management Controls Over Selected Energy Research Major System Acquisitions	November 10, 1994
CR-B-95-03	Audit of the Department of Energy's Security Police Officer Training	February 6, 1995
CR-B-95-04	Audit of Management & Operating Contractor Relocation Cost	March 2, 1995
CR-BC-95-01	Audit of Energy Conservation Program for New Buildings	October 7, 1994
ER-B-95-01	Report on Audit of Fernald Area Office Time and Attendance	October 24, 1994
ER-B-95-02	Report on Audit of Property Management at Fernald Environmental Restoration Management Corporation	November 7, 1994
ER-B-95-03	Audit of the Management Controls Over the Remedial Investigation and Feasibility Study Process at the Oak Ridge National Laboratory	November 8, 1994
WR-B-95-01	Audit of Verification of Cooperative Research and Development Agreement Partner Funds-in-Kind Contributions at Sandia National Laboratories	December 30, 1994
WR-B-95-02	Audit of Leased Facilities at Los Alamos National Laboratory	January 20, 1995
WR-B-95-03	Nevada Operations Office's Implementation of Full Cost Recovery Policies	February 24, 1995
WR-B-95-04	Audit of the Decontamination and Waste Treatment Facility at Lawrence Livermore National Laboratory	March 15, 1995

Office of Inspector General
FY 1995 Audit Reports

Report Number	Report Title	Date Report Issued
AP-B-95-02	Audit of Selected Aspects of the Unclassified Computer Security Program at a DOE Headquarters Computing Facility	July 31, 1995
CR-B-95-05	Audit of the Federal Energy Regulatory Commission's Office of Chief Accountant	April 7, 1995
CR-B-95-06	Audit of Department of Energy Support Service Contracting	June 30, 1995
ER-B-95-04	Audit of the Replacement High-Level Waste Evaporator at the Savannah River Site	June 26, 1995
ER-B-95-05	Audit of Acquisition of Scientific Research at Ames Laboratory	July 14, 1995
ER-B-95-06	Audit of Work Force Restructuring at the Oak Ridge Operations Office	August 3, 1995
WR-B-95-05	Audit of Transportation Safeguards Division Couriers Work Schedules	April 3, 1995
WR-B-95-06	Audit of Construction of Protective Force Training Facilities at the Pantex Plant	May 5, 1995
WR-B-95-07	Consultant Subcontracting at the Idaho National Engineering Laboratory	June 20, 1995
WR-B-95-08	Audit of Subsidized Ancillary Services at the Nevada Test Site	September 8, 1995

U. S. Department of Energy
Office of Inspector General
Office of Audit Services

REPORT OF THE OFFICE OF INSPECTOR GENERAL ON COMPLIANCE WITH LAWS AND REGULATIONS

The Secretary
U.S. Department of Energy

In preparation for fulfilling our responsibilities under the Government Management Reform Act of 1994, we planned to conduct an audit of the Department of Energy's FY 1995 Consolidated Statement of Financial Position and have issued our report thereon dated December 29, 1995. Because of problems described in that report, we disclaimed an opinion on the Consolidated Statement of Financial Position.

The management of the Department of Energy is responsible for compliance with laws and regulations applicable to the Department. As part of obtaining reasonable assurance about whether the Consolidated Statement of Financial Position was free of material misstatement, we determined the applicability of those laws and regulations directly affecting the Consolidated Statement of Financial Position, as well as certain other laws and regulations, as designated by the Office of Management and Budget (OMB) and the Department. Accordingly, we considered the *Anti-Deficiency Act; Chief Financial Officers Act of 1990; Debt Collection Act of 1982; Federal Managers' Financial Integrity Act (FMFIA) of 1982; National Defense Authorization Act; and the Prompt Payment Act.* We tested compliance with applicable provisions of these laws that had a direct and material affect on the accounts we reviewed.

In addition, we reviewed management's process for evaluating and reporting on internal control and accounting systems as required by FMFIA and compared the Department's most recent FMFIA report with our evaluation of the Department's internal control structure. Except for the weaknesses discussed in our report on internal controls, our evaluation did not disclose any inconsistencies with the Department's FMFIA report for FY 1995. The Department should consider including the weaknesses we identified in its FMFIA report for FY 1996.

We did not evaluate the Department's system of accumulating and validating information for presentation in either the *Overview of the Reporting Entity* or *Supplemental Financial and Management Information* section. The Department is in the process of developing such a system and anticipates that it will be in place and operational in sufficient time to be of use in preparing the FY 1996 financial statements. Because the system was not completed, the Department did not provide financial, statistical, or other information that would normally be presented in an overview or as supplemental information.

The results of our tests for compliance with selected provisions of laws and regulations disclosed no compliance matters reportable under *Government Auditing Standards* issued by the Comptroller General of the United States or OMB Bulletin No. 93-06, *Audit Requirements for Federal Financial Statements*. With respect to provisions not tested, nothing came to our attention that caused us to believe that the Department had not complied in all material respects with those provisions. However, the objective of our audit of the Consolidated Statement of Financial Position was not to provide an opinion on overall compliance with such provisions. Accordingly, we do not express such an opinion.

This report is intended for the information of the management of the Department of Energy. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

Office of Inspector General

December 29, 1995

U.S. Department of Energy

Consolidated Statement of Financial Position

as of September 30, 1995

(Dollars in thousands)	**1995**
ASSETS	
Agency Assets	
Intragovernmental	
Fund Balance with Treasury	**12,827,051**
Investments	**5,432,524**
Accounts Receivable, Net	**504,241**
Interest Receivable	**109,766**
Advances and Prepayments	**12,425**
Governmental	
Investments	**122,908**
Accounts Receivable, Net	**4,474,695**
Credit Program Receivables	**37,675**
Interest Receivable	**8,490**
Advances and Prepayments	**72,698**
Cash and Other Monetary Assets	**441**
Inventory, Net	**8,333**
Operating Material and Supplies, Net	**583,438**
Stockpile Materials, Net	
Petroleum Reserves	**15,720,661**
Nuclear Materials	**26,784,215**
Property and Equipment, Net	**23,862,217**
Other Agency Assets	**1,102,331**
Total Agency Assets	**91,664,109**
Custodial Assets	
Intragovernmental	
Fund Balance with Treasury	**47,405**
Investments	**715,525**
Governmental	
Investments	**202,191**
Accounts Receivable, Net	**192,490**
Interest Receivable	**8,832**
Stockpile Materials	**106,188**
Total Custodial Assets	**1,272,631**
Total Assets	**92,936,740**

