

memorandum

DATE: August 21, 1998

REPLY TO:

ATTN OF: IG-30

SUBJECT: Department of Energy's Uranium Enrichment Decontamination and Decommissioning Fund Fiscal Year 1997 Financial Statement Audit (ER-FC-98-05)

TO: Assistant Secretary of Environmental Management, EM-1

The attached report presents the results of the independent certified public accountants' audit of the Department of Energy's Uranium Enrichment Decontamination and Decommissioning Fund (D&D Fund) financial statements as of September 30, 1997. The auditors have expressed an unqualified opinion on the 1997 statement of financial position and the related statements of operations and changes in net position and cash flows.

The 1997 financial statement audit was made under provisions of the Inspector General Act (5 U.S.C. App.) as amended, the Government Management Reform Act (31 U.S.C. 3515), and Office of Management and Budget implementing guidance. The auditors' work was conducted in accordance with generally accepted government auditing standards. To fulfill our audit responsibilities, we contracted with the independent public accounting firm of KPMG Peat Marwick LLP (KPMG) to conduct the audit for us, subject to our review.

The auditors' report on the D&D Fund's internal control structure disclosed no reportable conditions. The auditors' report on compliance with laws and regulations disclosed one instance of noncompliance. This instance of noncompliance relates to the shortfall in Government appropriations. Since this instance was addressed in a previous audit, no further recommendation is made at this time.


During the course of the audit, KPMG also identified other matters that, although not material to the financial statements, nevertheless, warrant management's attention. These items are fully discussed in a separate letter to management.

MASTER

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We believe that the financial statements, together with KPMG's opinion and our review of that work, provide D&D Fund management and the Department's Chief Financial Officer with a basis for evaluating the Fund's financial position and results of operations for the period audited.

We appreciated the cooperation of your staff during the review.


Phillip L. Holbrook
Acting Deputy Inspector General
for Audit Services

Attachment

cc: Deputy Assistant Secretary for Environmental Restoration, EM-40
Director, Office of Eastern Area Programs, EM-42
Team Leader, Audit Liaison Team, CR-2
Audit Liaison, Oak Ridge Operations Office
Manager, Eastern Regional Audit Office, IG-36

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

Financial Statements

September 30, 1997 and 1996

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

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

Overview

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

The Act authorizes revenues of \$480 million per year for fifteen years, adjusted annually for increases in the Consumer Price Index for all urban consumers, to pay for the environmental remediation costs. The revenues are to be obtained from:

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

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

The Office of Eastern Area Programs within the Office of Environmental Management is responsible for management of the resources of the D&D Fund and environmental remediation activities at the gaseous diffusion facilities. The gaseous diffusion facilities located in Oak Ridge, Tennessee and Portsmouth, Ohio are approximately 640 acres each; while the Paducah, Kentucky site has 750 acres. The diffusion facilities have approximately 40 million square feet of floor space under 500 acres of roof containing processing and handling equipment which will be cleaned up under the D&D Fund. The Oak Ridge Operations Office provides day-to-day oversight of D&D Fund activities. Budgeting, accounting, contracting, and other activities are supported through matrix organizations in the Department.

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

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

- Because the environmental remediation work is not scheduled to be completed until many years from now, the length of time over which the work will be performed creates significant uncertainty as to the actual cost of the work. In addition, because the estimates on which the recorded decontamination and decommissioning and remedial action liabilities are based does not include an estimate of the impact of inflation on such costs, the actual costs may be significantly higher than the recorded liabilities. There is also uncertainty with respect to whether Congressional appropriations will be received at the levels assumed by the estimates, and the uncertainty inherent in the estimating process. The Department is presently unable to determine the impact of these factors on the recorded liabilities;

- The Act provides that the annual cost of remedial action at the diffusion facilities will be paid from the D&D Fund to the extent the amount available in the Fund is sufficient. To the extent the amount in the Fund is insufficient to pay remedial action costs, the Act provides that the Department will be responsible for such costs. The majority of current collections in the D&D Fund are being used to pay for remedial action costs at the gaseous diffusion facilities. The use of the D&D Fund for remedial action activities will impact the availability of funds to accomplish decontamination and decommissioning;
- Government contributions through September 30, 1997, were approximately \$689.8 million less than authorized by the Act. The Department will request funds to replace the shortfall as they are needed to perform work;
- The Department holds about 560,000 metric tons of depleted uranium hexafluoride (UF-6). At the present time the Department is assessing alternate uses for this material. Through fiscal year (FY) 1998 the depleted UF-6 is set aside exclusively for military purposes. Should the Department ultimately decide that all or a portion of the UF-6 requires disposal, the D&D Fund would incur an additional liability of \$1.6 to \$3.9 billion which is not reflected in the financial statements; and
- The D&D Fund is involved in various legal actions related to the validity of assessments against domestic utilities. All of the actions decided to date have been in favor of the Government. However, the Department anticipates that domestic utilities will file additional claims related to the assessments.

Program Performance Measures

The Office of Environmental Management was designated by the Office of Management and Budget (OMB) as a pilot program under the Government Performance and Results Act (Results Act) of 1993.

Environmental Management selected four quantifiable and specific performance measures to assess outputs and outcomes at the subproject level: number of assessments completed; number of interim actions completed; number of remedial actions completed; and the number of D&D actions completed.

An assessment is complete when the key end assessment document (e.g., Record of Decision) is submitted in final form to regulators for approval. An interim action is complete when physical work is concluded which results in cleanup progress, reduction in exposure to contaminants, or containment of a source term. A remedial action is complete when the physical cleanup is finished and a final report indicating the final cleanup goal has been reached is submitted to regulators for approval. A D&D action is complete when the final cleanup objectives for the structures have been completed and a final report submitted for approval. The following table summarizes the performance measures for D&D Fund projects in 1997 and 1996:

	FY 1996		FY 1997	
	Scheduled	Completed	Scheduled	Completed
Assessments	5	5	111	102
Interim actions	6	6	0	3
Remedial actions	8	8	28	36
D&D actions	3	3	36	36

Financial Performance Measures

The Department is required to collect assessments from utilities and payments from other appropriations, invest excess cash, and make disbursements from the D&D Fund in accordance with the requirements of the Energy Policy Act of 1992. Two financial performance measures can be used to assess performance: 1) the amount of interest earnings lost as a result of untimely remittance of assessments by utilities; and 2) excessive uninvested daily cash balances.

