DOE F 1325.8

(08-93)

United States Government **Department of Energy**

Memorandum

DATE: April 21, 2010

REPLY TO ATTN OF: IG-34 (A09FN003)

SUBJECT: Uranium Enrichment Decontamination and Decommissioning Fund's Fiscal Year 2009 Financial Statement Audit – Report No.: OAS-FS-10-06

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

The attached report presents the results of the independent certified public accountants' audit of the United States Department of Energy's Uranium Enrichment Decontamination and Decommissioning Fund's (D&D Fund) Fiscal Year (FY) 2009 balance sheet and the related statements of net cost, changes in net position, and budgetary resources.

Pursuant to requirements established by the Government Management Reform Act of 1994, the Office of Inspector General (OIG) engaged the independent public accounting firm of KPMG LLP (KPMG) to perform an audit of the D&D Fund FY 2009 financial statements. KPMG is responsible for expressing an opinion on the D&D Fund's financial statements and reporting on applicable internal controls and compliance with laws and regulations. The OIG monitored audit progress and reviewed the audit report and related documentation. This review disclosed no instances where KPMG did not comply, in all material respects, with generally accepted Government auditing standards. The OIG did not express an independent opinion on the D&D Fund's financial statements.

KPMG concluded that the financial statements present fairly, in all material respects, the financial position of the D&D Fund as of September 30, 2009, and its net costs, changes in net position, and budgetary resources, in conformity with U.S. generally accepted accounting principles.

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

- Unclassified network and information systems security – Network vulnerabilities and weaknesses in access and other security controls in the Department's unclassified computer information systems continue to exist. While progress has been achieved, continued focus is needed to resolve the weaknesses.

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

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

Daniel M. Weeber

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

Attachment

cc w/attachment:

Chief Financial Officer, CF-1
Director, Office of Financial Control and Reporting, CF-12
Director, Energy Finance and Accounting Service Center, CF-11
Team Leader, Office of Risk Management, CF-1.2
Audit Liaison, Environmental Management, EM-4.1
Audit Liaison, OR
Audit Liaison, PPPO
D. Williams, Office of Risk Management, CF-1.2

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

Financial Statements

September 30, 2009 and 2008

(With Independent Auditors' Reports Thereon)

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

September 30, 2009

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

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

The Energy Policy Act, as amended, specifies revenues as follows: $480.0 million for the period from Fiscal Year (FY) 1992 to FY 1998; $488.3 million for the period from FY 1999 to FY 2001; and $518.2 million for FY 2002 through FY 2007. The revenues are to be obtained from:

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

Government contributions to the Fund were scheduled to end with the FY 2007 contribution. However, Government appropriations and resulting Government contributions through September 30, 2007 were approximately $918.6 million less than authorized by the Energy Policy Act. The ability of the D&D Fund to fulfill its responsibilities is contingent upon the receipt of these contributions. Therefore, the Department continued to ask Congress for annual Government contributions to meet the Government's obligation. The Fund received additional contributions in FYs 2008 and 2009 which reduced the overall shortfall (after adjustments for inflation) to approximately $40.6 million as of September 30, 2009.

During FY 2009, the American Recovery and Reinvestment Act (ARRA) designated $390 million as "Uranium Enrichment Decontamination and Decommissioning Fund." The ARRA funding is a separate appropriation from the D&D Fund and is not available for investment in Treasury securities like the normal D&D Fund appropriations. Therefore, the ARRA funding does not represent additional spending authority from those balances. The ARRA funding, however, does function as a contribution to the Fund by paying for work scope that would otherwise have to be paid by the D&D Fund. Since the ARRA funding reduces the required future outlays from the D&D Fund's invested balances, the Department is recognizing the $390 million of ARRA funding as an offset to the Government's contribution shortfall. Therefore, with the ARRA funding, the Department considers its contribution responsibility to have been met.

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

The Office of Disposal Operations (EM-12) is responsible for managing the Title X Uranium/Thorium Reimbursement Program. The NNSA Service Center – Albuquerque is responsible for evaluating claims submitted by the uranium and thorium licensees and making reimbursement recommendations to EM-12. The Defense Contract Audit Agency provides support for financial audits of the claims.