	1995
LIABILITIES	
Liabilities Covered by Budgetary Resources	
Intragovernmental Liabilities	
Accounts Payable	125,492
Debt	2,607,002
Other Intragovernmental Liabilities	542,976
Governmental Liabilities	
Accounts Payable	2,702,240
Interest Payable	10
Deferred Revenue and Other Credits	7,463,955
Other Governmental Liabilities	3,497,888
Total Liabilities Covered by Budgetary Resources	16,939,563
Governmental Liabilities Not Covered by Budgetary Resources	
Lease Liabilities	74,341
Accrued Annual Leave for Employees	85,796
Pension and Other Actuarial Liabilities	5,653,709
Contingent Liabilities	20,500
Environmental Liabilities	196,851,328
Other Governmental Liabilities	685,284
Total Liabilities Not Covered by Budgetary Resources	203,370,958
Total Liabilities	220,310,521
NET POSITION	
Unexpended Appropriations	8,188,388
Invested Capital	67,722,505
Cumulative Results of Operations	86,284
Future Funding Requirements	(203,370,958)
Total Net Position	(127,373,781)
Total Liabilities and Net Position	92,936,740

U.S. Department of Energy

Fiscal Year 1995
Consolidated Statement of Financial Position

Notes to the Financial Statement

Notes to Financial Statements

1. Significant Accounting Policies

A. Basis of Presentation

These consolidated financial statements required by the Chief Financial Officer's Act of 1990 have been prepared to report the financial position and results of operations of the Department of Energy (DOE), a cabinet level agency of the Executive Branch of the U.S. Government. References to "DOE" refer to the combined activity of the Department of Energy and its contractors. DOE prepares its financial statements in accordance with the form and content for entity financial statements specified by the Office of Management and Budget (OMB) in OMB Bulletin 94-01, and DOE accounting policy and procedures manual, contract provision, and/or related guidance which are summarized below.

B. Description of Reporting Entity

The Department of Energy's mission is characterized by the following five business lines:

Science and Technology - to maintain leadership in basic research, focus applied research in support of the Department's other business lines and maintain world technical leadership through long-term systemic reform of science and mathematical education.

National Security - to effectively support and maintain a safe secure and reliable stockpile without nuclear testing, safely dismantle and dispose of excess weapons and provide technical leadership for national and global nonproliferation activities.

Environmental Quality - to understand and reduce environmental, safety, and health risks and threats from DOE facilities and decisions and develop the technologies and institutions required for solving domestic and global environmental problems.

Energy Resources - to encourage efficiency and advance alternative and renewable energy technologies, increase energy choices for consumer, assure adequate supplies of clean, conventional energy, and reduce the nation's vulnerability to external events.

Economic Productivity - to promote economic growth through research and development partnership with industry. This business line cuts across multiple organizational missions, funding levels and activities. Therefore, all financial data related to this business is included with the other four business lines.

Other Department of Energy functions not included in the five business lines include energy information, regulation and management and administration.

The Department of Energy's organization structure includes the following entities:

- DOE - Headquarters

  The Secretary of Energy has delegated the overall responsibility for achieving the mission and goals of DOE to the Assistant Secretaries. They are responsible for the programmatic and operational management of DOE. DOE Headquarters provides general management and staff support. Consequently, DOE Headquarters incurs certain headquarters expenses including payroll, travel, office equipment purchases, and other administrative services and supplies expense.

- DOE- Field Elements

  DOE field elements are responsible for monitoring day-to-day operations and performing contractor oversight functions. These offices for the most part report directly to DOE Headquarters. Expenses incurred primarily include payroll, certain contract services costs, travel, and other administrative costs.

- Integrated Contractors

  DOE has 44 integrated management and operating contractors performing operations, maintenance, logistics support, research and development, engineering, technical, and administrative services. In return, DOE reimburses all allowable costs under the contracts, pays performance award fees, and provides the property, plant, and equipment necessary for the operations of DOE. The contractors' accounting systems are integrated with DOE through the use of reciprocal accounts. The contractors are required under provisions of their respective contracts to maintain records and a separate set of accounts for recording and reporting all financial related transactions in accordance with Cost Accounting Standards, generally accepted accounting principles, and DOE accounting practices and procedures. A significant portion of DOE's environmental restoration of its nuclear materials production sites is being performed by non-integrated contractors who voucher their costs to DOE for reimbursements. DOE records these costs in the DOE financial accounts.

- Other

  Other entities included in the consolidated DOE statement are the Alaska Power Administration, Bonneville Power Administration, Southeastern Area Power Administration, Southwestern Area Power Administration, Western Area Power Administration, and the Federal Energy Regulatory Commission.

C. Basis of Accounting

Transactions are recorded on an accrual accounting basis and a budgetary basis. Under the accrual method, revenues are recognized when earned and expenses are recognized when a liability is incurred, without regard to receipt or payment of cash. Budgetary accounting facilitates compliance with legal constraints and controls over the use of federal funds. All material intra-agency balances and transaction have been eliminated in consolidation.

D. Revenues and Other Financing Sources

DOE receives the majority of the funding needed to perform its mission through congressional appropriations. These appropriations may be used, within statutory limits, for operating and capital expenditures. Appropriations are recognized as a financing source at the time the related operational or administrative expenses are incurred. Appropriations expended for capital plant, property and equipment are recognized as expenses when the asset is consumed in operations. Revenues are recognized when earned, i.e., goods have been delivered or services rendered. Major sources of revenues include: Work for Others, fees collected under the Nuclear Waste Policy Act of 1982, licensing fees, sale of isotopes, oil and other inventories, oil overcharge penalties and refunds, interest and other miscellaneous receipts.

E. Funds with the U.S. Treasury and Cash

Funds with the U.S. Treasury represent appropriated funds, trust funds, and revolving funds that are available to finance authorized purchase commitments, pay current liabilities, and fund future obligations. Cash balances held outside the U.S. Treasury represent trust fund balances held in minority banks, Letter of Credit collateral balances and imprest cash amounts (See Note 2).

F. Investments

Investments are reported at cost net of amortized premiums or discounts. Premiums or discounts are amortized into interest income over the term of the investment, DOE's intent is to hold investments to maturity, unless they are needed to finance claims or otherwise support the operations. No provision is made for unrealized gains or losses on these securities because they are intended to be held to maturity (See Note 3).

G. Accounts Receivable, Net of Allowance

The amounts due for non federal receivables are stated net of an allowance for uncollectible accounts. The estimate of the allowance is based on past experience in the collection of the receivables and an analysis of the outstanding balances (See Note 4).