- Timeliness of Receipts

No late payments were received during FY 1997.

- Uninvested Daily Cash Balances

An internal review of the D&D Fund's daily investment activities revealed that on September 17, 1997, the Department authorized an appropriation transfer and deposited with the U.S. Treasury \$10 million. Due to a breakdown in communication between the Department and the Treasury these funds remained uninvested until October 20, 1997.

Financial Management Performance Measures

During FY 1997, the D&D Fund earned 4.65 percent from investments in short-term Treasury securities as compared to 6.07 percent in FY 1996. This drop in the effective interest rate is indicative of the general reduction in interest rates in FY 1997 due to the policy set by the Federal Reserve.

The accompanying financial statements were prepared to report the financial position and results of operations of the D&D Fund pursuant to the requirement of the Energy Policy Act of 1992.

While the statements have been prepared from the books and records of the D&D Fund in accordance with the formats prescribed by OMB, the statements are different from the financial reports used to monitor and control budgetary resources which are prepared from the same books and records.

The statements should be read with the realization that they relate to the D&D Fund owned and managed by the United States Government a sovereign entity; that unfunded liabilities reported in the financial statements cannot be liquidated without the enactment of appropriations; and that the payment of all liabilities, other than those resulting from contractual obligations, can be abrogated by the Government.

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Independent Auditors' Report on Financial Statements

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

We have audited the accompanying statements of financial position of the United States Department of Energy's (Department) Uranium Enrichment Decontamination and Decommissioning Fund (D&D Fund, or Fund) as of September 30, 1997 and 1996, and the related statements of operations and changes in net position (deficit) and cash flows for the years then ended. These financial statements are the responsibility of D&D Fund management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 93-06, *Audit Requirements for Federal Financial Statements*, as amended on January 16, 1998. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

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

As discussed in note 5, during fiscal year 1997 the D&D Fund reduced its estimate of the costs to decontaminate and decommission the gaseous diffusion facilities in Oak Ridge, Tennessee; Paducah, Kentucky; and Portsmouth, Ohio (Diffusion Facilities) from \$9.1 billion to \$4.0 billion, reflecting a new environmental remediation approach and new contracting strategies. Because the decontamination and decommissioning work is scheduled to be completed in 2032, the length of time over which the work will be performed creates significant uncertainty as to the actual cost of the work.

As discussed in note 7, the Energy Policy Act of 1992 (Act) provides for payment from the D&D Fund of the annual cost of remedial action at the Diffusion Facilities to the extent the amount available in the D&D Fund is sufficient. To the extent the amount available in the Fund is insufficient to pay remedial action costs, the Act provides that the Department, not the Fund, will be responsible for such costs. Because the Department may be responsible for remedial action costs, the Fund's recorded liability for remedial action at September 30, 1997 consists of the funding for such costs provided by Congress in the D&D Fund appropriation for fiscal year 1998, \$129.8 million, plus the unexpended portion of such appropriations for current and previous fiscal years, \$24.7 million. The D&D Fund will make additional accruals of remedial action costs if Congress appropriates additional funds for that purpose. The estimated future cost of remedial action at the Diffusion Facilities is \$1.8 billion as of September 30, 1997.

As discussed in note 10, the Department is presently storing approximately 560,000 metric tons of depleted uranium hexafluoride (UF-6) generated from the operation of the Diffusion Facilities by the Department and its predecessor agencies. The Department estimates that, as of September 30, 1997, the cost of depleted UF-6 disposition will range from \$1.6 billion to \$3.9 billion. However, the extent to which the Department's stockpile of depleted UF-6 will require disposal is dependent on future restrictions on the use of this material for military purposes and on other alternative uses. No provision for the cost of depleted UF-6 disposal is included in the accompanying financial statements, because the Department is presently unable to determine what portion of the stockpile will require disposal. In addition to the depleted UF-6 discussed above, the United States Enrichment Corporation (USEC) Privatization Act of 1996 requires the Department to assume ownership and disposition responsibility for the UF-6 generated by USEC between July 1, 1993 and USEC's privatization date. The Department is presently unable to determine what portion of the USEC-generated depleted UF-6 will require disposal and has not estimated the cost for disposal of this material.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the United States Department of Energy's Uranium Enrichment Decontamination and Decommissioning Fund as of September 30, 1997 and 1996, and the results of its operations and changes in net position (deficit) and its cash flows for the years then ended, in conformity with the basis of accounting described in note 1(c).

As discussed in note 11, in 1997 the D&D Fund implemented Statement of Federal Financial Accounting Standards (SFFAS) No. 4, *Managerial Cost Accounting Concepts for the Federal Government*. Therefore, the Fund's fiscal year 1997 financial statements include certain costs excluded from financial statements in fiscal year 1996 and prior years. During the year ended September 30, 1997, expenses of \$24.4 million were allocated by other entities to the Fund, which recognized an imputed financing source of the same amount. Of the \$24.4 million, approximately \$0.7 million will be paid by the Office of Personnel Management (OPM) and the remaining \$23.7 million will be paid by other entities within the Department.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The information in management's *Overview* is not a required part of the basic financial statements but is supplementary information required by OMB Bulletins 94-01 and 97-01, *Form and Content of Agency Financial Statements*. We have considered whether this information is materially inconsistent with the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audits of the basic financial statements and, accordingly, we express no opinion on it. Performance information included in management's *Overview* is addressed in our auditors' report on internal control over financial reporting and performance information in accordance with OMB Bulletin No. 93-06, as amended.

In accordance with *Government Auditing Standards*, we have also issued reports dated April 2, 1998 on our consideration the D&D Fund's compliance with laws and regulations and on our consideration of internal control over financial reporting and performance information.