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

- Because the decontamination and decommissioning work is scheduled to be completed in approximately 2016 at the gaseous diffusion facility located in Oak Ridge and the work has yet to be scheduled at the Paducah and Portsmouth gaseous diffusion facilities, the length of time over which the work will be performed creates significant uncertainty as to the actual cost of the work. In addition, because the estimates on which the recorded decontamination and decommissioning and remedial action liabilities are based do not include an estimate of the impact of inflation on such costs, the actual costs may be significantly higher than the recorded liabilities. There is also uncertainty with respect to whether Congressional appropriations will be received at the levels assumed by the estimates, and there is uncertainty inherent in the estimating process.
- The Energy Policy Act provides that the annual cost of remedial action at the Diffusion Facilities will be paid from the D&D Fund to the extent the amount available in the D&D Fund is sufficient. To the extent the amount in the D&D Fund is insufficient to pay remedial action costs, the Energy Policy Act provides that the Department will be responsible for such costs. The majority of current collections in the D&D Fund are being used to pay for remedial action costs at the Diffusion Facilities. The use of the D&D Fund for remedial action activities will impact the availability of funds to accomplish decontamination and decommissioning.

Program Performance Measures

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

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

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

The following summarizes the performance measures for D&D Fund projects in FY 2009:

	Planned	Completed
Release site completion	1	12
Facility completion	15	33

The Oak Ridge gaseous diffusion facility completed 12 release sites, which exceeded the 1 release site planned. This acceleration is a result of early completions to ensure work flow occurred in the most efficient manner according to current work plans. Oak Ridge also completed 28 facilities, which was more than the 9 facilities planned. Accelerations were possible to ensure work flow occurred in the most efficient manner and due to a transfer of a building to the City of Oak Ridge for their use. Portsmouth did not target the completion of any release sites in FY 2009. Portsmouth had one radioactive facility completion planned, but it was not completed due to regulatory delays. Paducah did not target the completion of any release sites in FY 2009. Paducah targeted and completed five industrial facility completions in FY 2009.

Financial Performance Measures

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

- Uninvested Daily Cash Balances

There were no instances of excessive uninvested daily cash balances during both FY 2009 and FY 2008.

During FY 2009 and FY 2008, the D&D Fund earned approximately 3.78% and 4.11%, respectively, from investments in Treasury securities.

Financial Statement Limitations

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

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

(Continued)

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

Overview

September 30, 2009

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

Analysis of Systems, Controls, and Legal Compliance

Analysis of systems, controls, and legal compliance is performed, reported, and audited at the Departmental level. The results of these reviews and assessments are incorporated in the Department's Performance and Accountability Report. A legal noncompliance, Shortfall of Government Appropriations, was reported by management in FY 2008 and is described below.

Federal Managers' Financial Integrity Act

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

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

Legal Noncompliance – Shortfall of Government Appropriations

The Energy Policy Act of 1992 requires Government appropriations to the D&D Fund each fiscal year through FY 2007. However, Government appropriations and resulting Government contributions through September 30, 2008 were approximately $477.9 million less than authorized by the Energy Policy Act. The ability of the D&D Fund to fulfill its responsibilities is contingent upon the receipt of these contributions. The Fund received additional appropriations of $853 million in FY 2009, $463 million from normal appropriations and $390 million under the ARRA, which eliminated the shortfall.

KPMG LLP
2001 M Street, NW
Washington, DC 20036

Independent Auditors' Report

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

We have audited the accompanying balance sheets of the Decontamination and Decommissioning Fund (D&D Fund) as of September 30, 2009 and 2008, and the related statements of net cost, changes in net position, and budgetary resources (hereinafter referred to as financial statements) for the years then ended. The objective of our audits was to express an opinion on the fair presentation of these financial statements. In connection with our fiscal year (FY) 2009 audit, we also considered the D&D Fund's internal controls over financial reporting and tested the D&D Fund's compliance with certain provisions of applicable laws, regulations, and contracts that could have a direct and material effect on these financial statements.

Summary

As stated in our opinion on the financial statements, we concluded that the D&D Fund's financial statements as of and for the years ended September 30, 2009 and 2008 are presented fairly, in all material respects, in conformity with U.S. generally accepted accounting principles.

Our consideration of internal control over financial reporting resulted in identifying a deficiency, related to unclassified network and information systems security, that we considered a significant deficiency. We did not identify any deficiencies in internal control over financial reporting that we considered to be material weaknesses as defined in the Internal Control Over Financial Reporting section of this report.

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

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

Opinion on the Financial Statements

We have audited the accompanying balance sheets of the D&D Fund as of September 30, 2009 and 2008 and the related statements of net cost, changes in net position, and budgetary resources for the years then ended.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the D&D Fund as of September 30, 2009 and 2008, and its net costs, changes in net position, and budgetary resources for the years then ended, in conformity with U.S. generally accepted accounting principles.