H. Property, Plant, and Equipment

Property, plant, and equipment that are purchased, constructed, or fabricated in-house, including major modifications or improvements are capitalized if they have an anticipated service life of 2 years or more and cost $5,000 or more. Costs of construction are capitalized as construction work in process. Upon completion or beneficial occupancy, the cost is transferred to the appropriate property account. Property, plant and equipment related to environmental management facilities processing the Department's legacy wastes are not capitalized (See Note 1- M).

Notes to Financial Statements

Depreciation expense is generally computed using the straight line method throughout DOE. The units of production method may be used only in special cases where applicable, such as depreciating automotive equipment of a mileage basis, construction equipment on an hourly use basis, drilling and development, well equipment, or production facilities. The Ranges of Service Life are as follows:

Structures 25-40 years
ADP Software 5-20 years
Equipment 5-45 years

I. Liabilities

Liabilities represent the amount of monies or other resources that are likely to be paid by the Department as a result of a transaction or event that has already occurred. However, no liability can be paid by DOE absent an authorized appropriation. Liabilities for which an appropriation has not been enacted are, therefore, classified as unfunded liabilities, and there is no certainty that the appropriations will be enacted. Also, liabilities of DOE arising from other than contracts can be abrogated by the Government, acting in its sovereign capacity.

J. Accrued Annual, Sick, and Other Leave

Employee annual leave is accrued as it is earned, and the accrual is reduced annually for actual leave taken and increased for leave earned. Each, year, the accrued annual leave balance is adjusted to reflect latest pay rates. To the extent that current or prior year appropriations are not available to fund annual leave earned but not taken, funding will be obtained from future financing sources.

Sick Leave and other types of nonvested leave are expensed as leave is taken.

K. Retirement Plans

Federal

There are two retirement systems for federal employees. DOE employees hired prior to January 1, 1884 may participate in the Civil Service Retirement System (CSRS), to which DOE makes matching contributions equal to 7 percent of pay. On January 1, 1984, the Federal Employees Retirement System (FERS) went into effect pursuant to Public Law 99-335. Most employees hired after December 31, 1983, are automatically covered by FERS and Social Security. Employees hired prior to January 1, 1984, can elect to either join FERS and Social Security or remain in CSRS. A primary feature of FERS is that it offers a savings plan to which DOE automatically contributes 1 percent of pay and matches any employee contribution up to an additional 4 percent of pay. For most employees hired since December 31, 1983, DOE also contributes the employer's matching share for Social Security. DOE does not report CSRS or FERS assets, accumulated plan benefits, or unfunded liabilities, if any, applicable to its employees. Reporting such amounts is the responsibility of the Office of Personnel Management and the Federal Employees Retirement System.

Management and Operating Contractor Employees

DOE accomplishes much of its mission through management and operating contractors under cost-reimbursable contracts. Most contractors have a defined benefit pension plan under which they promise to pay specified benefits, such as a percentage of the final average pay for each year of service. DOE costs under the contract include reimbursement of annual employer contributions to the pension plans. Each year an amount is calculated for employers to contribute to the pension plan to ensure that plan assets are sufficient to provide for the full accrued benefits of M&O employees in the event that the plan is terminated. The level of contributions is dependent on actuarial assumptions about the future, such as the interest rate, employee turnover and deaths, age of retirement, and salary progression. (See Note 13)

L. Comparative Data

Comparative data for the prior year have not been presented because this is the first year for which financial statements are prepared on a consolidated DOE basis. In future years, comparative data will be presented in order to provide an understanding of changes in the financial position and operations of the DOE.

M. Accounting Changes

DOE changed its capitalization practices related to environmental management processing facilities during FY 1995. The Department implemented the guidance of

Notes to Financial Statements

the Financial Accounting Standards Board (FASB) Emerging Issues Task Force (EITF) Issue 90-8, "Capitalization of Costs to Treat Environmental Contamination." This guidance requires the expensing of facilities that treat, store or dispose of existing environmental wastes generated by the Department's past operations. An estimate of the Department's environmental processing facilities used to treat, store and dispose of waste generated by past operations resulted in a write-down of property, plant and equipment and a charge to expense of $3 billion during FY 1995.

2. Fund Balances with U.S. Treasury

(in thousands)	Obligated	Unobligated Unrestricted	Unobligated Restricted	Less Investments in Treasury Securities	Total Fund Balances With Treasury
Agency Funds					
Revolving Funds	36,160	196,352			232,513
Appropriated Funds	9,491,574	2,440,249	428,614		12,360,437
Special Funds	365,472	88,842	4,721,367	(4,950,503)	225,178
Deposit Funds			8,924		8,924
Total Agency Funds	9,893,206	2,725,443	5,158,905	(4,950,503)	12,827,051
Custodial Funds					
Trust Funds	17,735	577			18,311
Special Funds		2,489			2,489
Deposit Funds			26,604		26,604
Total Custodial Funds	17,735	3,066	26,604		47,405
Total Funds in Treasury	9,910,941	2,728,509	5,185,509	(4,950,503)	12,874,455

Notes to Financial Statements

3. Investments

(in thousands)	Cost	Market Value	Amortization Method	Amortized (Premium)/Discount	Investments, Net
Agency Assets					
Intragovernmental					
Non-Marketable Securities					
Nuclear Waste Fund	5,257,375	5,283,997	Effective Interest	(112,511)	5,144,864
Uranium Enrichment D&D Fund	263,932	267,927	Effective Interest	2,530	266,462
Great Plains Gasification Plant Trust Fund	21,208	21,120	Straight Line	(10)	21,198
Subtotal	5,542,516	5,573,044		(109,991)	5,432,524
Governmental					
Marketable Securities					
Dupont Pension Receipts	122,899	122,899			122,899
Great Plains Gassification Plant Trust Fund	9	9			9
Subtotal	122,908	122,908			122,908
Custodial Assets					
Intragovernmental					
Non-Marketable Securities					
Petroleum Pricing Escrow Fund	700,567	707,507	Straight Line	6,835	707,402
Low Level Radioactive Waste Fund	8,088	8,125	Straight Line	34	8,123
Subtotal	708,655	715,632		6,869	715,525
Governmental					
Marketable Securities					
Petroleum Pricing Escrow Fund	202,191	202,191			202,191
Total	6,576,270	6,613,775		(103,122)	6,473,148

Pursuant to statutory authorizations, DOE invests monies in Treasury notes and commercial certificates of deposit which are secured by Federal Deposit Insurance Corporation. DOE's investments primarily involve the Nuclear Waste Fund and the Uranium Enrichment Decontamination and Decommissioning Fund. Fees paid by owners and generators of spent nuclear waste and fees collected from domestic utilities are deposited into the appropriate fund. Funds in excess of those needed to pay current program costs are invested in securities. DOE also has non-Federal securities resulting from an over funded pension plan of a former M&O contractor and the 1988 sale of the Great Plains Coal Gasification Project to a private concern.