This report is intended for the information of the Department's Office of Inspector General, D&D Fund management, and others within the Office of Environmental Management. However, this report is a matter of public record and its distribution is not limited.

April 2, 1998, except as to note 2,
which is as of June 26, 1998

KPMG Peat Marwick LLP

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

Statements of Financial Position

September 30, 1997 and 1996

(In thousands)

	<u>1997</u>	<u>1996</u>
<u>Assets</u>		
Intragovernmental:		
Cash	\$ 10,001	1
Cash equivalents, net	60,261	54,064
Cash and cash equivalents (note 3)	70,262	54,065
U.S. Treasury securities, net (notes 3 and 4)	823,933	429,669
Accrued interest receivable	21,177	11,368
Governmental:		
Assessments receivable from domestic utilities (notes 2 and 9):		
Current	148,497	145,266
Long-term	1,513,542	1,645,113
Collateral funds and other deposits	153	350
Total assets	<u>\$ 2,577,564</u>	<u>2,285,831</u>
<u>Liabilities and Net Position</u>		
Intragovernmental - due to other program	\$ 1,940	2,245
Governmental:		
Liabilities covered by budgetary resources:		
Decontamination and decommissioning (note 5)	3,342	2,317
Uranium and thorium licensee claims (note 6)	33,945	8,320
Remedial action (note 7)	24,684	23,225
Other accrued expenses	5,803	3,826
Total funded liabilities	69,714	39,933
Liabilities not covered by budgetary resources:		
Decontamination and decommissioning (notes 1(g) and 5)	4,043,225	9,129,960
Uranium and thorium licensee claims (notes 1(g) and 6)	291,311	241,348
Remedial action (note 7)	129,822	132,724
Total unfunded liabilities	4,464,358	9,504,032
Total liabilities	4,534,072	9,543,965
Net position (deficit):		
Balances:		
Unexpended appropriations with U.S. Treasury:		
Unobligated	7	25
Obligated	140	165
Invested capital	153	350
Cumulative results of operations	2,507,550	2,245,358
Future funding requirements	(4,464,358)	(9,504,032)
Total net position (deficit)	(1,956,508)	(7,258,134)
Commitments and contingencies (notes 1(g), 2, 5, 6, 7, 8, and 10)		
Total liabilities and net position (deficit)	<u>\$ 2,577,564</u>	<u>2,285,831</u>

The accompanying notes are an integral part of these statements.

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

Statements of Operations and Changes in Net Position (Deficit)

Years ended September 30, 1997 and 1996

(In thousands)

	<u>1997</u>	<u>1996</u>
Revenues and financing sources:		
Appropriations (note 8):		
Defense environmental restoration and waste management	\$ 376,648	350,000
Transfer from defense environmental restoration and waste management, uranium enrichment, and energy supply research and development	10,000	-
Assessments against domestic utilities (note 9)	36,601	50,633
Interest income	49,143	31,460
Imputed financing for allocated costs to be paid by entities outside the D&D Fund (note 11)	<u>24,368</u>	<u>-</u>
Total revenues and financing sources	<u>496,760</u>	<u>432,093</u>
Expenses and financing uses:		
Decontamination and decommissioning (note 5)	(5,040,573)	-
Uranium and thorium licensee claims (note 6)	84,016	31,944
Remedial action (note 7)	127,323	111,205
Costs allocated by entities outside the D&D Fund (note 11)	<u>24,368</u>	<u>-</u>
Total expenses and financing uses	<u>(4,804,866)</u>	<u>143,149</u>
Excess of revenues and financing sources over expenses and financing uses	5,301,626	288,944
Net position (deficit), beginning balance	<u>(7,258,134)</u>	<u>(7,547,078)</u>
Net position (deficit), ending balance	<u>\$ (1,956,508)</u>	<u>(7,258,134)</u>

The accompanying notes are an integral part of these statements.

UNITED STATES DEPARTMENT OF ENERGY
OFFICE OF ENVIRONMENTAL MANAGEMENT
URANIUM ENRICHMENT DECONTAMINATION AND
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Statements of Cash Flows

Years ended September 30, 1997 and 1996

(In thousands)

	<u>1997</u>	<u>1996</u>
Cash flows from operating activities:		
Excess of revenues and financing sources over expenses and financing uses	\$ 5,301,626	288,944
Adjustments to reconcile excess of revenues and financing sources over expenses and financing uses to net cash provided by operating activities:		
Decrease in decontamination and decommissioning estimate	(5,040,573)	-
Increase in maximum reimbursements for uranium and thorium licensees	80,000	25,000
Net amortization and accretion of premiums and discounts on U.S. Treasury securities	754	(6,509)
(Increase) decrease in operating assets:		
Assessments receivable from domestic utilities	128,340	109,831
Accrued interest receivable	(9,809)	(7,558)
Collateral funds and other deposits	197	101
Increase (decrease) in operating liabilities:		
Decontamination and decommissioning	(45,137)	(91,723)
Uranium and thorium licensee claims	(4,412)	(26,712)
Remedial action	(1,443)	(81,636)
Other accrued expenses	1,977	2,798
Due to other program	(305)	(1,774)
Net cash provided by operating activities	<u>411,215</u>	<u>210,762</u>
Cash flows from investing activities:		
Purchases of U. S. Treasury securities	(763,451)	(546,300)
Proceeds from maturities of U.S. Treasury securities	<u>368,433</u>	<u>363,766</u>
Net cash used in investing activities	<u>(395,018)</u>	<u>(182,534)</u>
Net increase in cash and cash equivalents	16,197	28,228
Cash and cash equivalents, beginning of year	<u>54,065</u>	<u>25,837</u>
Cash and cash equivalents, end of year	<u>\$ 70,262</u>	<u>54,065</u>

The accompanying notes are an integral part of these statements.

