

OFFICE OF CIVILIAN RADIOACTIVE WASTE MANAGEMENT

ACCOUNTABILITY REPORT

SEPTEMBER 30, 2001

**UNITED STATES DEPARTMENT OF ENERGY
OFFICE OF CIVILIAN RADIOACTIVE WASTE MANAGEMENT**

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**UNITED STATES DEPARTMENT OF ENERGY
OFFICE OF CIVILIAN RADIOACTIVE WASTE MANAGEMENT**

OVERVIEW

Reporting Entity

The Nuclear Waste Policy Act of 1982 (Public Law 97-425) established the Office of Civilian Radioactive Waste Management (OCRWM) within the Department of Energy (Department). OCRWM's mission is to manage and dispose of the nation's spent nuclear fuel (SNF) and high-level radioactive waste (HLW). The Office provides leadership in developing and implementing strategies to accomplish this mission that ensure public and worker health and safety, protect the environment, merit public confidence, and are economically viable.

The Nuclear Waste Policy Amendments Act of 1987 (Title V, Public Law 100-203) directed the Secretary of Energy to characterize only the Yucca Mountain site in Nevada to determine if it is suitable for a repository for SNF and HLW.

As of September 30, 2001, OCRWM employed 2,147 people. This included 160 OCRWM Federal staff, 17 Federal full-time equivalents (FTEs) at other Headquarters offices, 6 Federal FTEs at the DOE Nevada Operations Office, 99 U.S. Geological Survey employees, and 1,865 contractor employees, including employees of national laboratories.

OCRWM carries out its mission through two business centers -- the Yucca Mountain Site Characterization Project and the Waste Acceptance, Storage and Transportation Project and a Program Management Center.

The Yucca Mountain Site Characterization Project, located in Las Vegas, Nevada, oversees the scientific and technical investigation of Yucca Mountain, including:

- Addressing the major unresolved technical questions about the site,
- Operating the exploratory studies facility,
- Developing repository and waste package design elements that are critical to determining the feasibility of the engineered barrier system,
- Preparing a final environmental impact statement to accompany the Secretarial site recommendation, should the site be found suitable,
- Preparing a site recommendation report for the Secretary of Energy's submittal to the President should the site be found suitable, and
- Preparing and submitting a license application for repository construction to the Nuclear Regulatory Commission, should the President recommend and the Congress approve the Yucca Mountain site.

The Waste Acceptance, Storage and Transportation Project, located in Washington, D.C., focuses on the development of processes for the legal and physical transfer of commercial SNF to the Federal Government; establishment of a waste acceptance process for Department-owned SNF, including naval SNF, HLW, and immobilized surplus plutonium; creation of a national transportation capability for waste acceptance, and the resolution of institutional issues with Civilian Radioactive Waste Management Program (Program) stakeholders.

OCRWM's Program Management Center (Center) provides program integration and management support to the Director, OCRWM, and to the two business centers. The Center is comprised of the Office of Program Management and Administration and the Systems Engineering and International Division of the Office of Acceptance, Transportation and Integration, in Washington, D.C. and the Office of Quality Assurance in Las Vegas, Nevada. The Center is responsible for quality assurance, program planning and administration, program management, technical and regulatory integration, international waste management activities, institutional activities, and management of the Nuclear Waste Fund (NWF).

Fiscal Year 2001 Technical Performance

Although OCRWM's appropriation for fiscal year 2001 was lower than expected, OCRWM met all four performance targets in the Department's revised *Fiscal Year 2001 Annual Performance Plan*.

Performance Target One. Complete the scientific and technical documents that will provide the technical basis for a possible site recommendation.

Results: The *Yucca Mountain Science and Engineering Report*, released in May 2001, and the *Yucca Mountain Preliminary Site Suitability Evaluation*, released in July 2001, provided the initial technical basis for a possible site recommendation.

Performance Target Two. Conduct statutory hearings in the vicinity of Yucca Mountain to inform the residents that the site is under consideration and to receive comments regarding a possible site recommendation.

Results: OCRWM conducted a public hearing in Las Vegas on September 5, 2001. The hearings originally scheduled for September 12 and 13 in Amargosa Valley and Pahrump, NV, respectively, were postponed due to the September 11 terrorist attacks and held on October 10 and 12, 2001.

Performance Target Three. Update all process models and conduct a total system performance assessment (TSPA) for use in a possible site recommendation.

Results: The TSPA for site recommendation was completed in early fiscal year 2001.

Performance Target Four. Complete and issue Total System Life Cycle Cost and Fee Adequacy reports.

Results: The *Analysis of the Total Life Cycle Cost of the Civilian Radioactive Waste Management Program* and *Nuclear Waste Fund Fee Adequacy: An Assessment* were published in May 2001.

Fiscal Year 2002 Technical Performance

The following OCRWM technical performance targets have been identified for fiscal year 2002:

- Issue a Final Environmental Impact Statement, as required by the Nuclear Waste Policy Act (NWPA).
- Finalize a Site Recommendation Report for the Secretary of Energy to submit to the President, and then to the Congress.
- Issue Nuclear Waste Policy Act Section 180(c) Notice of Revised Proposed Policy and Procedures for public comment.
- Begin development of updated Total System Life Cycle Cost and Fee Adequacy reports.
- Issue a draft request for proposals for waste acceptance and transportation services.

Fiscal Year 2001 Financial Performance

OCRWM is required by the NWPA to recover the full cost of the Program. The Program's total cost was estimated in *Analysis of the Total Systems Life Cycle Cost of the Civilian Radioactive Waste Management Program* (TSLCC), dated May 2001.

Program funding for the NWF comes from the Nuclear Waste Fund Appropriation (NWFA) and the Defense Nuclear Waste Disposal Appropriation (DNWDA). The NWF consists of fees paid by the owners and generators of SNF from commercial reactors, in accordance with provisions of their contracts with the Department for disposal services. NWF assets in excess of those appropriated to pay current Program costs are invested in U.S. Treasury securities. The DNWDA was established by the Congress in lieu of direct payment of defense fees by the Department into the NWF, to pay for the disposal costs of the HLW resulting from atomic energy defense activities and other Department-managed nuclear materials. As of September 30, 2001, cumulative revenue from fees, including the DNWDA, totaled approximately \$14.098 billion, and cumulative interest earnings and other revenue totaled approximately \$8.376 billion. Cumulative expenditures from appropriations, including direct appropriations to the Nuclear Regulatory Commission, the now defunct Office of the Nuclear Waste Negotiator, and the Nuclear Waste Technical Review Board, totaled approximately \$7.209 billion.

As of September 30, 2001, the U.S. Treasury securities held by OCRWM had a market value of \$11.674 billion, compared to \$9.777 billion at the end of fiscal year 2000. Investment income for fiscal year 2001 was \$694.3 million, including \$638.1 million in interest earnings and \$56.2 million in net gains on the sale of securities.