DOE custodial investments are primarily Petroleum Pricing Escrow Fund receipts collected as a result of consent agreements reached with individuals or firms that violated petroleum pricing regulations during the 1970s. These receipts are invested in Treasury securities and certificates of deposit at minority banks pending determination as to how to allocate the fund balance.

Notes to Financial Statements

4. Accounts Receivable

Intragovernmental accounts receivables represent primarily amounts due from other Federal agencies for reimbursable work performed pursuant to the Economy Act, Atomic Energy Act, and other statutory acts.

Governmental receivables represents amounts due from the public for reimbursable work and other amounts related to trade receivables, overpayments, and other miscellaneous receivables. Nuclear Waste Program (NWF) receivables and Decontamination and Decommissioning Fund (D&D Fund) receivables are supported by contracts and agreements with public utilities that contribute resources to the funds.

Custodial receivables represent amounts owed as a result of consent agreements reached with individuals or firms that violated petroleum pricing regulations during the 1970s.

(in thousands)	Receivable	Allowance	Net
Agency Receivables			
Intragovernmental			
Work for Others	421,637		421,637
Nuclear Waste Fund	10,157		10,157
Power Marketing Billings	35,996		35,996
Other	36,451		36,451
Subtotal	504,241		504,241
Governmental			
Work for Others	9,772		9,772
Nuclear Waste Fund	2,108,565		2,108,565
Uranium Enrich. D&D Fund	1,900,210		1,900,210
Power Marketing Billings	297,206	(1,331)	295,874
Other	270,221	(109,950)	160,272
Subtotal	4,585,973	(111,281)	4,474,692
Custodial Receivables			
Petroleum Pricing Escrow Fund	817,169	(624,679)	192,490
Total	5,907,383	(735,961)	5,171,423

5. Credit Program Receivables

Direct Loans - In 1988, DOE entered into a loan agreement with the city of Elba, Alabama. The city defaulted on the loan and in 1990 agreed to a ten-year repayment schedule. Weatherization loans were issued during the period 1981 - 1983. These non-interest bearing loans are required to be repaid only when title to the property that was weatherized is transferred.

(in thousands)	Loans Receivable Gross	Allowance for Loss	Loans Receivable Net
Direct Loans Obligated Prior to FY 1992			
Elba, Alabama	164	(143)	22
Weatherization Loans	2,568	0	2,568
Defaults on Guaranteed Loans Prior to FY 1992	61,085	(26,000)	35,085
Total Loan Programs	63,818	(26,143)	37,675

Defaulted loan guarantees - Prior to 1991, the DOE guaranteed a loan made by New Energy of Indiana that was involved with the conversion of corn to alcohol fuel. The loan went into default in 1987 and New Energy has been able to make refunds based on sales and a growing national requirement by EPA for the nation to use alcohol mixed fuel. Since the default occurred in 1987, the accounting for the defaulted loan guarantee receivable is on a cost and not a present value basis.

Notes to Financial Statements

6. Inventories

Inventories held for sale consist of crude oil in pipelines at the Naval Petroleum Reserves and isotopes produced at DOE facilities. The Naval Petroleum Reserves oil is valued at current market price less estimated cost of disposal. Isotopes are valued at the lower of cost or market value. Isotope inventory quantities that exceed the total quantity sold during the preceding five years are included in the allowance for excessive inventory quantities.

(in thousands)	Value	Allowance for Loss	Net
Naval Petroleum Reserves	2,740	0	2,740
Isotopes	11,728	(6,136)	5,592
Total	14,469	(6,136)	8,333

7. Operating Materials and Supplies

Operating materials and supplies consist of supplies that will be consumed in future operations. Appropriate cost flow assumptions are used for each material and include last-in-first-out (LIFO), first-in-first-out (FIFO), moving average, weighted average, and specific identification. Operating materials are valued at historical cost, except obsolete, excess and unserviceable materials which are valued at net realizable value. There are no special restrictions on the use of the materials.

Criteria which determine the category of operating materials and supplies are assigned and their related valuation are established in Statement of Federal Financial Accounting Standards Number 3 and basic materials management requirements contained in the Code of Federal Regulations.

(in thousands)	Value	Allowance for Loss	Net
Held for Use			
Special Reactor Materials	93,299	0	93,299
Other Special Materials	21,891	0	21,891
Fuel Fabrication	28,807	0	28,807
Stores	446,421	(33,834)	412,587
Subtotal	590,419	(33,834)	556,585
Held for Future Use			
Special Reactor Materials	0	0	0
Other Special Materials	0	0	0
Fuel Fabrication	0	0	0
Stores	28,316	(3,330)	24,986
Subtotal	28,316	(3,330)	24,986
Excess, Unservicable, & Obsolete			
Special Reactor Materials	0	0	0
Other Special Materials	0	0	0
Fuel Fabrication	0	0	0
Stores	58,822	(56,955)	1,867
Subtotal	58,822	(56,955)	1,867
Total	677,557	(94,119)	583,438

Notes to Financial Statements

8. Stockpile Materials, Net

Stockpile materials consist of nuclear materials and crude oil held in the Strategic Petroleum Reserves. Nuclear materials include weapons and weapons components in all phases of the production process, materials used for research and development purposes, and materials and weapons in the custody of the Department of the Defense under Presidential Directive. Strategic Petroleum Reserves consists of 592 million barrels of crude oil stored in salt domes and may be sold only with the approval of Congress and the President of the United States. The reserves provide a deterrent to the use of oil as a political instrument and provide an effective response mechanism should a disruption occur.

(in thousands)	
Agency Assets	
Nuclear Materials	26,784,215
Strategic Petroleum Reserves	15,720,661
Custodial Assets	
Oil Held in Strategic Reserves for DOD	106,188
Total	42,611,065

Stockpile materials are recorded at historical costs in accordance with Statement of Federal Financial Accounting Standard No. 3, except for cerain nuclear materials which have been identified as surplus or excess to the Department's needs. Excess or surplus nuclear materials are recorded at their net realizable value. Additional cost will be necessary to reduce or store this hazardous material. The Department cannot estimate the amount of these costs until a disposition methodology has been determined. However, regardless of which methodology is chosen, it is expected that the costs will exceed the net realizable value of the inventory.

The Department has entered into a reimbursable agreement with the United States Enrichment Corporation (USEC). The agreement requires the Department to provide up to two million kilograms (equivalent to $60 million) of normal uranium if losses are sustained by USEC relating to shipments received from the Ministry of the Russian Federation of Atomic Energy.