As discussed in note 4 to the financial statements, the D&D Fund has recorded a liability of approximately $14,048.4 million and $14,485.6 million at September 30, 2009 and 2008, respectively, to decontaminate and decommission the gaseous diffusion facilities (Diffusion Facilities) located in Oak Ridge, Tennessee; Paducah, Kentucky; and Portsmouth, Ohio. However, the Department of Energy (the Department) is presently unable to determine the impact of time and inflation on the liability for decontamination and decommissioning costs. Because the decontamination and decommissioning work is scheduled to be completed in FY 2016 at the gaseous diffusion facility located in Oak Ridge and the work has yet to be scheduled at the Paducah and Portsmouth gaseous diffusion facilities, the length of time over which the work will be performed and the uncertainty inherent in the estimating process create significant uncertainty as to the actual cost of the work. In addition, because the estimate on which the recorded liability is based does not include an estimate of the impact of inflation on such costs, the actual costs may be significantly higher than the recorded liability.

As discussed in note 5 to the financial statements, the Energy Policy Act of 1992 (Energy Policy Act) provides for payment from the D&D Fund of the annual cost of remedial action at the Diffusion Facilities to the extent the amount available in the D&D Fund is sufficient. To the extent the amount available in the D&D Fund is insufficient to pay remedial action costs, the Energy Policy Act provides that the Department, not the D&D Fund, will be responsible for such costs. Because the Department may be responsible for remedial action costs, the D&D Fund's recorded liability for remedial action at September 30, 2009 consists of the funding for such costs provided by Congress in the D&D Fund appropriation for FY 2010, $108.7 million, plus the unexpended portion of such appropriations for current and previous fiscal years, $56.2 million. The D&D Fund's recorded liability for remedial action at September 30, 2008 consists of the funding for such costs provided by Congress in the D&D Fund appropriation for FY 2009, $177.8 million, plus the unexpended portion of such appropriations for current and previous fiscal years, $53.3 million. The D&D Fund will make additional accruals of remedial action costs if Congress appropriates additional funds for that purpose. The estimated future cost of remedial action at the Diffusion Facilities, which is only recorded in the accompanying financial statements to the extent described above, is approximately $2,298.0 million and $2,515.0 million as of September 30, 2009 and 2008, respectively. The remaining liability for the estimated future cost of remedial action at the Diffusion Facilities is recorded by the Department. The estimate includes surveillance and maintenance, infrastructure, site operation, 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 there is uncertainty inherent in the estimating process. The Department is presently unable to determine the impact of these factors on the estimated remedial action costs.

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

Internal Control over Financial Reporting

Our consideration of the internal control over financial reporting was for the limited purpose described in the Responsibilities section of this report and would not necessarily identify all deficiencies in the internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the D&D Fund's financial statements will not be prevented or detected and corrected on a timely basis.

In our FY 2009 audit, we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses as defined above. However, we identified the following deficiency in internal control over financial reporting related to unclassified network and information systems security that we considered to be a significant deficiency and that is described in more detail in Exhibit I.

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

Exhibit II presents the status of prior year significant deficiencies.

Compliance and Other Matters

The results of certain test of compliance as described in the Responsibilities section of this report, exclusive of those referred to in *Federal Financial Management Improvement Act* (FFMIA), disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* or OMB Bulletin No. 07-04, as amended.

* * * * * * *

Responsibilities

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

Auditors' Responsibilities: Our responsibility is to express an opinion on the FY 2009 and FY 2008 financial statements of the D&D Fund based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Bulletin No. 07-04, as amended. Those standards and OMB Bulletin No. 07-04, as amended, require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the D&D Fund's internal control over financial reporting. Accordingly, we express no such opinion.

An audit also includes:

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

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

In planning and performing our FY 2009 audit, we considered the D&D Fund's internal control over financial reporting by obtaining an understanding of the D&D Fund's internal control, determining whether internal controls had been placed in operation, assessing control risk, and performing tests of controls as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements. We did not test all internal controls relevant to operating objectives as broadly defined by the *Federal Managers' Financial Integrity Act of 1982*. The objective of our audits was not to express an opinion on the effectiveness of the D&D Fund's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the D&D Fund's internal control over financial reporting.

As part of obtaining reasonable assurance about whether the D&D Fund's FY 2009 financial statements are free of material misstatement, we performed tests of the D&D Fund's compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the determination of the financial statement amounts, and certain provisions of other laws and regulations specified in OMB Bulletin No. 07-04, as amended, including certain provisions referred to in Section 803(a) of FFMIA. We limited our tests of compliance to the provisions described in the preceding sentence, and we did not test compliance with all laws, regulations, and contracts applicable to the D&D Fund. However, providing an opinion on compliance with laws, regulations, and contracts was not an objective of our audit, and accordingly, we do not express such an opinion.