OCRWM's primary financial management goal is to ensure that future spending needs can be met. Therefore, OCRWM relies on the asset-liability matching approach to investing used by pension funds and insurance companies. By matching investments to anticipated funding requirements, OCRWM reduces the risk that changes in interest rates will adversely affect the fee adequacy balance, ensures that identified spending projections will be met, and makes investments at the most favorable rates currently available.

In its fiscal year 2000 Overview, OCRWM established the following financial performance measures for fiscal year 2001:

1. To maintain an adequate liquid reserve of approximately \$2 billion in short-term Treasury securities with an average duration not to exceed 3 years to meet unexpected spending needs.

Results: The month-end balances in the contingency fund were between \$1.8 billion and \$2.0 billion, and the average duration at each month end was less than 3 years.

2. Invest any surpluses to match anticipated Program spending through at least the year 2026.

Results: By May 31, 2001, the cumulative spending profile was matched through 2025, and it was anticipated that, by year-end, the cumulative spending profile would be matched through 2026. However, a new Program spending profile was established in the May 2001 *Analysis of Total System Life Cycle Cost of the Civilian Radioactive Waste Management Program* (TSLCC). The May 2001 TSLCC significantly increased near- and intermediate-term spending needs, and the Program focused on meeting these earlier needs first, deferring matching longer-term spending projections, including 2026.

FY 2002 Financial Performance Measures

The following have been identified as financial performance measures for OCRWM in fiscal year 2002:

1. To maintain an adequate liquid reserve of approximately \$2 billion in short-term Treasury securities, with an average duration not to exceed 3 years, to meet unexpected spending needs.
2. To reallocate existing investments and invest any additional surpluses to match the Program's cumulative spending profile through 2026.

The accompanying financial statements were prepared to report the financial position, net cost, changes in net position, budgetary resources, and reconciliation of net costs to budgetary obligations of the NWFA and the DNWDA, pursuant to the NWPA, as amended. While the statements have been prepared from the books and records of the NWFA and the DNWDA, in accordance with the formats prescribed by the Office of Management and Budget, 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 NWFA and the DNWDA; that unfunded liabilities reported in the financial statements cannot be liquidated without the enactment of an appropriation; and that the payment of all liabilities, other than those resulting from contractual obligations, can be abrogated by the Department.



2001 M Street, NW
Washington, DC 20036

Independent Auditors' Report on Financial Statements

United States Department of Energy
Office of Civilian Radioactive Waste Management:

We have audited the accompanying balance sheets of the Office of Civilian Radioactive Waste Management (OCRWM), a component of the Department of Energy (Department), as of September 30, 2001 and 2000, and the related statements of net cost, changes in net position, budgetary resources, and financing for the years then ended. These financial statements are the responsibility of OCRWM's management. Our responsibility is to express an opinion on these financial statements 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 Office of Management and Budget (OMB) Bulletin No. 01-02, *Audit Requirements for Federal Financial Statements*. Those standards and OMB Bulletin No. 01-02 require that we plan and perform the audit 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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of OCRWM, as of September 30, 2001 and 2000, and its net costs, changes in net position, budgetary resources, and reconciliation of net costs to budgetary obligations for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

As discussed in note 11 to the financial statements, OCRWM is involved as a defendant in several matters of litigation relating to its inability to accept waste by the January 31, 1998 date specified in the Nuclear Waste Policy Act of 1982, as amended. The Court of Appeals for the District of Columbia Circuit has ruled that the contracts the Department has executed with individual owners and generators of spent nuclear fuel and/or high-level radioactive waste (Standard Contracts) (1) imposes an unconditional obligation on the Department to initiate waste acceptance by January 31, 1998, and (2) offers a potentially adequate remedy for the failure of the Department to meet this obligation. Management believes it is too early to evaluate the ultimate impact on OCRWM of these claims because the decisions in these cases and resolution of such claims will involve highly fact-specific and individualized decisions about the costs incurred by each contract holder as a result of the delay of the Department in meeting its obligation under the Standard Contracts. However, the Department has estimated possible damages to be between \$2 billion and \$3 billion, if all utilities file claims. Some utility representatives have estimated damages totaling \$50 billion. OCRWM has recorded an estimated liability of \$2 billion relating to these matters in the financial statements as of September 30, 2001 and 2000.



The information in the Overview and Required Supplementary Stewardship Information for Research and Development sections is not a required part of the financial statements but is supplementary information required by the Federal Accounting Standards Advisory Board or OMB Bulletin No. 97-01, *Form and Content of Financial Statements*, as amended. 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.

In accordance with *Government Auditing Standards*, we have also issued reports dated January 31, 2002, on our consideration of OCRWM's internal control over financial reporting and its compliance with certain provisions of laws and regulations. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards*, and should be read in conjunction with this report in considering the results of our audit.

KPMG LLP

January 31, 2002

**UNITED STATES DEPARTMENT OF ENERGY
OFFICE OF CIVILIAN RADIOACTIVE WASTE MANAGEMENT**

Balance Sheets

As of September 30, 2001 and 2000

(Dollars in thousands)

	2001	2000
Assets		
Intragovernmental:		
Fund Balance with Treasury (note 3)	\$ 10,098	\$ 98,355
Investments (note 4)	11,674,214	9,777,385
Accounts receivable:		
Receivable from Department of Energy (notes 2 and 9)	1,359,871	1,394,889
Kilowatt hour fees (note 5)	11,101	10,499
Accrued investment interest (note 4)	70,149	81,662
Other assets	101	412
Total intragovernmental assets	13,125,534	11,363,202
Accounts receivable (note 5):		
Kilowatt hour fees	164,986	155,490
One-time spent fuel fees	880,489	880,489
Interest from one-time spent fuel fees	1,789,382	1,660,989
General property, plant, and equipment, net (note 6)	17,106	18,574
Other assets	2,193	1,283
Total Assets	\$ 15,979,690	\$ 14,080,027
Liabilities		
Intragovernmental:		
Accounts payable (note 9)	\$ 1,646	\$ 2,028
Deferred revenue (note 13)	900,620	839,914
Other liabilities	35	29
Total intragovernmental liabilities	902,301	841,971
Accounts payable	39,239	37,355
Deferred revenue (note 13)	14,376,400	13,147,716
Pension and other actuarial liabilities	352	3,812
Contract holdback	513	437
Other liabilities	9,363	7,805
Estimated liability for waste acceptance obligation (note 11)	2,000,000	2,000,000
Total Liabilities (note 10)	17,328,168	16,039,096
Commitments and contingencies (notes 11 and 12)		
Net position:		
Unexpended appropriations	8,573	93,428
Cumulative results of operations	(2,000,000)	(2,000,000)
Total net position before unrealized gain (loss)	(1,991,427)	(1,906,572)
Unrealized gain (loss) on investments available for sale	642,949	(52,497)
Total Net Position	(1,348,478)	(1,959,069)
Total Liabilities and Net Position	\$ 15,979,690	\$ 14,080,027

The accompanying notes are an integral part of these statements.