9. Property, Plant, and Equipment, Net

During FY 1995, the Department undertook initiatives to revalue surplus facilities and environmental management processing facilities (see Note 1-M). As a result of these initiatives, the Department reduced the net book value of these assets. The reductions related to surplus and environmental management processing facilities were $.5 billion and $3 billion respectively.

(in thousands)	Acquisition Cost	Accumulated Depreciation	Net Book Value
Land	490,998	(3,363)	487,635
Structures and Facilities	27,428,273	(13,981,003)	13,447,269
ADP Software	46,714	(44,457)	2,258
Equipment	13,868,925	(9,194,469)	4,674,456
Natural Resources	11,420	(1,992)	9,428
Construction Work in Process	5,241,171		5,241,171
Total	47,087,501	(23,225,284)	23,862,217

Notes to Financial Statements

10. Other Funded Liabilities

(in thousands)	
Intragovernmental	
Oil Held in Strategic Petroleum Reserves for DOD	106,188
Deferred Credits	267,159
Uncollected Receipts Due to Treasury	142,897
Other Funded Liabilities	26,731
Total Intragovernmental Other Funded Liabilities	542,976
Governmental	
Accrued Payroll and Benefits	706,024
Employee Payroll Withholdings	39,360
Advances From Others	3,150
Petroleum Pricing Escrow Fund s	1,060,559
Funded Environmental Liabilities	1,627,039
Other Funded Liabilities	61,751
Total Governmental Other Funded Liabilities	3,497,884
Total Other Funded Liabilities	4,583,835

Notes to Financial Statements

11. Leases

Department as Lessee: The Department, through its management and operating contractors leases facilities; machinery and equipment; and other assets. The Department has commitments under operating leases and renewal options generally available on these leases. The assets and liabilities under capital leases are recorded under the lesser of the present value of minimal lease payments or the fair value of the assets. The assets are amortized over their related lease terms or their estimated useful lives, whichever is less. Generally, assets under capital lease are purchased at the end of the lease term.

The schedules reflect the future minimum rental payments required under operating leases that have initial or remaining noncancelable lease terms in excess of one year, and under capital leases together with the present value of the future minimum lease payments.

Department as Lessor: The Department has entered into a lease agreement with the United States Enrichment Corporation (USEC), which assumed responsibility for the uranium enrichment business on July 1, 1993. Under the terms of the lease agreement, the Department leases the gaseous diffusion facilities at Paducah, Kentucky and Portsmouth, Ohio to USEC. The Department receives a lease administration fee and is reimbursed for providing services related to the lease, but receives no compensation from USEC for the use of those facilities. As a result of this agreement, the Department wrote off the book value of the leased facilities ($501 million) as of July 1993. The lease terms are derived from the requirements of the Energy Policy Act of 1992, which created the USEC.

Operating Leases

(in thousands)	Land & Buildings	Equipment	Other	Total
Fiscal Year				
1996	38,538	10,119	1,982	50,639
1997	31,798	3,083	1,620	36,501
1998	26,934	1,841	1,212	29,987
1999	24,485	1,844	966	27,295
2000	19,107	1,876	731	21,714
2001 & Beyond	18,393	416	582	19,390
Total Future Lease Payments Due	159,255	19,179	7,092	185,526

Capital Leases

(in thousands)	Land & Buildings	Equipment	Other	Total
Fiscal Year				
1996	6,060	19,964	2,802	28,827
1997	6,574	13,990	2,856	23,421
1998	5,609	12,983	0	18,591
1999	5,609	3,536	0	9,145
2000	5,609	1,819	0	7,427
2001 & Beyond	15,229	28,312	0	43,541
Total Future Lease Payments Due	44,689	80,604	5,659	130,952
Less: Imputed Interest	14,070	25,865	390	40,325
Total Capital Lease Liability	30,620	54,738	5,268	90,626

Summary of Assets Under Capital Lease

(in thousands)	
Land & Buildings	56,987
Machinery and Equipment	149,198
Other	11,582
Accumulated Depreciation	(56,120)
Total	161,647

Notes to Financial Statements

12. Unfunded Environmental Liabilities

The Department of Energy's production of nuclear weapons during World War II and the Cold War required the use of a vast array of facilities - mines, laboratories, nuclear reactors, chemical plants, machine shops, and test sites. At all sites where these activities took place, some environmental contamination occurred. In this regard, the treatment and storage of radioactive and chemical waste resulted in contamination of soil, surface water, and groundwater and an enormous backlog of waste and dangerous materials. The environmental legacy derived from the process of producing nuclear weapons includes:

Uranium Enrichment - Enrichment plant operations produced large volumes of enriched uranium and environmental contamination with radioactive materials, solvents, polycholorinated biphenyls, heavy metals, and other toxic substances.

Fuel and Target Fabrication - The main types of environmental legacies from these operations are unintended releases of uranium dust, landfills contaminated with chemicals, and contaminated facilities.

Reactor Irradiation - Environmental legacy includes highly radioactive spent fuel, and contaminated facilities.

Chemical Separations - The chemical separation of fission products from uranium and plutonium generated more than 100 million gallons of highly radioactive and hazardous chemical waste, some of which was discharged directly into the ground. Chemical separations also left a legacy of contaminated facilities.

Fabrication of Weapons Components. Wastes from this process is mostly plutonium contaminated (transuranic) waste.

Weapons Assembly and Maintenance - Environmental legacy includes soil contaminated with high-explosive waste, fuel and oil leaks, and solvents.

Research, Development, and Testing - Environmental legacy includes hundreds of highly radioactive underground craters and soils and debris contaminated with low-level waste. Testing nonnuclear components left contamination with high-explosive materials and other chemicals.

(in thousands)	
1995 BEMR Estimate	
Waste Management	112,000,000
Environmental Restoration	65,000,000
Nuclear Material and Facility Stabilization	22,000,000
Technology Development	12,000,000
Program Management Activities	19,000,000
Total Mid-Range Estimate	230,000,000
Less:	
Portion Attributable to Future Operations	(24,000,000)
Adjustment for Revised Estimate of Decontamination and Decommissioning of Uranium Enrichment Facilities	(2,780,341)
Amount Funded by Appropriations	(7,537,766)
Total Unfunded BEMR Liability	195,681,892
Other Non-BEMR Environmental Liabilities	
DOE Share of Nuclear Waste Fund Fees	1,098,000
Other	71,435
Total Non-BEMR Environmental Liabilities	1,169,435
Total Unfunded Environmental Liabilities	196,851,328

The Department of Energy manages one of the largest environmental programs in the world--with more than 130 facilities in over 30 States and territories. The primary focus of the program is to reduce health and safety risks from radioactive waste and contamination resulting from production, development, and testing of nuclear weapons. As required by the FY 1994 National Defense Authorization Act, the Department issued in FY 95 its first annual Baseline Environmental Management Report (BEMR) on the activities and potential costs required to address the waste, contamination, and surplus nuclear facilities that are the responsibility of the Department's Office of Environmental Management Program (EM).