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

Notes to Financial Statements

September 30, 1997 and 1996

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

(a) Basis of Presentation

These financial statements have been prepared to report the financial position and results of operations of the United States Department of Energy's (Department) Uranium Enrichment Decontamination and Decommissioning Fund (D&D Fund or Fund). The statements have been prepared from the books and records of the Fund in accordance with the applicable form and content requirements of Office of Management and Budget (OMB) Bulletins 94-01 and 97-01 and the Fund's accounting policies, which are summarized in this note. These statements are therefore different from the financial reports, also prepared by the Fund pursuant to OMB directives, that are used to monitor and control the Fund's use of budgetary resources.

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

(b) Reporting Entity

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

The Act established the D&D Fund within the U.S. Treasury as of October 24, 1992, to pay for the costs of decontaminating and decommissioning the Diffusion Facilities (note 5). The Act further provides that the Fund will reimburse licensees operating uranium or thorium processing sites for the costs of environmental cleanup at those sites, subject to a maximum reimbursement limit (note 6). The Act also provides for payment of the costs of remedial action at the Diffusion Facilities, to the extent that the amount available in the Fund is sufficient (note 7). To pay for these activities, the Act authorizes revenues of \$480 million per year, adjusted annually for inflation, over a fifteen-year period. The revenues will be obtained from Government appropriations (note 8) and from assessments receivable from domestic utilities (note 9). Therefore, the D&D Fund is economically dependent on the Department.

UNITED STATES DEPARTMENT OF ENERGY
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Notes to Financial Statements

(c) Basis of Accounting

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

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

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

Form and content requirements included in OMB Bulletins 94-01 and 97-01, *Form and Content of Agency Financial Statements*.

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

Accounting principles published by authoritative standard setting bodies and other authoritative sources in the absence of other guidance in the first three parts of this hierarchy, to the extent that the use of such accounting standards improves the meaningfulness of the financial statements.

(d) Cash and Cash Equivalents

Cash and cash equivalents of \$70.3 million at September 30, 1997 consisted of U.S. Treasury securities, net of unamortized discounts, overnight investments with Treasury, and uninvested cash. Cash and cash equivalents of \$54.1 million at September 30, 1996 consisted of U.S. Treasury securities, net of unamortized discounts, and overnight investments. For purposes of the statements of cash flows, the D&D Fund considers all Treasury securities with initial maturities of ninety days or less to be cash equivalents.

(e) U.S. Treasury Securities

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

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

UNITED STATES DEPARTMENT OF ENERGY
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URANIUM ENRICHMENT DECONTAMINATION AND
DECOMMISSIONING FUND

Notes to Financial Statements

(e) U.S. Treasury Securities (continued)

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

(f) Plant and Equipment

Plant and equipment acquired by the D&D Fund are charged to operations when purchased, unless the plant or equipment will be used for purposes other than environmental remediation. All plant and equipment held by the D&D Fund at September 30, 1997 and 1996, are used in environmental remediation.

(g) Long-term Liabilities

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

(h) Revenue Recognition

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

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

(i) General and Administrative Expenses

Certain salaries, employee benefits, and other costs allocable to the D&D Fund are funded under separate appropriations, and are included in the accompanying financial statements through allocations by entities outside the D&D Fund (note 11).

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Notes to Financial Statements

(j) Use of Estimates

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

(k) Reclassifications

Certain reclassifications have been made to the 1996 amounts to conform to the 1997 presentation.

(2) Litigation

The Fund is involved in various actions related to the validity of assessments against domestic utilities. In August 1994, the Yankee Atomic Electric Company (Yankee) filed a claim in the United States Court of Federal Claims. Yankee's claim alleged that the Government's assessments against Yankee amount to a retroactive price increase for uranium enrichment services, in violation of the fixed-price terms of its contracts. The Court of Federal Claims ruled in favor of Yankee, and entered a judgment against the Government in September 1995. On November 13, 1995, the Government filed an appeal of the judgment in the United States Court of Appeals for the Federal Circuit. On May 6, 1997, the Court of Appeals reversed the decision of the Court of Federal Claims and, on August 15, 1997, denied Yankee's petition for rehearing. On November 12, 1997, Yankee filed a Petition for Certiorari seeking review by the United States Supreme Court of the Court of Appeals decision, and on June 26, 1998, the Supreme Court denied Yankee's petition. As a result of the Supreme Court's ruling, Yankee has no further recourse and the Government has prevailed in this case.

Several domestic utilities have filed claims under the Contract Disputes Act with the Department's contracting officer on the same basis as the lawsuit filed by Yankee, alleging that the Government's assessments against the utilities amount to a retroactive price increase in violation of the fixed-price terms of their contracts. The contracting officer has denied all of these claims. Prior to the Supreme Court's ruling, many of these utilities, along with others, filed claims in the United States Court of Federal Claims. All of these cases have either been stayed pending the outcome of Yankee's claim, or the Government and claimants were in the process of filing requests for stays prior to the Supreme Court's ruling.

Domestic utilities have filed six appeals with the Department's Office of Hearings and Appeals, arising from the implementation of rules governing the assessment of domestic utilities under the Energy Policy Act. All of these appeals were decided in favor of the Department during fiscal years 1997 and 1996.

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

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

Notes to Financial Statements

(3) Cash and Cash Equivalents

Cash and cash equivalents at September 30, 1997 and 1996, consisted of the following funds with the U.S. Treasury (in thousands):

	<u>1997</u>	<u>1996</u>
Restricted	\$ 824,334	443,611
Accrued but not paid	67,774	37,688
Due to other appropriations, net	1,940	2,245
Obligated appropriations	140	165
Unobligated appropriations	<u>7</u>	<u>25</u>
Total fund balance with U.S. Treasury	894,195	483,734
Less U.S. Treasury securities, net	<u>823,933</u>	<u>429,669</u>
Cash and cash equivalents	<u>\$ 70,262</u>	<u>54,065</u>

(4) Market Value of U.S. Treasury Securities

All U.S. Treasury securities held at September 30, 1997 and 1996, are classified as held-to-maturity. The market value of U.S. Treasury securities held by the D&D Fund as of September 30, 1997 and 1996, is as follows (in millions):

	<u>1997</u>	<u>1996</u>
Maturity:		
91 days to 1 year	\$ 21.0	35.7
1 to 5 years	<u>805.1</u>	<u>392.4</u>
Total	<u>\$ 826.1</u>	<u>428.1</u>

During fiscal years 1997 and 1996, no securities were redeemed prior to their maturity dates.