**UNITED STATES DEPARTMENT OF ENERGY
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Statements of Net Cost

For the years ended September 30, 2001 and 2000

(Dollars in thousands)

	<u>2001</u>	<u>2000</u>
First repository costs (Notes 7 and 8):		
Intragovernmental	\$ 39,141	\$ 33,722
With the public	<u>387,064</u>	<u>368,888</u>
Total first repository costs	426,205	402,610
Less: earned revenue (note 13)	<u>(425,112)</u>	<u>(401,528)</u>
Net first repository costs	1,093	1,082
Cost not assigned to first repository:		
Contingent liability cost (note 11)	<u>—</u>	<u>1,500,000</u>
Net cost of operations	<u><u>\$ 1,093</u></u>	<u><u>\$ 1,501,082</u></u>

The accompanying notes are an integral part of these statements.

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Statements of Changes in Net Position

For the years ended September 30, 2001 and 2000

(Dollars in thousands)

	<u>2001</u>	<u>2000</u>
Net cost of operations	\$ (1,093)	\$ (1,501,082)
Imputed financing	<u>1,093</u>	<u>1,082</u>
Net results of operations	—	(1,500,000)
Change in unrealized gain (loss) on investments	695,446	300,226
Increase (decrease) in unexpended appropriations	<u>(84,855)</u>	<u>5,765</u>
Change in net position	610,591	(1,194,009)
Net position - beginning of the period	<u>(1,959,069)</u>	<u>(765,060)</u>
Net position - end of period	<u>\$ (1,348,478)</u>	<u>\$ (1,959,069)</u>

The accompanying notes are an integral part of these statements.

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Statements of Budgetary Resources

For the years ended September 30, 2001 and 2000

(Dollars in thousands)

	<u>2001</u>	<u>2000</u>
Budgetary resources:		
Budgetary authority	\$ 391,074	\$ 348,500
Unobligated balance:		
Brought forward October 1	87,430	96,556
Adjustments:		
Temporarily restricted pursuant to Public Law	(420)	(85,000)
Permanently not available pursuant to Public Law	<u>(75,275)</u>	<u>(1,325)</u>
Total budgetary resources	<u>\$ 402,809</u>	<u>\$ 358,731</u>
Status of budgetary resources		
Obligations incurred	\$ 395,188	\$ 356,301
Unobligated balances available:		
Apportioned, balance currently available	7,368	2,430
Unobligated balances not yet available:		
Other unobligated balances not yet available	<u>253</u>	<u>—</u>
Total status of budgetary resources	<u>\$ 402,809</u>	<u>\$ 358,731</u>
Outlays		
Obligations incurred	\$ 395,188	\$ 356,301
Obligated balance net, beginning of period	83,203	100,476
Less: obligated balance net, end of period	<u>(96,036)</u>	<u>(83,203)</u>
Total outlays	<u>\$ 382,355</u>	<u>\$ 373,574</u>

The accompanying notes are an integral part of these statements.

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Statements of Financing

For the years ended September 30, 2001 and 2000

(Dollars in thousands)

	2001	2000
Obligations and budgetary resources		
Budgetary resources obligated for orders and delivery of goods and services to be received or benefits to be provided to others	\$ 395,188	\$ 356,301
Financing imputed for cost subsidies	1,093	1,082
Less: earned revenue	(425,112)	(401,528)
Appropriations transferred-out	24,452	17,746
Total resources used to finance activities	(4,379)	(26,399)
Resources that do not fund net cost of operations		
<i>Deduct resources used to fund items not part of the net cost of operations:</i>		
Increase or (decrease) in budgetary resources obligated to order goods and services not yet received or benefits not yet provided	(10,837)	16,868
Resources that finance the acquisition of assets or liquidation of liabilities	(2,186)	(809)
Total resources used to fund items not part of the net cost of operations	(13,023)	16,059
Resources Used to Finance the Net Cost of Operations	(17,402)	(10,340)
Costs that do not require resources		
<i>Components of net cost of operations that do not require or generate resources during the reporting period:</i>		
Expenses or exchange revenue related to the disposition of assets or liabilities, or allocation of their costs over time:		
Expenses related to use of assets	3,286	4,077
Losses from revaluation of assets and liabilities	368	524
Subtotal	3,654	4,601
Other net cost components that do not require or generate resources during the reporting period	(2,084)	1,502,487
Total components of net cost of operations that do not generate resources during the reporting period	1,570	1,507,088
Financing sources yet to be provided	16,925	4,334
Net cost of operations	\$ 1,093	\$ 1,501,082

The accompanying notes are an integral part of these statements.

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Notes to Financial Statements

September 30, 2001 and 2000

(Dollars in thousands unless otherwise noted)

(1) Legislative Background

The Nuclear Waste Policy Act of 1982 (NWPA) was signed into law on January 7, 1983. The NWPA establishes a framework for the financing, siting, licensing, operating and decommissioning of one or more mined geologic repositories for the Nation's spent nuclear fuel (SNF) and high-level radioactive waste (HLW) which is to be carried out by the Department of Energy's (Department) Office of Civilian Radioactive Waste Management (OCRWM). In addition, the NWPA contains other provisions including:

Assigning responsibility for the full payment of disposal costs to the owners and generators of SNF and HLW and creating a special Nuclear Waste Fund (NWF) within the Treasury of the United States for the collection of fees related to such costs.

Providing for contracts between the Department and the owners and generators of SNF and HLW pursuant to which the Department is to take title to the SNF or HLW as expeditiously as possible, following commencement of repository operations and, in return for payment of fees established by the NWPA, to begin disposal of the SNF or HLW not later than January 31, 1998.

Requiring evaluation of the use of civilian disposal capacity for the disposal of HLW resulting from atomic energy defense activities (defense waste). In April 1985, the President notified the Department of his determination that a separate defense waste repository was not necessary and directed the Department to proceed with arrangements for disposal of such waste. Fees, equivalent to those paid by commercial owners, must be paid for this service by the Federal Government to the NWF.

On December 22, 1987, the President signed into law the Budget Reconciliation Act, Subtitle A of Title V of which contained amendments to the NWPA. The legislation directed the Department to characterize only the Yucca Mountain site in Nevada as a candidate site for the first repository.

The legislation also provided for the termination of site-specific activities at all candidate sites other than the Yucca Mountain site, within 90 days of enactment, and for phasing out, not later than 6 months after enactment, all research programs in existence designed to evaluate the suitability of crystalline rock as a potential repository host medium. In the event that the Yucca Mountain site proves unsuitable for use as a repository, the legislation requires the Department to terminate site-specific activities and report to Congress.

Further, the legislation authorized the Department to pay interest on overpayments of kilowatt hour (kWh) fees consistent with the December 5, 1985 ruling of the United States Court of Appeals. Interest on these overpayments of kWh fees was fully paid or credited as of September 30, 1990.