The BEMR base-case estimate of the life-cycle costs for the Department's environmental management program ranges from $200 to $350 billion in constant 1995 dollars, with a mid-range estimate of $230 billion. The estimate begins in FY 1995 and ends in approximately 2070, when environmental activities are projected to be substantially completed. In fiscal year 1995, the Department recorded a liability of $196.8 billion which was based on the mid-range estimate of $230 billion less net adjustments of $33.2 billion . Of the $33.2 billion, $24 billion represented the amount included in the mid-range estimate for costs associated with processing future waste from ongoing operations.

The range of the cost estimate varies depending on the assumed level of productivity over the life of the program. The mid-range total program estimate of $230 billion reflects a planned 20-percent increase in productivity over the next 5 years, plus an annual 1-percent productivity improvement over the remaining life of the program. The low-end estimate of $200 billion reflects a more aggressive efficiency and productivity improvement program--20-percent for the next 5 years, and subsequent annual improvements of nearly 2-percent. The high-end estimate of $350 billion reflects costs if current levels of inefficiency and productivity were sustained over the program's life. Although the total life-cycle estimate is derived from a 75 year program duration, more than 90-percent of the life-cycle cost estimate reflects activities projected to occur during the next 40 years.

The administration has established budget targets for the next 5 years that reflect the allocation of resources among competing national priorities, including lower taxes and deficit reduction. A shortfall exits between the mid-range base case estimate and the FY 1996 budget and out-year targets. The shortfall is estimated at $7 billion through FY 2000. This shortfall could necessitate delays of shifts of work scope in the environmental program that may result in significant cost growth in out years. The BEMR does not include an estimate of the impact the shortfalls may have on remediation costs.

Components of Environmental Costs:

Environmental Restoration, usually described as "cleanup" encompasses a wide range of activities such as stabilizing contaminated soil: treating ground water; decontamination and decommissioning nuclear reactors and process buildings, including chemical separation plants; and exhuming buried wastes.

Waste Management includes storing, treating, and disposing various wastes and spent nuclear fuel. These wastes include a variety of physical forms (e.g., solids, liquids, and sludges); chemical types (i.e., solvents, metals, and salts); sources (e.g., high-level waste from reprocessing, spent nuclear fuel from production reactors, and naval reactors); transuranic waste from plutonium operations; and low-level waste, which includes virtually everything else that is radioactive waste.

Nuclear Material and Facility Stabilization entails removal of stored raw materials, stored finished products, and in-process materials at production facilities.

Technology Development includes applied research, development, demonstration, testing and evaluation of technologies supporting the environmental management program.

Program Management Activities include services such as safeguards and security, transportation, property management, and emergency preparedness. It also includes costs for Federal employee salaries, benefits and training associated with the environmental management program.

Assumptions and Exclusions:

Estimating the cost of the Department's environmental cleanup liability requires making assumptions about future activities and is inherently uncertain. The future course of the Department's environmental management program will depend on a number of fundamental technical and policy choices, many of which have not been made. Ultimately, these decisions will be made on the basis of fulfilling Congressional mandates, regulatory direction, and adequate stakeholder input. The cost and environmental implications of alternative choices can be profound. For example, many contaminated sites and facilities could be restored to a pristine condition, suitable for any desired use; they could also be restored to a point where they pose no near-term health risks to surrounding communities but are essentially surrounded by fences and left in place. Achieving pristine conditions would have a higher cost, but may or may not warrant the economic costs and potential ecosystem disruption or be legally required. The following key assumptions were used in estimating the environmental liability:

Notes to Financial Statements

- The Department has identified approximately 10,500 potential release sites from which contaminants could migrate into the environment. Although many of these units have been assessed for their contamination potential, only one-fourth of them have been fully characterized. Nonetheless, the Department has characterized the largest and most significant of the 10,500 sites, and preliminary information was utilized for a substantial portion of the balance.

- Estimates reflect current expectations for the future of each site, such as land use, which is primarily locally determined.

- The first geological repository for high-level radioactive waste will open on 2010. At that time, it will accept spent nuclear fuel from commercial utilities. In 2016, the repository will begin accepting defense high-level waste, and Department-owned fuel shortly thereafter.

- Only existing technologies, such as pumping and treating groundwater, are assumed to be available for estimating cleanup costs. Estimates were based on remedies considered technically and environmentally reasonable and achievable by local project managers and appropriate regulatory authorities.

- Standardized calculations were used to estimate treatment, storage, and disposal costs based on predicted waste throughput for transuranic, low-level, low-level mixed, and hazardous wastes.

- The Waste Isolation Pilot Plant will open in 1998.

- Environmental cleanup will be considered substantially complete when all sites have been remediated and when wastes generated from previous activities and from remediation and stabilization activities is safely disposed.

- Estimates of decontamination and decommissioning costs of currently active facilities were outside the BEMR scope required by the National Defense Authorization Act of 1994. Consequently, the BEMR estimate does not include an estimate for the eventual cleanup costs associated with currently operating facilities or those placed in standby for potential future use. While the non BEMR cleanup costs are deemed probable, the studies generally used to estimate the eventual cleanup work (remedial investigation, feasibility studies, etc.) are not legally required to be performed until operations cease at those facilities. Management is evaluating whether other methods are available to reasonably estimate the cleanup costs of the active facilities.

- Projects with no current feasible remediation approach are excluded from the estimate. The cost estimate would be higher if some remediation were assumed for these areas for which complete cleanup is not technically feasible with existing technologies. However, because no effective remedial technology could be identified, no basis for estimating cost was available. Significant projects excluded include:

  - Nuclear explosion test areas (e.g., Nevada Test Site)
  - Large surface water bodies (e.g., Clinch and Columbia rivers)
  - Most ground water (even with treatment, future use will remain restricted)
  - Some special nuclear material

- Costs related to the disposition of special nuclear materials that are identified as excess or surplus to the Department's needs are excluded from the estimate. The Department is considering a number of alternatives for disposal of this material.