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

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

KPMG LLP

March 17, 2010

Independent Auditors' Report
Exhibit I – Significant Deficiency

Unclassified Network and Information Systems Security

The Department of Energy (the Department) uses a series of interconnected unclassified networks and information systems. Federal and Departmental directives require the establishment and maintenance of security over unclassified information systems, including financial management systems. Past audits identified significant weaknesses in selected systems and devices attached to the computer networks at some Department sites. The Department has implemented corrective actions to improve network security at the sites whose controls we, and the Department's Office of Health, Safety and Security (HSS), reviewed in prior years. However, we, and the HSS, continued to identify network security weaknesses at sites reviewed in FY 2009, and the frequency and severity of those weaknesses remained consistent with our prior year findings. The Department recognizes these weaknesses and has classified cyber security as a significant issue in its *Federal Managers' Financial Integrity Act* assurance statement for FY 2009. Significant improvements are still needed in the areas of password management, configuration management, and restriction of network services. Continuing weaknesses in these areas may be indicative of systemic problems.

Our FY 2009 audit also disclosed other information system security weaknesses, similar to our prior year findings. Specifically, we noted weaknesses in the areas of user access controls, password management, network protocols and services, system change management and authorization, and use of versions of application and operating system software that were outdated or not appropriately patched to correct known vulnerabilities.

We also noted that the National Nuclear Security Administration (NNSA) had begun, but not fully implemented, a program for management oversight and periodic evaluation of the cyber security practices of subordinate organizations and field sites. The Department's Office of Inspector General (OIG) similarly noted that NNSA had not fully implemented a performance monitoring program to ensure the effectiveness of field sites in carrying out their responsibilities for proper implementation of Federal cyber security requirements. Lack of effective review for compliance with mandatory cyber security policies and directives has resulted in varying degrees of compliance and contributed to the extent of weaknesses that we found in cyber security controls at certain NNSA sites. Further, the OIG has reported deficiencies in the Department's systems inventory, security planning, testing of security controls, access controls, and configuration management, including the implementation of standard security configurations for cyber security controls, in its evaluation report on *The Department's Unclassified Cyber Security Program – 2009*, dated October 2009. Matters discussed in that report included an examination of nonfinancial systems.

The Department has acknowledged the need to improve its information systems security and technology controls, and made progress in addressing previously identified cyber security weaknesses by enhancing its management of unclassified cyber security program. At the Headquarters level, the Office of the Chief Information Officer (OCIO), working in collaboration with Senior Departmental Management, has continued to make adjustments designed to enhance the cyber security governance structure. The Department also established a centralized incident response organization designed to eliminate duplicative efforts throughout the Department. Additional improvements in the cyber security program were made in the areas of security planning and control testing and remediation of known vulnerabilities.

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

Recommendation

Because the D&D Fund does not have the ability to affect changes on the Department's network security, no further action is needed by the D&D Fund other than to monitor the progress of the OCIO. While progress has been achieved, continued focus is needed to strengthen the management review process to include better monitoring of field sites to ensure the adequacy of cyber security program performance and improve the use of government-wide security configuration standards in the resolution of the vulnerabilities and control weaknesses described above.

Therefore, we recommended in the Department's Independent Auditors Report dated November 12, 2009 that NNSA and program officials, in conjunction with the Chief Information Officer, fully implement policies and procedures to ensure that the Federal information security standards are met, that networks and information systems are adequately protected against unauthorized access, and that field site performance is reviewed.

Management Response

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

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

Significant deficiency from FY 2008 (with parenthetical disclosure of year first reported)	Status at September 30, 2009
Unclassified Information System Security (2001)	Again reported in Exhibit I as a significant deficiency for FY 2009

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

Balance Sheets

September 30, 2009 and 2008

(In thousands)

Assets		2009	2008
Entity assets:			
Intragovernmental:			
Fund balance with treasury	$	355,907	4,414
Investments, net		4,871,255	4,768,691
Accrued interest receivable		50,291	53,774
Total entity assets	$	5,277,453	4,826,879
Liabilities and Net Position			
Liabilities covered by budgetary resources:			
Decontamination and decommissioning	$	383,350	159,794
Remedial action		56,202	53,339
Uranium and thorium licensee claims		38,129	—
Accounts payable and other accruals		101,810	46,429
DOE interfund accounts payable		8,478	5,088
Total funded liabilities		587,969	264,650
Liabilities not covered by budgetary resources:			
Decontamination and decommissioning		13,665,032	14,325,835
Remedial action		108,672	177,805
Uranium and thorium licensee claims		187,476	253,421
Total unfunded liabilities		13,961,180	14,757,061
Total liabilities		14,549,149	15,021,711
Net position:			
Unexpended appropriations – other funds		340,769	—
Cumulative results of operations – earmarked funds		(9,612,465)	(10,194,832)
Total net position		(9,271,696)	(10,194,832)
Total liabilities and net position	$	5,277,453	4,826,879

See accompanying notes to financial statements.