Additionally, the legislation annulled and revoked the Department's Monitored Retrievable Storage (MRS) proposal, submitted to Congress on March 31, 1987, to construct an MRS facility in Oak

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Notes to Financial Statements

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(Dollars in thousands unless otherwise noted)

Ridge, Tennessee. However, the legislation authorized the Department to site, construct, and operate one MRS facility subject to certain conditions.

Although the NWPA prohibits the selection of an MRS site through a Department-directed site-survey process until the repository site is recommended to the President, it allowed for expedited siting to proceed via a Nuclear Waste Negotiator, authorized to negotiate a proposed agreement with a State or Indian Tribe that would agree to host a repository or MRS facility. The Negotiator was to submit to Congress proposed agreements. No volunteer hosts were identified, and the Office of the Nuclear Waste Negotiator expired in January 1995.

(2) Significant Accounting Policies

Basis of Presentation – These financial statements have been prepared to report the financial position and results of operations of OCRWM and include all activity related to OCRWM, including the Nuclear Waste Fund Appropriation (NWFA) and the Defense Nuclear Waste Disposal Appropriation (DNWDA), used for the disposal of SNF and HLW. They have been prepared from the books and records of the Department for OCRWM in accordance with accounting principles generally accepted in the United States of America as applicable to Federal entities.

Basis of Accounting – OCRWM's financial statements are prepared using the accrual method of accounting. Under the accrual method, revenues are recognized when earned and expenses are recognized when a liability is incurred, without regard to receipt or payment of cash. OCRWM also uses budgetary accounting to facilitate compliance with legal constraints and to monitor its budget authority.

Revenue Recognition – Fees are recognized as exchange (earned) revenue to the extent of expenses incurred, subject to Congressional authorization as discussed below. Fees billed in excess of current expenses are deferred.

The NWPA requires the civilian owners and generators of nuclear waste to pay their share of the full cost of the Civilian Radioactive Waste Management Program (Program) and, to that end, establishes a fee for electricity generated and sold by civilian nuclear power reactors which the Department must collect and annually assess to determine its adequacy. A one-time fee (see note 5) was recorded by OCRWM as of April 7, 1983, related to the disposal of SNF generated prior to that date. kWh fees recognized by OCRWM are based upon kWh of electricity generated and sold by civilian nuclear reactors on and after April 7, 1983.

Fees associated with the disposal of the Department's SNF and HLW are also recognized as the related costs are incurred and allocated. To estimate the share of the total Program costs that should be allocated to the Department, the methodology announced by the Department in the Federal Register in August 1987 was used. The most recent cost estimate, *Analysis of the Total System Cost of the Civilian Radioactive Waste Management Program* (TSLCC), issued in May 2001, of the surrogate single repository system (without interim storage) established the amounts to allocate.

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(Dollars in thousands unless otherwise noted)

Financing – The NWPA provides that financing for the NWF consist of:

- Unexpended balances available on the date of enactment for functions or activities incident to the disposal of civilian SNF or civilian HLW;
- Funds appropriated by Congress;
- Fee payments; and
- Investment income from authorized investments.

Expenditures are made from the NWF subject to Congressional appropriation. Investments are made in U.S. Treasury obligations from funds in excess of current needs. If, at any time, monies available in the NWF are insufficient to discharge responsibilities under the NWPA, borrowings may be made from the U.S. Treasury. The NWPA limits the NWF from incurring expenditures, entering into contracts and obligating amounts to be expended, except as provided in advance by appropriation acts.

For fiscal years 2001 and 2000, Congress appropriated \$191,074 and \$236,500, respectively, from the Nuclear Waste Fund Appropriation (NWFA) to be used for nuclear waste disposal activities. Pursuant to the fiscal year 2001 Consolidated Appropriations Act, \$420 of the \$191,074 was rescinded from the NWFA. Pursuant to the fiscal year 2000 Consolidated Appropriations Act, \$899 of the \$236,500 was rescinded from the NWFA.

For fiscal years 2001 and 2000, Congress appropriated \$200,000 and \$112,000, respectively, from the DNWDA to be used for nuclear waste disposal activities. In fiscal year 2001, an additional \$10,000 in funds previously restricted were made available. Pursuant to the fiscal year 2001 Consolidated Appropriations Act, \$275 of the \$200,000 was rescinded from the DNWDA. For fiscal year 2000, the Consolidated Appropriations Act rescinded \$426 from the DNWDA.

Imputed Financing Sources – In certain instances, operating costs of OCRWM are paid out of funds appropriated to other federal agencies. For example, certain costs of retirement programs are paid by the Office of Personnel Management. When costs directly attributable to OCRWM's operations are paid by other agencies, OCRWM recognizes these costs in the Statement of Net Cost. In addition, these amounts are recognized as imputed financing sources in the Statement of Changes in Net Position.

Investments – Investments, which consist of U.S. Treasury securities, are classified as available-for-sale and are reported at fair value in accordance with Statement of Financial Accounting Standards (SFAS) No. 115, *Accounting for Certain Investments in Debt and Equity Securities*, with unrealized gains and losses excluded from earnings and reported as a separate component of net position. OCRWM uses the effective interest rate method in determining the fair value of investments.

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Notes to Financial Statements

September 30, 2001 and 2000

(Dollars in thousands unless otherwise noted)

General Property, Plant, and Equipment – Purchases of general property, plant, and equipment (PP&E) exceeding \$25 are capitalized if they have a useful life greater than two years. PP&E is depreciated on a straight-line basis over the estimated useful lives of the assets which range from 5 to 30 years. Maintenance costs are borne by OCRWM for equipment either on loan from or shared with other programs.

Costs of construction are capitalized as construction work in process. Upon completion or beneficial occupancy, the cost is transferred to the appropriate property account.

Accounts Receivable – Payment of accounts receivable will not be complete until OCRWM starts accepting waste which is currently expected in the year 2010. Interest is accrued quarterly on the outstanding amount receivable including accrued interest. The interest rate used is the 13-week U.S. Treasury bill rate. An allowance for doubtful accounts related to one-time spent fuel fees has not been recorded as of September 30, 2001, as OCRWM is not obligated to accept waste without payment of fees.

Accrued Interest Receivable – Investment interest is accrued on the outstanding investment balance using the applicable interest rate for the investments.

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

Accrued Annual Leave – Federal employees' annual leave is accrued as it is earned, and the accrual is reduced annually for actual leave taken. Each year, the accrued annual leave balance is adjusted to reflect the latest pay rates and unused annual leave balances. To the extent that current or prior year appropriations are not available to fund annual leave earned but not taken, funding will be obtained from future financing sources. Sick leave and other types of nonvested leave are expensed as taken.

Tax Status – OCRWM, as a part of the Department of Energy, which is a Federal agency, is not subject to federal, state, or local income taxes.

First Repository Costs – For the years ended September 30, 2001 and 2000, first repository costs consist primarily of Yucca Mountain costs.