- Costs related to the disposition of depleted uranium hexafluoride (UF-6) are excluded from the estimate. The Energy Policy Act restricts the use of depleted UF-6 to military purposes until October 1998. The Department is preparing to assess strategies for long-term management of the depleted UF-6 and plans to issue a draft environmental impact statement in FY 1998. The Department estimates that, as of September 30, 1995, the cost of depleted UF-6 disposition will range from $1.3 billion to $2.9 billion, excluding adjustments for inflation. However, the extent to which the Department's stockpile of depleted UF-6 will require disposal is dependent on future restrictions on the use of this material for military purposes and on other alternative uses.

Notes to Financial Statements

In addition to the assumptions and exclusions identified above, the length of the program is sufficient to introduce a variety of uncertainties into any cost and schedule estimate. Also, the BEMR estimate was calculated in constant FY 1995 dollars rather than future cash flows, and potential cost increases caused by future inflation could result in costs that are substantially higher than the recorded liability.

Baseline Activities:

The Base Case cost estimate was constructed with data provided primarily by the field offices and sites. The cost and schedules were based on meeting existing compliance agreements, including milestones for as long as they were established, consistent with Federal, state and/or local statutes and/or regulations that have been approved as of the Statement of Financial Position date. Information included cost and schedule estimates for environmental restoration; nuclear material and facility stabilization; and waste treatment, storage, and disposal activities at each installation. It also includes costs for related activities such as landlord responsibilities, program management, and legally prescribed grants for participation and oversight by Tribes and regulatory agencies.

More detailed information concerning the Department's methodology for estimating the environmental management program costs can be found in the 1995 Baseline Environmental Management Report available to the public from the U.S. Department of Commerce, Technology Administration, National Technical Information Service, Springfield, VA 22161. (703) 487-4650.

Other Accrued Environmental Costs:

The Nuclear Waste Policy Act of 1982 directed DOE to develop a repository for permanent disposal of waste produced by civilian nuclear power plants and allowed DOE to dispose of its high-level wastes in the repository. The Act requires that owners and generators of nuclear waste pay the program's cost and establishes a fee-setting mechanism under which DOE must collect the fee and annually assess the adequacy of the disposal fee.

To date, no agreement has been reached for payment of fees and interest to the Nuclear Waste Fund for DOE's defense high-level waste share of costs which is estimated at $1.098 billion as of September 30, 1995. The Department has accrued this amount as an unfunded environmental liability.

13. Pensions and Other Actuarial Liabilities

Most of the Department's contractors have defined benefit pension plans under which they promise to pay specified benefits to their employees, such as a percentage of the final average pay for each year of service. The Department's cost under the contract include reimbursement of annual contractor contributions to these pension plans. Since the Department approves the contractors' plans and is ultimately responsible for funding the plans, the accounting for any related liability rests with DOE. With regard to accounting for the contractor pension plans, the Department has not implemented the requirements of the Financial Accounting Standards Board (FASB) Statement No. 87, "Employers' Accounting for Pensions," of December 1985. Consequently, no pension related assets or liabilities are reflected in the FY 1995 financial statements. In FY 1996, guidance will be provided to all field offices requiring integrated contractor pension liabilities to be accrued in accordance with FASB Statement No. 87.

The Department also reimburses the Department of Labor for workman's compensation benefits for Federal employees injured on the job, and is ultimately responsible for the payment of benefits associated with contractor disability insurance plans. The actuarial liabilities as of September 30, 1995 for workman's compensation and contractor disability insurance plans was $21.9 million and 14.9 million respectively.

Notes to Financial Statements

14. Post Retirement Benefits Other than Pensions

Plan Provisions: The Department's contractors sponsor a variety of postretirement benefits other than pensions. Benefits consist of medical (38 contractors), dental (15 contractors), life insurance (25 contractors) and Medicare Part B premium reimbursement (1 contractor). Thirty-three of the contractors sponsor a traditional indemnity plan, a PPO, and HMO without a gatekeeper or similar plan. Three of these also have a point of service plan, an HMO with a gatekeeper or a similar plan. Five additional contractors have only a point of service plan, an HMO with a gatekeeper or a similar plan.

Funding Policy: In general, the funding policy is pay-as-you-go. There are 8 contractors, however, which are prefunding benefits in part as permitted by law.

Medical and Drug Trend Rates: For a point of service plan, an HMO with a gatekeeper or a similar plan, the trend rate is:

- Under age 65 rates grade from 8.5% in 1994 down to 5.5% in 2002 and later.
- Over age 64 rates grade from 7.5% in 1994 down to 5.5% in 2002 and later.

For a PPO, a traditional indemnity plan, an HMO without a gatekeeper or a similar plan, the trend rate is :

- Under age 65 rates grade from 14.0% in 1994 down to 6.5% in 2002 and later.
- Over age 64 rates grade from 12.25% in 1994 down to 6.5% in 2002 and later.

(in thousands)	
A. Discount Rate	7.50%
B. Expected Postretirement Benefit Obligation as of 9/30/95	(6,733,222)
C. Accumulated Postretirement Benefit Obligation as of 9/30/95	
1. Fully Eligible Actives	(861,969)
2. Other Actives	(1,922,211)
3. Subtotal (1+2)	(2,784,181)
4. Retirees	(2,223,936)
5. Total APBO	(5,008,117)
6. Plan Assets (as defined in FAS# 106)	114,199
7. Funded Status (5-6)	(4,893,917)
8. Unrecognized Transition Obligation	0
9. Unrecognized Prior Service Cost	(91,858)
10. Unrecognized (Gain)/Loss	(641,518)
11. Accrued Expense Account (7+8+9+10)	(5,627,294)
D. 10/1/94 - 9/30/95 Net Periodic Postretirement Benefit Cost	
1. Service Cost	159,730
2. Interest Cost	332,316
3. Return on Plan Assets (as defined in FAS# 106)	(8,292)
4. Amortization of:	
Unrecognized Transition Obligation	1,200
Unrecognized Prior Service Cost	14,879
Unrecognized (Gain)/Loss	(65,158)
5. Impact of Curtailment (if applicable)	(1,944)
6. Total (1+2+3+4+5)	432,731
E. Components of Accrued Postretirement Benefit Cost	
1. 10/1/94 Accrued Postretirement Benefit Cost	(5,362,731)
2. 10/1/94 - 9/30/95 Net Periodic Postretirement Benefit Cost	(432,731)
3. 10/1/94 - 9/30/95 Cash Costs	168,691
4. Adjustments	(524)
5. 9/30/95 Total Accrued Postretirement Benefit Cost (1+2+3+4)	(5,627,294)

It is not possible to determine the weighted average trend rate for all contractors in the aggregate.

