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Report to the Secretary of Energy

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DOE MANAGEMENT

Funds for Maintaining Contractors' Operations Could Be Reduced and Better Controlled

GAO

United States
General Accounting Office
Washington, D.C. 20548

Resources, Community, and
Economic Development Division

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October 25, 1993

The Honorable Hazel R. O'Leary
The Secretary of Energy

Dear Madam Secretary:

Uncosted obligations are budget authority that the Department of Energy (DOE) has obligated to its management and operating (M&O) contractors for goods and services that have not yet been provided and, as such, for which no costs have been incurred.[1] Last year, we testified that uncosted obligations for DOE's programs were growing—totaling about $7.9 billion at the end of fiscal year 1991—and that DOE did not have an effective system for analyzing uncosted obligations to determine the extent to which they may be used to reduce DOE's budget requests.[2] We are currently assessing DOE's efforts to improve oversight of uncosted obligations and ensure that these balances are considered in formulating budgets.

As a part of this work, we have been examining a category of uncosted obligations termed "prefinancing." Prefinancing refers to budget authority maintained by the M&O contractors to ensure that operations at DOE facilities continue if the funding lapses at the beginning of a fiscal year. The amounts of prefinancing funds are significant. At the end of fiscal year 1992, $219 million in uncosted obligations was identified as prefinancing by DOE's M&O contractors. Because prefinancing involves such large amounts of budget authority and can therefore potentially affect the size of DOE's budget, we assessed (1) whether the current amounts of prefinancing funds are appropriate and (2) whether such funds are adequately controlled and used for their intended purpose.

Results in Brief

The amount of prefinancing funds could be reduced and for some contractors, eliminated. DOE currently allows its M&O contractors to maintain enough prefinancing funds to ensure that operations could be continued for up to 20 days. We found that the need for this funding is questionable since (1) other funds are available that could be used to continue operations if funding lapses; (2) any lapses in funding are likely to be shorter than 20 days; and (3) certain essential activities, such as the

[1]Budget authority is authority provided by law to enter into financial obligations that will result in immediate or future outlays involving federal government funds.

[2]Energy Management: Systematic Analysis of DOE's Uncosted Obligations Is Needed (GAO/T-RCED-92-41, Mar. 24, 1992).

operation of nuclear weapons facilities, can legally be continued for a limited time without appropriated funds.

DOE's prefinancing funds are not adequately controlled, thereby detracting from the integrity of the budget process. For example, prefinancing funds are not specifically requested and justified in DOE's annual budget. Furthermore, DOE does not require the contractors to maintain separate balances for prefinancing funds; rather, it allows them to integrate prefinancing funds with operating or construction funds. In addition, rather than ensuring that prefinancing funds remain available to continue operations during a funding lapse, DOE has used them to offset budget cuts.

Background

DOE requests budget authority from the Congress each fiscal year to meet the costs of running its programs. Typically, DOE obligates the majority of the budget authority it receives at the beginning of the fiscal year to the M&O contractors that implement DOE's programs at facilities throughout the nation. As goods and services are received, the obligations are reduced or "costed" by the contractors. However, not all obligations are costed during a given year. Since DOE receives "no year" funds,[3] these uncosted amounts are carried over from one fiscal year to another and can accumulate to a significant amount of budget authority. At the end of fiscal year 1992, M&O contractors held $6 billion—about two-thirds of the total uncosted obligation balance of $9 billion for DOE-funded programs.

One category of uncosted obligations held by M&O contractors is prefinancing funding.[4] Prefinancing was established as a policy in the 1940s by the Atomic Energy Commission to provide up to 2 years' worth of operating funds for contractors operating nuclear weapons-related facilities. According to DOE, the initial purpose of prefinancing was to (1) ensure the continuity of operations and (2) provide the budget authority to fund the termination costs that resulted when programs were cancelled or reduced. Since that time, the purpose of prefinancing has been narrowed; it now ensures continued operations only in case of a temporary funding lapse at the beginning of the fiscal year. However, the

[3]No year funding remains available for an indefinite period of time. DOE's funding can therefore be retained and used in later fiscal years as long as it is expended on the program activity—such as weapons activities—for which the funds were appropriated.

[4]In addition to prefinancing, DOE has established three other categories of uncosted obligations. These categories are (1) "encumbered"—amounts needed for legally enforceable agreements, such as purchase orders or contracts; (2) "approved work scope"—funds for work that is clearly defined and specific in scope but that does not yet represent a legal commitment, such as purchase requisitions; and (3) "unencumbered"—the balance of the uncosted obligations, potentially in excess of program needs.

practice of providing prefinancing funds to M&O contractors has been expanded beyond nuclear facilities and is now applied to other M&O facilities—including those conducting renewable energy, fossil fuel, and other nondefense activities—that were consolidated under DOE in the 1970s.

In our 1992 testimony, we pointed out that DOE had not established a clear policy on prefinancing and that contractors were including different amounts of prefinancing funds in their budgets. DOE recognized that clear guidance on prefinancing was needed. As a result, in a September 3, 1992, memorandum establishing requirements for reporting uncosted obligations, DOE's Acting Chief Financial Officer directed that uncosted obligations classified as prefinancing must be limited to those amounts required to cover salaries, related benefits, and other mandatory requirements, such as rent and utilities, that were not provided for by other categories of uncosted obligations. The memorandum also directed that the period covered by prefinancing funds be limited to no more than 20 days.