Reclassifications – Certain fiscal year 2000 amounts in the financial statements have been reclassified to ensure consistency with the presentation of fiscal year 2001 amounts.

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OFFICE OF CIVILIAN RADIOACTIVE WASTE MANAGEMENT**

Notes to Financial Statements

September 30, 2001 and 2000

(Dollars in thousands unless otherwise noted)

(3) Fund Balance with Treasury

A summary of fund balance with the U.S. Treasury for appropriated funds as of September 30, 2001 and 2000, is as follows:

	2001	2000
Unobligated budgetary resources		
Available	\$ 7,368	\$ 2,430
Unavailable	253	-
Obligated balance not yet disbursed		
Undelivered orders	51,460	40,623
Accounts payable and deposit fund liabilities	44,576	42,580
Other adjustments		
Appropriations not available pursuant to public law		
Defense Nuclear Waste Disposal	-	85,000
Budgetary resources invested in Treasury securities		
Nuclear Waste Fund	(93,559)	(72,278)
Total fund balance with Treasury	\$ 10,098	\$ 98,355

(4) Investments

For the years ended September 30, 2001 and 2000, the NWF received proceeds of \$1,245,987 and \$665,264, respectively, from the sale of securities. The realized gain on the sale using the specific identification method for the years ended September 30, 2001 and 2000, was \$56,222 and \$3,735, respectively. From September 30, 2000 to 2001, and from 1999 to 2000, the net unrealized gain on available-for-sale securities included in net position was \$695,446 and \$300,226, respectively.

Accrued interest receivable on investments as of September 30, 2001 and 2000, totaled \$70,149 and \$81,662, respectively.

The gross unrealized gain (loss) on available-for-sale securities was \$642,949 and (\$52,497) as of September 30, 2001 and 2000, respectively.

**UNITED STATES DEPARTMENT OF ENERGY
OFFICE OF CIVILIAN RADIOACTIVE WASTE MANAGEMENT**

Notes to Financial Statements

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(Dollars in thousands unless otherwise noted)

Investments in U.S. Treasury securities held as of September 30 of each year consisted of the following:

	2001			
	Cost	Amortized (premium) discount, net	Investments, net	Investments at fair value
Intragovernmental securities available for sale:				
Due within 1 year	\$ 771,649	\$ (43,082)	\$ 728,566	\$ 741,572
Due after 1 year but within 5 years	1,077,988	(111,791)	997,578	1,061,207
Due after 5 years but within 10 years	2,326,240	101,021	2,427,261	2,541,197
Due after 10 years	6,176,732	701,127	6,877,859	7,330,238
	<u>\$ 10,352,609</u>	<u>\$ 647,275</u>	<u>\$ 11,031,264</u>	<u>\$ 11,674,214</u>
	2000			
	Cost	Amortized (premium) discount, net	Investments, net	Investments at fair value
Intragovernmental securities available for sale:				
Due within 1 year	\$ 358,240	\$ (25,090)	\$ 333,150	\$ 333,592
Due after 1 year but within 5 years	1,815,525	(128,234)	1,687,291	1,684,116
Due after 5 years but within 10 years	729,884	(15,656)	714,228	697,218
Due after 10 years	6,620,153	475,060	7,095,213	7,062,459
	<u>\$ 9,523,802</u>	<u>\$ 306,080</u>	<u>\$ 9,829,882</u>	<u>\$ 9,777,385</u>

(5) Receivables Due from Utilities

Owners and generators of civilian SNF and HLW have entered into contracts with the Department for disposal services and for payment of fees to the NWF.

The NWPA specifies two types of fees to be paid to the NWF for disposal services: (a) a one-time charge per kilogram of heavy metal in solidified SNF or HLW existing prior to April 7, 1983; and (b) a one mil per kWh fee on all net electricity generated and sold by civilian nuclear power reactors on and after April 7, 1983. The Secretary of Energy shall annually review the adequacy of the fees established. In the event the Secretary of Energy determines either insufficient or excess revenue is being collected, the Secretary of Energy shall propose an adjustment to the fee to ensure full cost recovery. The kWh fees are due when billed. The contracts between the Department and the owners and generators of the waste provide three options for payment of the one-time spent fuel

**UNITED STATES DEPARTMENT OF ENERGY
OFFICE OF CIVILIAN RADIOACTIVE WASTE MANAGEMENT**

Notes to Financial Statements

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(Dollars in thousands unless otherwise noted)

fee, one of which must have been selected by June 30, 1985, or within two years of contract execution. The options were:

1. Payment of the amount due, plus interest earned from April 7, 1983, in 40 quarterly installments, with the final payment due on or before the first scheduled delivery of SNF to the Department;
2. Payment of the amount due, plus interest from April 7, 1983, in a single payment, any time prior to the first delivery of SNF to the Department; or
3. Payment of the amount due, any time prior to June 30, 1985, or two years after contract execution, in the form of a single payment, with no interest due.

Under options (1) and (2), interest accrues from April 7, 1983, to date of first payment, at the 13-week U.S. Treasury bill rate compounded quarterly. Under option (1), beginning with the first payment, interest is calculated at the 10-year Treasury note rate in effect at the time. Two utilities selected option (1); neither has begun making payments.

During fiscal year 2001, \$100 was credited to a utility to offset current quarterly fees. It was based upon an adjustment to its one-time SNF fee, which had been previously paid in its entirety. In fiscal year 2000, there were no payments or adjustments of one-time spent fuel fees by owners and generators of civilian SNF and HLW.

**UNITED STATES DEPARTMENT OF ENERGY
OFFICE OF CIVILIAN RADIOACTIVE WASTE MANAGEMENT**

Notes to Financial Statements

September 30, 2001 and 2000

(Dollars in thousands unless otherwise noted)

Public and intragovernmental receivables from utilities at September 30 of each year were as follows:

	<u>2001</u>	<u>2000</u>
Current portion of accounts receivable:		
Kilowatt hour fees:		
Public	\$ 164,986	\$ 155,490
Intragovernmental	<u>11,101</u>	<u>10,499</u>
Total current portion of accounts receivable	<u>176,087</u>	<u>165,989</u>
Public one-time spent nuclear fuel fees:		
Option (1)	143,531	143,531
Option (2)	<u>736,958</u>	<u>736,958</u>
	<u>880,489</u>	<u>880,489</u>
Public interest on one-time spent nuclear fuel fees:		
Option (1)	292,574	271,427
Option (2)	<u>1,496,808</u>	<u>1,389,562</u>
	<u>1,789,382</u>	<u>1,660,989</u>
Total long-term accounts receivable from the Public	<u>2,669,871</u>	<u>2,541,478</u>
Total accounts receivable	<u>\$ 2,845,958</u>	<u>\$ 2,707,467</u>

(6) General Property, Plant, and Equipment, Net

General property, plant, and equipment and related accumulated depreciation consisted of the following at September 30, 2001 and 2000:

	<u>2001</u>	<u>2000</u>
General property, plant and equipment	\$ 83,697	\$ 83,642
Less accumulated depreciation	<u>(66,591)</u>	<u>(65,068)</u>
Net book value	<u>\$ 17,106</u>	<u>\$ 18,574</u>

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OFFICE OF CIVILIAN RADIOACTIVE WASTE MANAGEMENT**

Notes to Financial Statements

September 30, 2001 and 2000

(Dollars in thousands unless otherwise noted)

(7) Costs

A summary of First repository, other Program and Second repository costs and for the years ended September 30, 2001 and 2000, is as follows:

	2001	2000	Cumulative: Inception through 09/30/2001
Costs:			
First repository costs	\$ 303,803	\$ 301,419	\$ 5,004,743
All other Program costs:			
Program support	77,933	75,884	1,319,843
Adjustment to charges	16,925	4,334	21,259
Transfer of appropriations	24,452	17,746	260,247
Waste acceptance, storage and transportation	1,999	2,145	360,142
Imputed and other costs	1,093	1,082	137,993
Total all other Program costs	122,402	101,191	2,099,484
Total cost of First repository and other Program costs	\$ 426,205	\$ 402,610	\$ 7,104,227
Second repository costs	\$ -	\$ -	\$ 108,896

During fiscal year 2000, the Department signed an agreement with a utility to address the Department's delay in accepting SNF generated by the utility company. The agreement allows the utility company to reduce the projected fees owed to and recorded by the NWF to reflect costs reasonably incurred by the utility company due to the Department's delay. The reduction in fees was \$16,925 and \$4,335 for the years ended September 30, 2001 and 2000, respectively and are recorded as an adjustment to charges.

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September 30, 2001 and 2000

(Dollars in thousands unless otherwise noted)

During fiscal years 2001 and 2000, Congress authorized certain funds to be transferred directly from the NWF to various entities to pay for necessary expenses of OCRWM. In fiscal year 2000, OCRWM received \$4 previously transferred to another agency. Amounts transferred consisted of:

	2001	2000
Nuclear Regulatory Commission	\$ 21,552	\$ 15,150
Nuclear Waste Technical Review Board	2,900	2,600
Office of the Nuclear Waste Negotiator	-	(4)
Total	\$ 24,452	\$ 17,746

The Nuclear Waste Technical Review Board (Board) was established under the Nuclear Waste Policy Amendments Act of 1987 (Amendments Act). The Board, an independent establishment within the executive branch of the U.S. Government, was created to evaluate the technical and scientific validity of activities undertaken by the Secretary of Energy, under the Amendments Act, including site characterization activities and activities relating to the packaging or transportation of SNF or HLW.

(8) Pension Plan

Department of Energy employees working for OCRWM are covered by the Civil Service Retirement System (CSRS) or the Federal Employees Retirement System (FERS). As required by law, employees make contributions to the plans based on a percentage of their salaries with an amount contributed by OCRWM in accordance with the required retirement system regulations. Data regarding the CSRS and the FERS actuarial present value of accumulated benefits, assets available for benefits, and unfunded pension liability are not available to individual departments and agencies and therefore are not disclosed by OCRWM. As such, reporting is the responsibility of the U.S. Office of Personnel Management (OPM).

Under Statement of Federal Financial Accounting Standards (SFFAS) No. 5, *Accounting for Liabilities of the Federal Government*, an employer entity is required to recognize an expense for its employees' retirement benefits equal to the service costs for these employees for the year based on the plans' actuarial cost methods and assumptions. The difference between the retirement benefit expense and contributions made by the entity is reported as an imputed financing source as these costs will ultimately be funded by the OPM. As a result, OCRWM recognized total retirement expense for Federal employees of \$1,093 and \$1,082. OCRWM also recognized an imputed financing source of \$1,093 and \$1,082 to reflect the portion of 2001 and 2000 retirement expense to be paid by OPM, respectively. The retirement benefit expenses were computed in accordance with cost factors provided by OPM.

**UNITED STATES DEPARTMENT OF ENERGY
OFFICE OF CIVILIAN RADIOACTIVE WASTE MANAGEMENT**

Notes to Financial Statements

September 30, 2001 and 2000

(Dollars in thousands unless otherwise noted)

(9) Transactions With the Department and Other Government Agencies

The NWPA established OCRWM within the Department to carry out the provisions of the NWPA and created the Nuclear Waste Fund in the U.S. Treasury. The investment and borrowing powers of the NWF are limited to transactions with the U.S. Treasury. In discharging its obligations under the NWPA, the Department contracts for services with numerous contractors including other Federal Government agencies. Further, significant administrative services are provided by the Department.

As of September 30, 2001 and 2000, OCRWM owed other Federal Government agencies \$1,646 and \$2,028, respectively, for services and costs provided to OCRWM. For the years ended September 30, 2001 and 2000, OCRWM had incurred costs of \$39,141 and \$33,722, respectively, for services and costs provided by other Federal Government agencies.

OCRWM has entered into Memoranda of Agreement (MOA) with the Department's Office of Environmental Management and the Department's Office of Naval Nuclear Propulsion which establish the terms and conditions for acceptance of Department-owned SNF and HLW (DW) for disposal. Those estimated liabilities are included in the TSLCC that is used to calculate the estimate of the Department's share of total current and future Program costs. The total system life cycle cost in fiscal year 2000 dollars was \$57,520,000. Based on the TSLCC, the Department's share of the future system life cycle costs in fiscal year 2000 dollars was \$13,266,000 for the reference repository design. The Department's share of total Program cost cannot be determined finally until the Program is completed and final Program costs are known. However, the Department's DW total cost share as of September 30, 2001, is estimated to be \$2,776,023, including interest amounting to \$895,860, based on the methodology published in the Federal Register in August 1987. As of September 30, 2001 and 2000, the NWF was due \$1,359,871 and \$1,394,889 from the Department, respectively. This receivable, as of September 30, 2001 and 2000, is comprised of current portions of \$289,977 and \$209,832 and long-term portions of \$1,069,894 and \$1,185,057, respectively.

**UNITED STATES DEPARTMENT OF ENERGY
OFFICE OF CIVILIAN RADIOACTIVE WASTE MANAGEMENT**

Notes to Financial Statements

September 30, 2001 and 2000

(Dollars in thousands unless otherwise noted)

(10) Liabilities Not Covered by Budgetary Resources

A summary of liabilities not covered by budgetary resources as of September 30, 2001 and 2000, is as follows:

	2001	2000
Pensions and other actuarial liabilities	\$ 352	\$ 3,812
Other liabilities	3,993	4,044
Estimated liability for waste acceptance obligation	2,000,000	2,000,000
Total liabilities not covered by budgetary resources	2,004,345	2,007,856
Total liabilities covered by budgetary resources	15,323,823	14,031,240
Total liabilities	\$ 17,328,168	\$ 16,039,096

(11) Litigation

In accordance with the NWPA, the Department entered into contracts with more than 45 utilities, in which, in return for payment of fees into the NWF, the Department agreed to begin disposal of spent SNF by January 31, 1998. Because the Department has no facility available to receive SNF under the NWPA, and does not anticipate that there will be such a facility until at least 2010, the Department has been unable to begin disposal of the utilities' SNF as required by the contracts. Significant litigation has ensued as a result of this delay.