Dental Trend Rates: For a dental plan, the trend rates at all ages grade down from 8.5% in 1994 to 5.5% in 2002 and later.

Other Economic Assumptions: The weighted average discount rate and long-term rate of return on assets were 8.5% to determine the Net Periodic Postretirement Benefit Cost for the fiscal year ended 9/30/95. The weighted average discount rate used to determine the APBO as of 9/30/95 was 7.5%. The rate of compensation increase was the same rate as each contractor used to determine pension contributions. It is not feasible to determine the weighted average compensation increase for all contractors in the aggregate.

Notes to Financial Statements

Trend Rate Sensitivity: The effect of a one percentage point increase in the assumed health care cost trend rates for each future year is as follows:

(*In thousands*)	Base Valuation	1% Trend Increase
Service Cost plus Interest Cost for health care benefits	46,645	550,602
APPO as of 9/30/95 for health care benefits	4,643,099	5,360,757

Alternative Amortization Methods: Straight line amortization of unrecognized prior service cost over the average remaining service to full eligibility for benefits of the active plan participants is used. The minimum amortization of unrecognized gains and losses is used.

Settlements and Curtailments: Expense of $1,944,000 was recognized in the fiscal year for a curtailment at Bechtel Petroleum Operations, Inc.

Other: Information regarding the amounts and types of securities, if any, of the employer or related parties included in plan assets is not available. The amount of benefits covered by life insurance contracts is not available. Information regarding special or contractual termination benefits is not available.

15. Contingencies

The Department is a party in various administrative proceedings, legal actions and tort claims which will ultimately result in settlements or decisions adverse to the Government. The Department has accrued contingent liabilities where losses are determined to be probable and the amounts can be estimated.

(in thousands)	Funded	Unfunded	Total
Contract Disputes	2,433		2,433
Contract Termination Claims	7,486		7,486
Torts	354		354
Tax	16,373	15,000	31,373
Labor	9,409	5,500	14,909
Other	74		74
Total	36,128	20,500	56,628

Other significant contingencies where a loss is reasonably possible, or where a loss is probable and an estimate cannot be determined, are as follows:

- *Toxic Releases from the Department's Facilities* - The Department's contractors are the defendants in a number of class action suits arising from alleged environmental contamination of air, water, and soil affecting communities surrounding various DOE facilities. Collectively, in the four most significant cases involving facilities at Portsmouth and Mound, Ohio, Rocky Flats, Colorado, and Hanford, Washington the claimants seek in excess of $1.5 billion in damages. The Department's contractors are vigorously contesting all of these cases, but an evaluation of the likely outcome of these claims cannot be estimated at this time.

- *Human Radiation Experiments* - The Department and its contractors are the defendants in a number of individual and class action suits as well as administrative claims arising from past human radiation experiments sponsored or carried out by the Federal government. In the aggregate, the claimants seek more than $1 billion in damages. Due to the preliminary nature of these matters, an evaluation of the likely outcomes of these claims cannot be estimated at this time. While the cases will be vigorously contested, possibilities of settlement will also be pursued.

- Indiana Michigan Power Co. V. DOE - The Department has acknowledged that it will not have a high-level nuclear waste repository on line by the January 31, 1998 date specified in the Nuclear Waste Policy Act (NWPA) of 1982, as amended. The petitioners seek a declaration that DOE has an unconditional duty to begin acceptance of high-level nuclear waste beginning January 31, 1998, the establishment of a schedule to bring DOE into compliance with the NWPA, periodic progress reports, and if warranted, payment of future fees into an escrow fund. Although DOE is vigorously defending this case, an outcome cannot be accurately predicted.

- U.S. v. Yankee Atomic Electric Company - This is an appeal (and cross appeal) from a decision of the Court of Federal Claims ordering the refund of special assessments totaling $2.9 million paid by Yankee into the Uranium Enrichment Decontamination and Decommissioning Fund. The Department is appealing the lower court's adverse decision and believes it will ultimately prevail in this action. Should Yankee prevail against the Department in this matter, Yankee will not pay future assessments amounting to more than $10 million. In addition, the validity of substantially all past and future assessments against domestic utilities would be in question ($481 million and $1.9 billion respectively).

16. Other Unfunded Liabilities (not covered by Budgetary Resources)

Other significant unfunded liabilities accrued by the Department include amounts owed to the United States Enrichment Corporation associated with the privatization of the Department's uranium enrichment activities and amounts owed to uranium/thorium licensees for the costs of decontamination and decommissioning at the Department's diffusion facilities. In addition, the Strategic Petroleum Reserves unfunded liabilities represent costs for decommissioning the Weeks Island storage facility and the degassification of crude oil reserves.

(in thousands)	
Liability to Uranium Enrichment Corporation	311,300
Uranium/Thorium Reimbursements	251,379
Payments in Lieu of Taxes	11,123
Strategic Petroleum Reserves	101,383
Other	10,099
Total	685,284

The Department has also identified various activities in its management plan which must be completed to comply with existing environmental, safety, and health laws and regulations. According to estimates in the ES&H Management Plan Information System, these activities, which were not accrued as of September 30, 1995, will cost over $1.9 billion between Fiscal Years 1995 and 2001.

17. Unexpended Appropriations

(in thousands)	Appropriated Funds	Special Funds	Trust Funds	Total
Unobligated				
Available	2,440,249	91,331	577	2,532,157
Unavailable	428,614			428,614
Total Unobligated	2,868,863	91,331	577	2,960,771
Undelivered Orders	8,385,696	275,597	17,481	8,678,775
Unfilled Customer Orders	(1,824,119)			(1,824,119)
Funded Environmental Liabilities	(1,553,942)	(73,097)		(1,627,039)
Total Unexpended Appropriations	7,876,499	293,831	18,058	8,188,388

18. Other Disclosures

On February 1, 1996, the Department announced that it would accept and manage U.S. enriched spent nuclear fuel from foreign research reactors as a major component of the Department's comprehensive response to nuclear weapons proliferation. The proposed nuclear nonproliferation policy for foreign research reactor material calls for up to 20 metric tons of spent fuel, including about 5 metric tons of highly enriched uranium, to be accepted in the U.S. over a 13 year period. By comparison, this amount is less than one percent of the 2,700 metric tons of spent fuel currently managed by the Department. The Department proposes to bear the full cost for transporting and managing the spent fuel from developing countries and to charge developed countries a fee, which is yet to be established. No provision for the net cost to the Government has been accrued in the financial statements for this new initiative.

IG Report No. IG-FS-96-01

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If you wish to discuss this report or your comments with a staff member of the Office of Inspector General, please contact Wilma Slaughter on (202) 586-1924.