UNITED STATES DEPARTMENT OF ENERGY
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URANIUM ENRICHMENT DECONTAMINATION AND
DECOMMISSIONING FUND

Notes to Financial Statements

(5) Decontamination and Decommissioning

During fiscal year 1997, the D&D Fund reduced its estimate of the costs to decontaminate and decommission the Diffusion Facilities from \$9.1 billion to \$4.0 billion, reflecting a new environmental remediation approach and new contracting strategies. The previous estimate assumed the recycle of process equipment and other radioactive metals into usable waste container products for use in the Department's environmental remediation program. Upon further review of that approach, it became evident that the cost to produce waste containers versus the benefits gained from the containers required a more economical approach. The new D&D estimate assumes that the metal will be recycled as scrap rather than high value containers. The new contracting strategies involve using a more aggressive approach to maximize cost savings and enhance scheduling through the use of a performance-based management and integrating (M&I) contractor for environmental remediation. Environmental remediation will be completed through fixed-price contracts where appropriate, and issued by the M&I contractor to many subcontractors who will leave the Diffusion Facilities when their specific tasks are completed, significantly reducing fixed costs and staffing requirements.

Changes in the liability for decontamination and decommissioning from October 1, 1995 through September 30, 1997, may be summarized as follows (in thousands):

Balance, October 1, 1995	\$ 9,224,000
Decontamination and decommissioning costs incurred	<u>(91,723)</u>
Balance, September 30, 1996	9,132,277
Decontamination and decommissioning costs incurred	(45,137)
Adjustment to new current cost estimate	<u>(5,040,573)</u>
Balance, September 30, 1997	<u>\$ 4,046,567</u>

Of the total liability of \$4.047 billion for decontamination and decommissioning as of September 30, 1997, \$3.3 million is covered by budgetary resources and \$4.043 billion is not covered by budgetary resources. Of the total liability of \$9.132 billion as of September 30, 1996, \$2.3 million was covered by budgetary resources and \$9.130 billion was not covered by budgetary resources.

Because the decontamination and decommissioning work is scheduled to be completed in 2032, the length of time over which the work will be performed creates significant uncertainty as to the actual cost of the work. In addition, because the estimate on which the recorded liability is based does not include an estimate of the impact of inflation on such costs, the actual costs may be significantly higher than the recorded liability. The Department is presently unable to determine the impact of time and inflation on the liability for decontamination and decommissioning costs.

UNITED STATES DEPARTMENT OF ENERGY
OFFICE OF ENVIRONMENTAL MANAGEMENT
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DECOMMISSIONING FUND

Notes to Financial Statements

(6) Uranium and Thorium Licensee Claims

The Energy Policy Act provides that the D&D Fund will reimburse licensees operating uranium or thorium processing sites for the costs of environmental remediation at those sites, subject to maximum reimbursements of \$270 million for uranium licensees and \$40 million for the thorium licensee, plus adjustments for inflation. In fiscal year 1994, the Department published a final rule governing reimbursement for such costs and began receiving claims for reimbursement. Legislation enacted on October 9, 1996 extended the authorization of the Uranium Mill Tailings Radiation Control Act and increased the maximum reimbursements to \$350 million for uranium licensees and \$65 million for the thorium licensee. Uranium and thorium licensee claims received through September 30, 1997 amounted to \$185.8 million and \$78.5 million, respectively.

Changes in the liability for reimbursement of uranium and thorium licensee claims from October 1, 1995 through September 30, 1997, may be summarized as follows (in thousands):

Balance, October 1, 1995	\$ 251,380
Claims reimbursed	(33,530)
Audit costs	(126)
Provision for estimated increase in claims reimbursement and audit costs	<u>31,944</u>
Balance, September 30, 1996	249,668
Claims reimbursed	(8,320)
Audit costs	(108)
Provision for estimated increase in claims reimbursement and audit costs	<u>84,016</u>
Balance, September 30, 1997	<u>\$ 325,256</u>

The provision for estimated increase in claims reimbursement in fiscal year 1996 included the increase in the maximum reimbursement limit for the thorium licensee; adjustments for inflation from October 1, 1995 through September 30, 1996, based on the change in the Consumer Price Index; and audit costs. The fiscal year 1997 provision consists of the increase in the maximum reimbursement limit for uranium licensees; adjustments for inflation through September 30, 1997; and audit costs.

Of the total liability of \$325.3 million for uranium and thorium licensee claims as of September 30, 1997, \$33.9 million is covered by budgetary resources and \$291.4 million is not covered by budgetary resources. Of the total liability of \$249.7 million for uranium and thorium licensee claims as of September 30, 1996, \$8.3 million was covered by budgetary resources and \$241.4 million was not covered by budgetary resources.

UNITED STATES DEPARTMENT OF ENERGY
OFFICE OF ENVIRONMENTAL MANAGEMENT
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DECOMMISSIONING FUND

Notes to Financial Statements

(7) Remedial Action

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

Changes in the liability for remedial action from October 1, 1995 through September 30, 1997, may be summarized as follows (in thousands):

Balance, October 1, 1995	\$ 237,585
Remedial action costs incurred	(192,841)
Provision for remedial action costs	<u>111,205</u>
Balance, September 30, 1996	155,949
Remedial action costs incurred	(128,766)
Provision for remedial action costs	<u>127,323</u>
Balance, September 30, 1997	<u>\$ 154,506</u>

Of the total liability of \$154.5 million for remedial action as of September 30, 1997, \$24.7 million is covered by budgetary resources and \$129.8 million is not covered by budgetary resources. Of the total liability of \$155.9 million as of September 30, 1996, \$23.2 million was covered by budgetary resources and \$132.7 million was not covered by budgetary resources.