To date, that litigation has conclusively established that the Department's obligation to begin disposal is legally binding notwithstanding the lack of a facility to receive SNF, Indiana Michigan Power Co. v. Department of Energy, 88 F.3d 1272 (D.C. Cir. 1996); that the utilities' remedies for the Department's failure to begin disposal of their SNF are to be determined as a matter of contract law, Northern States Power Co. v. U.S., 128 F.3d 754 (D.C. Cir. 1997), cert. Denied, 119 S. Ct. 540 (1998); and that the Department cannot deny liability on the ground that its delay was unavoidable, Ibid. In addition, the Court of Appeals for the Federal Circuit has held that the Department is in partial breach of its contracts and that utilities are entitled to recover damages for that breach. Maine Yankee Atomic Power Company v. United States, 225 F.3d 1336 (Fed. Cir. 2000); Northern States Power co. v. U.S., 224 F.3d 1361 (Fed. Cir. 2000).

Currently, 18 utilities have filed suit in the Court of Federal Claims for breach of contract, in which they collectively seek \$5.94 billion. The industry is reported to estimate that damages for all utilities with which the Department has contracts will be at least \$50 billion. The Department,

**UNITED STATES DEPARTMENT OF ENERGY
OFFICE OF CIVILIAN RADIOACTIVE WASTE MANAGEMENT**

Notes to Financial Statements

September 30, 2001 and 2000

(Dollars in thousands unless otherwise noted)

however, believes that the industry estimate is highly inflated, and if the Department prevails on some key issues, the actual total damages suffered by all utilities as a result of the delay in beginning SNF disposal is more likely to be in the range of between \$2 billion and \$3 billion and has recorded a liability for the low end of that range.

Liability is certain in this matter and the managing judge for the Court of Federal Claims cases has directed the utilities to file dispositive motions on liability in those cases. Other than ascertaining the actual amount of damages, the only outstanding issue is how that liability is to be satisfied. At this time, it is uncertain whether damages will be paid from the Judgment Fund, the Nuclear Waste Fund, or some other source.

(12) Additional Waste

The allocation of Program costs to the Department is dependent on the amount of Department-owned waste requiring geological disposal. As additional waste requiring geological disposal is identified and incorporated into the technical Program baseline and MOA, OCRWM will update its cost estimate and cost share allocation to the Department. Certain wastes that may require geological disposal are described below.

The Department's Office of Environmental Safety and Health has identified additional waste owned by the Department, from both commercial and defense projects, that may require disposal in a repository for SNF and HLW. However, this waste has not been sufficiently characterized and quantified to be included in the MOA.

HLW owned by the State of New York and currently stored at the West Valley Demonstration Project site, is of a type that may be disposed of in a Federal repository if the State of New York were to enter into a contractual agreement with the Department, similar to the provisions of 10 CFR Part 961. To date, the State of New York has not entered into such an agreement. No amount has been recorded in the financial statements as of September 30, 2001, because, at this time, the Department is not legally required to take title to or dispose of the West Valley HLW, nor is the State of New York required to enter into a disposal contract with the Department if it does not plan to dispose of the HLW in a Federal repository.

**UNITED STATES DEPARTMENT OF ENERGY
OFFICE OF CIVILIAN RADIOACTIVE WASTE MANAGEMENT**

Notes to Financial Statements

September 30, 2001 and 2000

(Dollars in thousands unless otherwise noted)

(13) Deferred Revenue

As described in note 2, all fees, both kWh fees and Defense high-level radioactive waste fees, as well as the related interest, are recognized as revenue to the extent of expenses incurred. Amounts in excess of current expenses are deferred.

Deferred revenue at September 30, 2001 and 2000 was as follows:

	<u>2001</u>	<u>2000</u>	<u>Cumulative: Inception through 9/30/2001</u>
Fees billed (credited):			
One-time spent nuclear fuel fees:			
Public (see note 5)	\$ (100)	\$ —	\$ 2,174,803
Intragovernmental	—	—	162,098
kWh fees:			
Public	673,861	663,714	9,472,126
Intragovernmental	42,511	43,638	408,944
Defense high-level waste fees, intragovernmental	113,850	12,789	1,880,163
Interest on one-time spent nuclear fuel fees, public	129,203	137,634	1,819,150
Interest, intragovernmental:			
Income on investments	638,083	580,849	5,238,092
Defense high-level waste fees	60,712	1,857	895,860
Other revenue	<u>56,382</u>	<u>3,794</u>	<u>422,944</u>
Total revenues	1,714,502	1,444,275	\$ <u>22,474,180</u>
Less – earned revenue	<u>(425,112)</u>	<u>(401,528)</u>	
Change in deferred revenue	1,289,390	1,042,747	
Deferred revenue – beginning balance	<u>13,987,630</u>	<u>12,944,883</u>	
Deferred revenue – ending balance	<u>\$ 15,277,020</u>	<u>\$ 13,987,630</u>	

Other revenue primarily consists of net gains on sale of investments. The net gain on sale of investments was \$56,222 and \$3,735 for the years ended September 30, 2001 and 2000, respectively.

**UNITED STATES DEPARTMENT OF ENERGY
OFFICE OF CIVILIAN RADIOACTIVE WASTE MANAGEMENT**

Required Supplementary Stewardship Information for Research and Development

September 30, 2001 and 2000

(Dollars in thousands unless otherwise noted)

	<u>2001</u>	<u>2000</u>	<u>1999</u>
Applied Research and Development			
Environmental Quality	\$ <u>63,492</u>	\$ <u>58,662</u>	\$ <u>59,006</u>

Applied research and development activities were conducted by national laboratories in direct support of OCRWM's Yucca Mountain Site Characterization Project.



2001 M Street, NW
Washington, DC 20036

Independent Auditors' Report on Internal Control over Financial Reporting

United States Department of Energy
Office of Civilian Radioactive Waste Management:

We have audited the balance sheet of the Office of Civilian Radioactive Waste Management (OCRWM), a component of the Department of Energy (Department), as of September 30, 2001, and the related statements of net cost, changes in net position, budgetary resources, and financing for the year then ended, and have issued our report thereon dated January 31, 2002. We conducted our audit 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 Office of Management and Budget (OMB) Bulletin No. 01-02, *Audit Requirements for Federal Financial Statements*.