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

Statements of Net Cost

Years ended September 30, 2009 and 2008

(In thousands)

		2009	2008
Environmental quality program costs:			
Decontamination and decommissioning	$	520,084	445,349
Storage and disposition		60,430	57,370
Uranium and thorium licensee claims		31,972	19,842
Postclosure liability administration		26,083	17,511
Net program costs		638,569	540,072
Cost applied to the reduction of legacy liabilities		(599,440)	(510,004)
Costs not assigned		102,295	610,207
Exchange revenues		(183,792)	(197,073)
Net cost of operations	$	(42,368)	443,202

See accompanying notes to financial statements.

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

Statements of Changes in Net Position

Years ended September 30, 2009 and 2008

(In thousands)

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

	2008		
	Earmarked funds	**Other funds**	**Total**
Cumulative results of operations:			
Beginning balance	$ (10,220,874)	-	(10,220,874)
Other financing sources:			
Imputed financing from costs absorbed by others	10,458	-	10,458
Other appropriations transferred from DOE, net of adjustments	458,786	-	458,786
Total financing sources	469,244	-	469,244
Net cost of operations	(443,202)	-	(443,202)
Net change	26,042	-	26,042
Total cumulative results of operations	(10,194,832)	-	(10,194,832)
Unexpended appropriations:			
Beginning balance	-	-	-
Budgetary financing sources:			
Appropriations received	7,909	-	7,909
Appropriations used	(7,909)	-	(7,909)
Total budgetary financing sources	-	-	-
Total unexpended appropriations	-	-	-
Net position	$ (10,194,832)	-	(10,194,832)

See accompanying notes to financial statements.

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

Statements of Budgetary Resources

Years ended September 30, 2009 and 2008

(In thousands)

		2009	2008
Budgetary resources:			
Unobligated balance brought forward, October 1	$	2,497	646
Budget authority, appropriation		925,503	627,876
Temporarily not available pursuant to public law		—	(5,714)
Total budgetary resources	$	928,000	622,808
Status of budgetary resources:			
Obligations incurred – direct	$	874,876	620,311
Unobligated balance available		49,224	2,497
Apportioned for subsequent periods		3,900	—
Total status of budgetary resources	$	928,000	622,808
Change in obligated balance:			
Unpaid obligations, brought forward, October 1	$	251,905	189,263
Obligations incurred		874,876	620,311
Less gross outlays		(586,216)	(557,669)
Unpaid obligations, net, end of period	$	540,565	251,905
Outlays:			
Gross outlays	$	586,216	557,669
Less distributed offsetting receipts		(618,720)	(650,614)
Net outlays	$	(32,504)	(92,945)

See accompanying notes to financial statements.

(1) Summary of Significant Accounting Policies

(a) Reporting Entity

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

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

During FY 2009, the American Recovery and Reinvestment Act (ARRA) included $390 million designated as "Uranium Enrichment Decontamination and Decommissioning Fund." This ARRA funding is a separate appropriation from the D&D Fund and is not available for investment in U.S. Department of the Treasury (Treasury) securities like funds from the normal D&D Fund appropriation. Therefore, the ARRA funding does not represent additional spending authority from those balances. The ARRA funding, however, does function as part of the Fund by paying for work scope that would otherwise have to be paid by the D&D Fund. Since the ARRA funding reduces the required future outlays from the D&D Fund's invested balances, the Department is recognizing the $390 million of ARRA funding as an offset to the Government's contribution shortfall. Therefore, with the ARRA funding, the Department considers its contribution responsibility to have been met.

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

(b) Basis of Presentation

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

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

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

(c) Basis of Accounting

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

(d) Earmarked Funds

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

(e) Fund Balance with Treasury

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

(f) Investments

The Energy Policy Act requires the D&D Fund to invest in Treasury obligations. The D&D Fund's investments in Treasury securities are classified as held-to-maturity. Held-to-maturity securities are those securities that the D&D Fund has the ability and intent to hold until maturity. Held-to-maturity securities are recorded at amortized cost, adjusted for the amortization or accretion of premiums or discounts. Premiums and discounts are amortized or accreted over the life of the related security as an adjustment to yield using the effective-interest method. Realized gains and losses for securities classified as held-to-maturity are included in earnings and are derived using the specific-identification method for determining the cost of securities sold.

(g) Plant and Equipment

Plant and equipment acquired by the D&D Fund are charged to operations when purchased, unless the plant or equipment will be used for purposes other than environmental remediation. All plant and equipment held by the D&D Fund at September 30, 2009 and 2008 are used in environmental remediation.