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

The estimated cost of remedial action at the Diffusion Facilities was \$1.8 billion as of September 30, 1997 and \$4.8 billion as of September 30, 1996. The reduction in the estimated cost reflects the Department's new contracting approaches (note 5), as well as a streamlined approach to preparing records of decision for remedial actions. The estimate includes surveillance and maintenance, landlord, and support costs, but does not include an estimate of the impact of inflation on the cost of the work; therefore, the actual cost may be significantly higher than the estimate. There is also uncertainty with respect to whether Congressional appropriations will be received at the level assumed by the estimate, and the uncertainty inherent in the estimating process. The Department is presently unable to determine the impact of these factors on the estimated remedial action costs.

UNITED STATES DEPARTMENT OF ENERGY
OFFICE OF ENVIRONMENTAL MANAGEMENT
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Notes to Financial Statements

(8) Government Appropriations

The Energy Policy Act requires annual Government appropriations to the D&D Fund through fiscal year 2007, equal to the difference between \$480 million, adjusted annually for increases in the Consumer Price Index, and the assessment against domestic utilities (note 9). During fiscal year 1997, the Fund received appropriation transfers of \$10 million from defense environmental restoration and waste management, uranium enrichment, and energy supply research and development, and a payment of \$376.6 million from defense environmental restoration and waste management. However, cumulative Fund appropriations have been less than the full amount authorized by the Act. The following is a summary of Government appropriations authorized but not received by the D&D Fund as of September 30, 1997 (in millions):

<u>Year ended September 30,</u>	<u>Appropriations authorized</u>	<u>Appropriations received</u>	<u>Authorized, not received</u>
1993	\$ 331.4	-	331.4
1994	342.8	197.2	145.6
1995	348.2	133.7	214.5
1996	357.3	350.0	7.3
1997	367.6	376.6	(9.0)
	<u>\$ 1,747.3</u>	<u>1,057.5</u>	<u>689.8</u>

Government appropriations for fiscal year 1998 are \$388.0 million.

(9) Assessments Receivable From Domestic Utilities

The Energy Policy Act authorizes assessments by the D&D Fund against domestic utilities who purchased uranium enrichment services from the Department and its predecessor agencies prior to the Act. The assessments are based on the ratio of such services purchased by domestic utilities to total services provided to domestic and foreign utilities and to the Government. The assessments are limited to \$150 million each year by the Act, and will continue through fiscal year 2007 or until \$2.25 billion, exclusive of indexing adjustments, has been collected. The entire amount of assessments over the fifteen-year assessment period authorized by the Energy Policy Act was recorded as revenue by the Fund during fiscal year 1993, as no future services were associated with these assessments. Current and future assessments are adjusted each year based on changes in the Consumer Price Index.

During fiscal years 1997 and 1996, the Fund recognized revenue of \$36.6 million and \$50.6 million, respectively, from the increase in the current and future assessments against domestic utilities resulting from the increase in the Consumer Price Index during the fiscal year. Management believes all assessments against domestic utilities are collectible.

UNITED STATES DEPARTMENT OF ENERGY
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Notes to Financial Statements

(10) Disposition of Depleted Uranium Hexafluoride

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

The Energy Policy Act restricts the use of depleted UF-6 to military purposes until October 1998, as part of the National Strategic Uranium Reserve. When the initial usage restriction expires in October 1998, use of a portion of the depleted UF-6 likely will be restricted to military purposes for an additional period or on a permanent basis. The remainder will be either used as described below or disposed of as waste.

In December 1997, the Department issued a draft programmatic environmental impact statement (PEIS) for the Department-owned depleted UF-6. The preferred alternative in the draft PEIS is to use the entire inventory of depleted UF-6, either as uranium oxide, uranium metal, or a combination of both. However, the draft PEIS acknowledges that potential uses that are capable of consuming a substantial fraction or all of the depleted UF-6 inventory are yet to be fully developed. Recognizing this uncertainty, the Department estimates in its September 1997, *Cost Analysis Report for the Long-Term Management of Depleted Uranium Hexafluoride*, that the cost of depleted UF-6 disposition will range from \$1.6 billion to \$3.9 billion as of September 30, 1997. Notwithstanding this estimate, no provision for the cost of depleted UF-6 disposal is included in the accompanying financial statements because the Department is presently unable to determine what portion of the stockpile will require disposal.

In addition to the depleted UF-6 discussed above, Section 3109(a)(3) of the United States Enrichment Corporation (USEC) Privatization Act of 1996 (Privatization Act) requires the Department to assume ownership and disposition responsibility for the UF-6 generated by USEC between July 1, 1993 and USEC's privatization date. This responsibility is dependent on formal establishment of a private corporation to receive the assets and obligations of USEC and continue its business operations, as well as an execution of a Memorandum of Agreement between the Office of Management and Budget (OMB) and USEC to implement the requirements of Section 3109 of the Privatization Act. As of September 30, 1997, the private corporation had not been established nor had negotiations between OMB, USEC, and the Department been finalized. The draft PEIS did not address the USEC-generated depleted UF-6 requiring disposal because of uncertainties regarding its future management. Once the Memorandum of Agreement between OMB and USEC is finalized and uncertainties regarding future management of the USEC-generated depleted UF-6 are resolved, the Department may include this material in future assessments. Such assessments could identify potential alternative uses for the USEC-generated depleted UF-6. Accordingly, no provision for the cost of disposal is included in these financial statements.

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

Notes to Financial Statements

(11) Adoption of New Accounting Standard

The D&D Fund adopted the provisions of FASAB's Statement of Federal Financial Accounting Standards (SFFAS) No. 4, *Managerial Cost Accounting Concepts for the Federal Government* (Standard 4), effective October 1, 1996.