In planning and performing our audit, we considered OCRWM's internal control over financial reporting by obtaining an understanding of OCRWM's internal control, determining whether internal controls had been placed in operation, assessing control risk, and performing tests of controls to determine our auditing procedures for the purpose of expressing our opinion on the financial statements. We limited our internal control testing to those controls necessary to achieve the objectives described in OMB Bulletin No. 01-02 and *Government Auditing Standards*. 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 audit was not to provide assurance on OCRWM's internal control. Consequently, we do not provide an opinion on internal control over financial reporting.

Our consideration of internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be reportable conditions. Under standards issued by the American Institute of Certified Public Accountants, reportable conditions are matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect OCRWM's ability to record, process, summarize, and report financial data consistent with the assertions by management in the financial statements. Material weaknesses are reportable conditions in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements, in amounts that would be material in relation to the financial statements being audited, may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Because of inherent limitations in any internal control, misstatements due to error or fraud may occur and not be detected.

As noted at the Department level, the Department has a certain matter involving internal control over financial reporting and its operation that is considered to be a reportable condition. Because OCRWM uses the Department's Information Technology (IT) systems to process financial transactions and generate reports, this weakness also affects the IT environment for OCRWM.



However, the reportable condition described below and in more detail in Exhibit I is not believed to be a material weakness.

We noted network vulnerabilities and access control weaknesses in the Department's unclassified computer information systems. Without adequate access and computer security controls, the integrity of essential financial management system data may be threatened.

Additional Required Procedures

As required by OMB Bulletin No. 01-02, we considered OCRWM's internal control over Required Supplementary Stewardship Information by obtaining an understanding of its internal control, determining whether these internal controls had been placed in operation, assessing control risk, and performing tests of controls. Our procedures were not designed to provide assurance on internal control over Required Supplementary Stewardship Information, and, accordingly, we do not provide an opinion on such controls.

As further required by OMB Bulletin No. 01-02, with respect to internal control related to performance measures determined by management to be key and reported in the Overview section of the annual financial statements, we obtained an understanding of the design of significant internal controls relating to the existence and completeness assertions. Our procedures were not designed to provide assurance on internal control over reported performance measures, and, accordingly, we do not provide an opinion on such controls.

We also noted other matters involving internal control and its operation that we have reported to the management of OCRWM in a separate letter dated January 31, 2002.

This report is intended solely for the information and use of OCRWM's management and the Department; the Department's Office of the Inspector General; OMB and Congress and is not intended to be, and should not be, used by anyone other than these specified parties.

KPMG LLP

January 31, 2002

Independent Auditors' Report on Internal Controls over Financial Reporting

Exhibit I – Reportable Condition

We noted network vulnerabilities and weaknesses in access and other security controls in unclassified information systems.

Finding 1: Network Security

The Department maintains a series of interconnected unclassified networks and information systems. Security over unclassified information systems is an important issue facing government organizations. This issue has taken on greater significance as Federal agencies have migrated from mainframe environments with a closed architecture and limited access to web-based client/server systems. In addition, the U.S. General Accounting Office has designated information system security as a high-risk area.

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 certain corrective actions to improve network security at the sites we reviewed in prior years. However, significant weaknesses at two sites reviewed in Fiscal Year 2001 were identified, and at three sites reviewed by other organizations. At all of these sites, network vulnerabilities similar to those found at other sites in previous years, including poor password management, weak configuration management, outdated software with known security problems, and firewall configuration problems were identified. In addition, many previously identified weaknesses have not been resolved.

The identified weaknesses and vulnerabilities increase the risk that malicious destruction or alteration of data or unauthorized processing could occur. However, compensating controls that mitigate their potential effect on the integrity of the Department's financial systems were identified.

Recommendation:

We recommend that the Department's Chief Information Officer take actions to improve network security throughout the Department. Detailed recommendations to address the issues discussed above will be included in a separate report to the Chief Information Officer.

Finding 2: Information Systems Access and Other Security Controls

The Department has mandated compliance with several Federal information security directives and public laws in DOE Notice 205.1, *Unclassified Computer Security Program*, dated July 26, 1999. The program, referred to as the "Cyber Security Program," also establishes policies for the protection of unclassified information and information systems. Within this security framework, the Department operates the financial management system that forms the basis for preparing its consolidated financial statements.

Weaknesses in access and other security controls at several sites were disclosed in the audit of the Department's consolidated financial statements. These weaknesses included unsecured network ports, inadequate monitoring of networks for questionable activity, and shortcomings in password security. Weaknesses in security planning, including outdated or nonexistent security certifications for major applications were also identified. Finally, inadequate planning for re-

Independent Auditors' Report on Internal Controls over Financial Reporting
Exhibit I – Reportable Condition

establishment of computer operations following a disruption was noted too. For example, some sites had arranged for backup processing facilities, but had not tested those facilities, and others had not finalized or tested disaster recovery plans. The Department's Office of Inspector General also reported deficiencies in the Department's information system risk management, contingency planning, configuration management, and access controls in its evaluation report on *The Department's Unclassified Cyber Security Program*, dated August 30, 2001.

Without adequate access and computer security controls, the integrity of essential financial management system data may be threatened. However, compensating controls were identified that mitigate the potential effect on the integrity of the Department's financial systems due to those weaknesses.

Recommendation:

As recommended in the prior year, the Department's Chief Information Officer should follow up on the implementation of its Cyber Security Program throughout the Department, to ensure that the Federal information standards are met and that its information and information systems are adequately protected against unauthorized access. Detailed recommendations to address the issues discussed above will be included in a separate report to the Chief Information Officer.



2001 M Street, NW
Washington, DC 20036

Independent Auditors' Report on Compliance with Laws and Regulations

United States Department of Energy
Office of Civilian Radioactive Waste Management:

We have audited the balance sheet of the Office of Civilian Radioactive Waste Management (OCRWM), a component of the Department of Energy (Department), as of September 30, 2001, and the related statements of net cost, changes in net position, budgetary resources, and financing for the year then ended, and have issued our report thereon dated January 31, 2002. We conducted our audit 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 Office of Management and Budget (OMB) Bulletin No. 01-02, *Audit Requirements for Federal Financial Statements*.

The management of OCRWM is responsible for complying with laws and regulations applicable to OCRWM. As part of obtaining reasonable assurance about whether OCRWM's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws and regulations, 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. 01-02, excluding certain requirements with respect to the Federal Financial Management Improvement Act of 1996, which was evaluated at the Department level. We limited our tests of compliance to the provisions described in the preceding sentence, and we did not test compliance with all laws and regulations applicable to the OCRWM. However, providing an opinion on compliance with laws and regulations was not an objective of our audit, and, 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 of this report disclosed no instances of noncompliance that are required to be reported herein under *Government Auditing Standards* or OMB Bulletin No. 01-02.

This report is intended solely for the information and use of OCRWM's management and the Department; the Department's Office of the Inspector General; OMB and Congress and is not intended to be, and should not be, used by anyone other than these specified parties.

KPMG LLP

January 31, 2002