(h) Environmental Remediation Liabilities

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

(i) Government Appropriations

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

(j) Imputed Costs and Financing Sources

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

(k) Use of Estimates

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

(Continued)

(l) Tax Status

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

(2) Fund Balance with Treasury

Summary of the status of fund balances with the U.S. Treasury for appropriated funds as of September 30, 2009 and 2008, are as follows:

		2009	2008
Unobligated budgetary resources:			
Available	$	4,556,497	4,422,654
Obligated balance not yet disbursed:			
Undelivered orders		430,358	200,470
Accounts payable and other liabilities		110,207	51,434
Budgetary resources invested in Treasury securities		(4,741,155)	(4,670,144)
Fund balance with Treasury	$	355,907	4,414

(3) Investments, Net

The D&D Fund invests in nonmarketable market-based Treasury securities. All Treasury securities held at September 30, 2009 and 2008 are classified as held-to-maturity. The components of Treasury securities held as of September 30, 2009 and 2008 are as follows (in thousands):

		2009	2008
Face value	$	4,760,775	4,710,157
Unamortized premiums		118,116	70,679
Unamortized discounts		(7,636)	(12,145)
		4,871,255	4,768,691
Unrealized gains		206,396	177,891
Total	$	5,077,651	4,946,582

The market value of Treasury securities held as of September 30, 2009 and 2008 is as follows (in thousands):

		2009	2008
Maturity:			
Maturing within 1 year	$	1,145,418	783,527
Maturing after 1 year through 5 years		3,932,233	4,068,050
Maturing after 5 years through 10 years		—	99,419
Total	$	5,077,651	4,950,996

During FY 2009 and FY 2008, the D&D Fund recognized interest revenue of $183.8 million and $197.1 million, respectively.

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

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

(4) Decontamination and Decommissioning

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

Changes in the liability for decontamination and decommissioning from October 1, 2007 through September 30, 2009 are summarized as follows (in thousands):

Balance, October 1, 2007	$	14,344,525
Provision for inflation		328,490
Decontamination and decommissioning costs incurred		(392,784)
Adjustment to new cost estimate		205,398
Balance, September 30, 2008		14,485,629
Provision for inflation		231,770
Decontamination and decommissioning costs incurred		(437,157)
Adjustment to new cost estimate		(231,860)
Balance, September 30, 2009	$	14,048,382

Of the total liability of $14,048.4 million for decontamination and decommissioning as of September 30, 2009, $383.4 million is covered by appropriations for current and previous fiscal years (budgetary resources) and $13,665.0 million is not covered by budgetary resources. Of the total liability of $14,485.6 million for decontamination and decommissioning as of September 30, 2008, $159.8 million is covered by appropriations for current and previous fiscal years (budgetary resources) and $14,325.8 million is not covered by budgetary resources.

Approximately $17.4 million of the FY 2009 costs incurred were from ARRA funding rather than the D&D Fund's investment balances. As of September 30, 2009, approximately $302.6 million of the $320.0 million designated by ARRA for D&D Fund cleanup scope remains available to address the $14,048.4 million liability. This $302.6 million is included in the $383.4 million of budgetary resources discussed above. Note 1(a) to the financial statements provides additional discussion on the ARRA funding.

Because the decontamination and decommissioning work is scheduled to be completed in approximately 2016 at the gaseous diffusion facility located in Oak Ridge and the work has yet to be scheduled at the Paducah and Portsmouth gaseous diffusion facilities, the length of time over which the work will be performed and the uncertainty inherent in the estimating process create significant uncertainty as to the actual cost of the work. In addition, because the estimate on which the recorded liability is based does not include an estimate of the impact of inflation on such costs, the actual costs may be significantly higher than the recorded liability. The Department is presently unable to determine the impact of time and inflation on the liability for decontamination and decommissioning costs.

(5) Remedial Action

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

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

Changes in the liability for remedial action from October 1, 2007 through September 30, 2009 are summarized as follows (in thousands):

Balance, October 1, 2007	$	275,705
Provision for inflation and remedial action costs		141,877
Remedial action costs incurred		(186,438)
Balance, September 30, 2008		231,144
Provision for inflation and remedial action costs		139,236
Remedial action costs incurred		(205,506)
Balance, September 30, 2009	$	164,874

Of the total liability of $164.9 million for remedial action as of September 30, 2009, $56.2 million is covered by budgetary resources and $108.7 million is not covered by budgetary resources. Of the total liability of $231.1 million for remedial action as of September 30, 2008, $53.3 million is covered by budgetary resources and $177.8 million is not covered by budgetary resources.