The provisions of Standard 4 require reporting entities to report the full costs of outputs in financial reports. Therefore, the Fund's fiscal year 1997 financial statements include certain costs excluded from financial statements in fiscal year 1996 and prior years. Such costs include the cost of federal employee pensions, retiree medical benefits, and other post-retirement benefits paid through appropriations to the Office of Personnel Management (OPM); Departmental administration and other costs allocable to the Fund by other entities within the Department; the cost of salaries and employee benefits for Office of Environmental Management (EM) employees who manage Fund activities; and other costs of the EM program allocable to the Fund. These additional costs are funded by entities outside the D&D Fund. Accordingly, the Fund recognized total allocated expenses of \$24.4 million as of September 30, 1997, and an imputed financing source of the same amount to reflect the allocated expenses to be paid by entities outside of the D&D Fund. Of the \$24.4 million, approximately \$0.7 million will be paid by OPM and the remaining \$23.7 million will be paid by other entities within the Department.

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

Independent Auditors' Report on Compliance with Laws and Regulations

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

We have audited the financial statements of the United States Department of Energy's (Department) Uranium Enrichment Decontamination and Decommissioning (D&D) Fund as of and for the year ended September 30, 1997, and have issued our report thereon dated April 2, 1998. Our report refers to the D&D Fund's change in accounting principle with respect to accounting for costs funded by entities outside the D&D Fund. We conducted our audit in accordance with generally accepted auditing standards; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 93-06, *Audit Requirements for Federal Financial Statements*, as amended on January 16, 1998.

The management of the D&D Fund is responsible for complying with laws and regulations applicable to the D&D Fund. As part of obtaining reasonable assurance about whether the D&D Fund's financial statements are free of material misstatement, we performed tests of the D&D Fund's compliance with certain provisions of laws and regulations, noncompliance with which could have a direct and material effect on the determination of financial statement amounts, and certain other laws and regulations specified in OMB Bulletin No. 93-06, as amended, and designated by the Department, including the Energy Policy Act of 1992, which created the Uranium Enrichment Decontamination and Decommissioning Fund. However, providing an opinion on compliance with such laws and regulations was not an objective of our audit. Accordingly, we do not express such an opinion.

The results of our tests of compliance with the laws and regulations described in the preceding paragraph disclosed the following instance of noncompliance that is required to be reported herein under *Government Auditing Standards*, as issued by the Comptroller General of the United States, and OMB Bulletin No. 93-06, as amended, for which the ultimate resolution can not presently be determined. Accordingly, the financial statement impact that may result has not been recognized in the financial statements.

Government Appropriations

Audit Comment

In our report on compliance with laws and regulations for the year ended September 30, 1994 (1994 report), we reported that the Energy Policy Act of 1992 (Energy Policy Act, or Act) requires that deposits into the D&D Fund will total \$480 million each fiscal year through 2007, adjusted annually for inflation. The Act provides that up to \$150 million of annual deposits shall be collected from domestic utilities, with the remaining portion of the \$480 million to come from federal appropriations.

The following is a summary of Government appropriations authorized but not received by the D&D Fund, as of September 30, 1997 (in millions):

<u>Year ended September 30,</u>	<u>Appropriations authorized</u>	<u>Appropriations received</u>	<u>Authorized, not received</u>
1993	\$ 331.4	-	331.4
1994	342.8	197.2	145.6
1995	348.2	133.7	214.5
1996	357.3	350.0	7.3
1997	367.6	376.6	(9.0)
	<u>\$ 1,747.3</u>	<u>1,057.5</u>	<u>689.8</u>

The table above indicates that the appropriations received by the Fund are nearly \$690 million below the approximate \$1,747 million of government funding required by the Act for the D&D Fund's first five years.

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

Management's response indicated that the Department will maintain a record of the difference between the Government contribution to the D&D Fund from appropriations and the amount required by the Energy Policy Act. Management further indicated that past shortfalls in the Government contributions to the fund will be requested in appropriations as they are needed to ensure D&D activities are accomplished at the sites.

The Department received an appropriation to the D&D Fund of \$376.6 million for fiscal year 1997, slightly more than the amount authorized by the Act for that year, including the inflation adjustment. Management of the D&D Fund has indicated that the Fund expects to have sufficient funding to accomplish the work planned for the foreseeable future. Government appropriations of \$388.0 million, which includes the estimated increase in the Consumer Price Index, have been received for fiscal year 1998.

Audit Recommendation

No further recommendation is necessary at this time.

Management Response

No further response is necessary.

* * * * *

We considered the instance of noncompliance described above in forming our opinion on whether the D&D Fund's 1997 financial statements are presented fairly, in all material respects, in accordance with the accounting policies described in note 1 to the financial statements, during our audit of the D&D Fund's financial statements, and this report does not affect our report on those financial statements dated April 2, 1998.

Except as described above, the results of our tests of compliance disclosed no instances of noncompliance that are required to be reported herein under *Government Auditing Standards* or OMB Bulletin No. 93-06, as amended.

An audit of financial statements conducted in accordance with generally accepted auditing standards; *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Bulletin No. 93-06, as amended, is not designed to detect whether the D&D Fund's systems are Year 2000 compliant. Further, we have no responsibility with regard to the D&D Fund's efforts to make its systems, or any other systems, such as those of the D&D Fund's vendors, service providers, or any other third parties, Year 2000 compliant or provide assurance on whether the D&D Fund has addressed or will be able to address all of the affected systems on a timely basis. These are the responsibilities of the D&D Fund's management.

This report is intended for the information of the Department's Office of Inspector General, D&D Fund management, and others within the Office of Environmental Management. However, this report is a matter of public record and its distribution is not limited.

KPMG Peat Marwick LLP

April 2, 1998

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

**Independent Auditors' Report on
Internal Control Over Financial Reporting
and Performance Information**

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

We have audited the financial statements of the United States Department of Energy's (Department) Uranium Enrichment Decontamination and Decommissioning (D&D) Fund as of and for the year ended September 30, 1997, and have issued our report thereon dated April 2, 1998. Our report refers to the D&D Fund's change in accounting principle with respect to accounting for costs funded by entities outside the D&D Fund. We conducted our audit in accordance with generally accepted auditing standards; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 93-06, *Audit Requirements for Federal Financial Statements*, as amended on January 16, 1998.