The estimated future cost of remedial action at the Diffusion Facilities, which is only recorded in the accompanying financial statements to the extent described above, is approximately $2,298.0 million and $2,515.0 million as of September 30, 2009 and 2008, respectively. The remaining liability for the estimated future cost of remedial action at the Diffusion Facilities is recorded by the Department. The estimate includes surveillance and maintenance, infrastructure, site operation, 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.

(Continued)

(6) Uranium and Thorium Licensee Claims

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

As of September 30, 2009 and 2008, the Department has approved for payment $638.3 million and $615.0 million, respectively, of uranium and thorium licensee claims, and has paid $605.3 million and $573.4 million, respectively, to licensees. Approved but unpaid claims will be paid to licensees when additional funds are appropriated for that purpose. The Department receives additional claims from licensees as remediation occurs, and expects that total reimbursements of uranium and thorium licensee claims will reach the limits set by legislation.

The D&D Fund's liability for reimbursement of uranium and thorium licensee claims consists of the maximum reimbursements authorized by legislation less amounts paid, adjusted annually for inflation. Changes in the liability for reimbursement of uranium and thorium licensee claims from October 1, 2007 through September 30, 2009 are summarized as follows (in thousands):

Balance, October 1, 2007	$	266,927
Provision for inflation		6,112
Claims reimbursed		(19,618)
Balance, September 30, 2008		253,421
Provision for inflation		4,055
Claims reimbursed		(31,871)
Balance, September 30, 2009	$	225,605

Of the total liability of $225.6 million as of September 30, 2009, $38.1 million is covered by budgetary resources and $187.5 million is not covered by budgetary resources. No portion of the total liability of $253.4 million as of September 30, 2008 is covered by budgetary resources.

All $31.9 million of FY 2009 reimbursements were paid from ARRA funding rather than the D&D Fund's investment balances. Therefore, approximately $38.1 million of the $70 million designated by ARRA for uranium and thorium reimbursements remains available and represents the budgetary resources available at September 30, 2009 to address the $225.6 million liability. Note 1(a) to the financial statements provides additional discussion on the ARRA funding.

(7) Government Appropriations

The Energy Policy Act and subsequent amendments require annual Government appropriations to the D&D Fund through FY 2007, equal to the difference between authorized funding, adjusted annually for inflation using the Consumer Price Index, and the assessment against domestic utilities (note 3).

Authorized funding was initially established at $480.0 million per year by the Energy Policy Act. That amount remained unchanged until FY 1999, when legislation increased authorized funding to $488.3 million per year. Legislation enacted during FY 2002 increased authorized funding to $518.2 million per year.

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

Cumulative Government appropriations received through FY 2007 of $5,362.4 million were less than the full amount authorized by the Energy Policy Act of $6,281.0 million, resulting in funding authorized but not received of $918.6 million as of September 30, 2007. The Department has continued to ask Congress for annual Government contributions to meet the Government's obligation. Congress appropriated $463.0 million ($458.8 million after rescissions) in FY 2008 and $463.0 million in FY 2009. After adjusting the $918.6 million funding shortfall for inflation and then subtracting contributions received in FY 2008 and FY 2009, the shortfall stood at $40.6 million.

During FY 2009, ARRA designated $390 million as "Uranium Enrichment Decontamination and Decommissioning Fund." The ARRA funding is a separate appropriation from the D&D Fund and is not available for investment in Treasury securities like the normal D&D Fund appropriations. Therefore, the ARRA funding does not represent additional spending authority from those balances. The ARRA funding does, however, function as part of the D&D Fund by paying for work scope that would otherwise have to be paid by the D&D Fund. Since the ARRA funding reduces the required future outlays from the D&D Fund's invested balances, the Department is recognizing the $390 million of ARRA funding as an offset to the Government's contribution shortfall. Therefore, with the ARRA funding, the Department considers its contribution responsibility to have been met.

(8) Pension and Postretirement Benefit Liabilities

The D&D Fund's primary integrated contractor maintains a defined benefit pension plan and is a party to two defined benefit postretirement (PRB) plans, under which they promise to pay participants specified benefits, such as a percentage of the final average pay for each year of service, or a percentage of actual medical expenses in retirement. The D&D Fund follows multiemployer accounting for these plans in accordance with Statement of Financial Accounting Standards (SFAS) No. 87, *Employers' Accounting for Pensions*, and SFAS No. 106, *Employers' Accounting for Postretirement Benefits Other Than Pensions*. The D&D Fund is required to reimburse the contractor for its share of the annual contractor contributions to those plans based on planned funding between the Department of Defense Funds and the D&D Fund as determined by the Department's budget planning assumptions. Payment of such amounts is included as program cost on the Statements of Net Cost. For the years ended September 30, 2009 and 2008, the D&D Fund provided funding for approximately $16.3 million and $4.0 million to the contractor's defined benefit pension plan, and $8.0 million and $11.1 million related to PRB plans, respectively.

(9) Earmarked Funds

	FY 2009			FY 2008		
	Earmarked funds	Other funds	Total	Earmarked funds	Other funds	Total
Balance sheet						
Assets:						
Fund balance with Treasury	$ 9,749	346,158	355,907	4,414	—	4,414
Investments	4,871,255	—	4,871,255	4,768,691	—	4,768,691
Accrued interest receivable	50,291	—	50,291	53,774	—	53,774
Total assets	$ 4,931,295	346,158	5,277,453	4,826,879	—	4,826,879
Liabilities and net position:						
Environmental liabilities	$ 14,438,861	—	14,438,861	14,970,194	—	14,970,194
Accounts payable	96,420	5,390	101,810	46,429	—	46,429
Other liabilities	8,478	—	8,478	5,088	—	5,088
Unexpended appropriations	—	340,769	340,769	—	—	—
Cumulative results of operations	(9,612,465)	—	(9,612,465)	(10,194,832)	—	(10,194,832)
Total liabilities and net position	$ 4,931,294	346,159	5,277,453	4,826,879	—	4,826,879
Statement of net costs						
Program costs	$ 589,338	49,231	638,569	540,072	—	540,072
Costs applied to the reduction of legacy liabilities	(599,440)	—	(599,440)	(510,004)	—	(510,004)
Costs not assigned	102,295	—	102,295	610,207	—	610,207
Exchange revenues	(183,792)	—	(183,792)	(197,073)	—	(197,073)
Net cost of operations	$ (91,599)	49,231	(42,368)	443,202	—	443,202
Statement of changes in net position						
Cumulative results of operations, beginning balance	$ (10,194,832)	—	(10,194,832)	(10,220,874)	—	(10,220,874)
Appropriations used	—	49,231	49,231	—	—	—
Net transfers-out without reimbursement	14,500	—	14,500	—	—	—
Imputed financing from costs absorbed	13,268	—	13,268	10,458	—	10,458
Other financing sources	463,000	—	463,000	458,786	—	458,786
Net cost of operations	91,599	(49,231)	42,368	(443,202)	—	(443,202)
Cumulative results of operations, ending balance	$ (9,612,465)	—	(9,612,465)	(10,194,832)	—	(10,194,832)
Unexpended appropriations, beginning balance	$ —	—	—	—	—	—
Appropriations received	—	390,000	390,000	7,909	—	7,909
Appropriations used	—	(49,231)	(49,231)	(7,909)	—	(7,909)
Unexpended appropriations, ending balance	$ —	340,769	340,769	—	—	—

(10) Reconciliation of Net Cost of Operations to Budget

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

		2009	2008
Resources used to finance activities:			
Obligations incurred	$	874,876	620,311
Less offsetting receipts		(618,720)	(650,614)
Net obligations		256,156	(30,303)
Imputed financing from costs absorbed by others		13,268	10,458
Transfers out		14,500	—
Other – appropriations transferred from DOE		463,000	458,786
Total resources used to finance activities		746,924	438,941
Resources used to finance items not part of the net cost of operations:			
Change in budgetary resources obligated for goods, services, and benefits ordered but not yet provided		(229,888)	(73,531)
Resources that finance the acquisition of assets		(6,420)	(6,708)
Resources that fund expenses recognized in prior periods		(597,542)	(508,093)
Other resources and adjustments		(11,018)	(7,512)
Total resources used to finance items not part of the net cost of operations		(844,868)	(595,844)
Net cost of items that do not require or generate resources in current period:			
Increase in unfunded liability estimates		87,129	597,837
Amortization of premiums and discounts on treasury investments		19,983	1,100
Other		(51,536)	1,168
Total net cost of items that do not require or generate resources in current period		55,576	600,105
Net cost of operations	$	(42,368)	443,202

REQUIRED SUPPLEMENTARY INFORMATION

Deferred Maintenance

Deferred maintenance is maintenance that was not performed when it should have been or was scheduled to be performed and which, therefore, is put off or delayed to a future period. The United States Department of Energy (the Department) has developed an estimate for deferred maintenance in the amount of $20.6 million as of September 30, 2009 for the structures and facilities at the gaseous diffusion facilities (Diffusion Facilities) located in Oak Ridge, Tennessee; Paducah, Kentucky; and Portsmouth, Ohio, and has determined that there is no deferred maintenance with respect to capital equipment at the Diffusion Facilities.

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