The management of the D&D Fund is responsible for establishing and maintaining internal control. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control policies and procedures. The objectives of internal control over financial reporting and performance information are to provide management with reasonable, but not absolute, assurance that (1) transactions, including those relating to obligations and costs, are executed in compliance with applicable laws and regulations that could have a direct and material effect on the financial statements, and any other laws and regulations that OMB, the Department's Office of Inspector General, or D&D Fund management have identified as being significant and for which compliance can be objectively measured and evaluated; (2) funds, property, and other assets are safeguarded against loss from unauthorized use or disposition; (3) transactions are executed in accordance with management's authorization and are properly recorded and accounted for to permit the preparation of reliable financial reports in accordance with the basis of accounting described in note 1 to the financial statements, and to maintain accountability over the assets; and (4) data that support reported performance information are properly recorded and accounted for to permit preparation of reliable and complete performance information.

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

In planning and performing our audit, we considered the D&D Fund's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements, and not to provide an opinion on the internal control over financial reporting. Accordingly, we do not express such an opinion. With respect to internal control over financial reporting, we obtained an understanding of the design of relevant policies and procedures, determined if they had been placed in operation, assessed control risk, and performed tests of controls.

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

We noted no matters involving internal control over financial reporting and performance information 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, as amended. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of internal control that, in our judgment, could adversely affect the D&D Fund's ability to ensure that the objectives of internal control, as previously defined, are being achieved.

We noted one matter involving internal control and its operation that we have reported to the management of the D&D Fund in a separate letter dated April 2, 1998.

This report is intended for the information of the Department's Office of Inspector General, D&D Fund management, and others within the Office of Environmental Management. However, this report is a matter of public record and its distribution is not limited.

KPMG Peat Marwick LLP

April 2, 1998

KPMG Peat Marwick LLP

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

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

We have audited the financial statements of the United States Department of Energy's (Department) Uranium Enrichment Decontamination and Decommissioning (D&D) Fund as of and for the year ended September 30, 1997, and have issued our report thereon dated April 2, 1998. Our report refers to the D&D Fund's change in accounting principle with respect to accounting for costs funded by entities outside the D&D Fund. In planning and performing our audit of the financial statements of the D&D Fund, we considered its internal control over financial reporting and performance information in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on internal control.

Reportable conditions are matters coming to our attention that, in our judgment, relate to significant deficiencies in the design or operation of internal control and could adversely affect the D&D Fund's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Our consideration of internal control would not necessarily disclose all matters involving internal control and its operation that might be reportable conditions.

We noted no matters involving internal control over financial reporting and performance information and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants and Office of Management and Budget (OMB) Bulletin No. 93-06, *Audit Requirements for Federal Financial Statements*, as amended on January 16, 1998. We have not considered internal control since the date of our report.

Although not considered to be a reportable condition, we noted a certain matter involving internal control that is presented herein for your consideration. Our comment and recommendation, which has been discussed with the appropriate members of management, is intended to improve internal control and is summarized as follows:

Costs of Depleted Uranium Hexafluoride Disposal

Audit Comment

Generally accepted accounting principles require recognizing the liability for potential costs of known contingencies. In our report on the internal control structure for the year ended September 30, 1994 (1994 report), we reported that the Department presently has a large quantity of depleted uranium hexafluoride (UF-6) that can, by law, only be used for military purposes until October 1998. The Department estimates that the cost of disposing of its stockpile of depleted UF-6 would range from \$1.6 billion to \$3.9 billion as of September 30, 1997.

The Department is evaluating other potential uses for the depleted UF-6, and at least a portion of the stockpile may be restricted to military purposes indefinitely. However, given the vast quantities of depleted UF-6 on hand, it is possible that the D&D Fund will be required to fund disposal of a significant portion of the stockpile. The Department has not determined the portion of its depleted UF-6 stockpile that will require disposal, and has not recognized a liability for depleted UF-6 disposal in the D&D Fund's financial statements at September 30, 1997.

In December 1997, the Department issued a draft programmatic environmental impact statement (PEIS) for the Department-owned depleted UF-6. The preferred alternative in the draft PEIS is to use the entire inventory of depleted UF-6, either as uranium oxide, uranium metal, or a combination of both. However, the draft PEIS acknowledges that potential uses that are capable of consuming a substantial fraction or all of the depleted UF-6 inventory are yet to be fully developed.

In addition to the depleted UF-6 discussed above, Section 3109(a)(3) of the United States Enrichment Corporation (USEC) Privatization Act of 1996 (Privatization Act) requires the Department to assume ownership and disposition responsibility for the UF-6 generated by USEC between July 1, 1993 and USEC's privatization date. This responsibility is dependent on formal establishment of a private corporation to receive the assets and obligations of USEC and continue its business operations, as well as an execution of a Memorandum of Agreement between the Office of Management and Budget (OMB) and USEC to implement the requirements of Section 3109 of the Privatization Act. As of September 30, 1997, the private corporation had not been established nor had negotiations between OMB, USEC, and the Department been finalized. The draft PEIS did not address the USEC generated depleted UF-6 requiring disposal because of uncertainties regarding its future management. Once the Memorandum of Agreement between OMB and USEC is finalized and uncertainties regarding future management of the USEC generated depleted UF-6 are resolved, the Department may include this material in future assessments. Such assessments could identify potential alternative uses for the USEC generated depleted UF-6. Accordingly, no liability was recognized for disposal of USEC generated depleted UF-6 in the D&D Fund's financial statements at September 30, 1997.

Our 1994 report recommended the Department determine the portion of its depleted UF-6 stockpile that will require disposal. The Department should also determine whether they will be responsible for disposal of USEC generated depleted UF-6. After these determinations, the estimated cost of disposal should be accrued in the D&D Fund's financial statements.

Audit Recommendation

No further recommendation is necessary at this time.

Management Response

No further response is necessary.

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

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

April 2, 1998

KPMG Peat Marwick LLP

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3. What format, stylistic, or organizational changes might have made this report's overall message more clear to the reader?
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Please include your name and telephone number so that we may contact you should we have any questions about your comments.

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