On the basis of DOE's guidance, M&O contractors reported that as of September 30, 1992, $219 million of their uncosted obligation balances were for prefinancing. However, some facilities did not have enough budget authority available to meet what they determined to be their prefinancing needs—in most cases, funding for the full 20 days. In addition, some contractors, such as those at the Lawrence Livermore National Laboratory and the Hanford Site, did not have any prefinancing funds. According to data on DOE's prefinancing collected in March 1992, over $760 million in authority would be needed to provide each M&O contractor with prefinancing funds sufficient to operate for 20 days. Details on the amount of each facility's prefinancing funds are contained in appendix I.

Little Justification Exists for Current Amounts of Prefinancing Funds

DOE has historically provided prefinancing to M&O contractors to ensure that, in the absence of other available funding, operations continue into the next fiscal year without violating the Antideficiency Act. The act specifically prohibits federal agencies from incurring obligations in excess of the amounts available in appropriation or fund accounts. According to officials in DOE's Office of Budget, if funds were not available and new appropriations were not passed, the facilities would be subject to costly shut-down and start-up procedures. The officials said that the contractors could also invoke the termination clauses in their contracts, resulting in higher costs to DOE.

However, the need for the current amounts of prefinancing funds is questionable. These amounts could be substantially reduced or eliminated, since

- other available funds, such as uncosted obligations in the approved work scope category, could provide most or all of the resources needed to cover expenses during a funding lapse;
- any funding lapse is likely to be much shorter than the 20 days currently allowed by DOE, thus reducing the amount of funding needed and making the use of these other sources of funds more feasible; and
- some activities, such as operating the nuclear weapons complex and maintaining the Strategic Petroleum Reserve, may not require prefinancing funds because they are designated by DOE as essential activities that may be continued at a minimum level without violating the Antideficiency Act's provisions.

Other Sources of Funding Are Available for Maintaining Operations

Use of other categories of uncosted obligations could reduce or eliminate the need for prefinancing funds. The most significant of these are funds in the approved work scope category. Approved work scope funds are balances for work that is planned and approved by DOE but for which the M&O contractors have not legally committed the funds to suppliers, subcontracts, or internal activities. Since these funds are uncommitted, they are available for use during a funding lapse. According to DOE and contractor officials, approved work scope funds could be used to temporarily maintain contractors' operations. The funds in the approved work scope category could then be restored from new appropriations.

An analysis of uncosted balances at DOE facilities shows that many facilities have sufficient approved work scope funds to meet most or all of their prefinancing needs. At the end of fiscal year 1992, DOE had almost $3 billion of budget authority in the approved work scope category. However, not all of this funding is available to maintain contractors' operations because it is in budget categories, such as equipment, that cannot readily be used for that purpose. Nevertheless, over 68 percent of the 34 M&O contractors that hold prefinancing funds have enough approved work scope funds in the appropriate budget categories to meet most of their prefinancing needs, and 29 percent have enough to cover all of their prefinancing needs. For example:

- Stanford University identified $4 million as prefinancing funds for its high-energy physics work at the Stanford Linear Accelerator Center. It also had $5.3 million available for high-energy physics in approved work scope funds.
- Martin Marietta, a contractor at the Oak Ridge National Laboratory, held $5.3 million in prefinancing funds for environmental restoration and $18.1 million in prefinancing funds for stockpile support. It had $49.7 million and $32.1 million, respectively, available for these efforts in approved work scope funds.
- M.K. Ferguson of Idaho, a contractor at the Idaho National Engineering Laboratory, held $6.1 million in prefinancing funds for construction activities related to materials production. It also had $64.3 million available for these activities in approved work scope funds.
- AT&T Technologies, the contractor for the Sandia National Laboratories, held $5.6 million in prefinancing funds for weapons stockpile support. However, it also had $10 million available for stockpile support in approved work scope funds.
- Bechtel Petroleum Operations, the contractor for the Naval Petroleum Reserves, held $8.6 million in prefinancing funds. It also had $65.1 million available in approved work scope funds.

In addition, contractors could use other sources of funds to continue operations during a funding lapse. One source is the work the facilities perform for other federal agencies. Certain facilities, such as the Kansas City Plant and the Sandia National Laboratories, do significant amounts of reimbursable work for others and have substantial amounts of approved work scope funds available in this budget category. At the Kansas City Plant, for example, about 19 percent of the plant's work load was reimbursable work. The plant held $58 million in approved work scope funds for this work. If a funding lapse occurred, these funds could be used to continue the reimbursable portion of the plant's work, reducing the amount of prefinancing funds DOE needs to provide to ensure that the facility's operations continue. However, the availability of these funds was not factored in when the plant calculated its prefinancing needs.[5]

Furthermore, in some cases contingency funds could be used in lieu of prefinancing funds to carry out work in the event of a funding lapse. For most construction projects, for example, DOE includes a contingency amount. To illustrate, for the Superconducting Super Collider project located near Dallas, Texas, DOE held $47 million as a contingency against

[5]The Kansas City Plant calculated that it needed $14.3 million to cover 20 days' operations. However, the plant held only $9.8 million in prefinancing funds at the end of fiscal year 1992 because no additional funds were available for prefinancing.

cost escalation. To cover a funding lapse, this funding could be used instead of the $15.8 million in prefinancing funds budgeted.

Lapse in Funding to M&O Contractors Is Likely to Be Shorter Than 20 Days

Not only does sufficient alternative funding authority exist to maintain operations without specific prefinancing funds in many cases, but the impact of any funding lapse is also likely to be much shorter—and require fewer funds—than allowed under DOE's prefinancing policy. Under DOE's policy, M&O contractors are allowed prefinancing funds for up to 20 days. According to officials in DOE's Offices of Budget and Financial Policy, the 20-day period was chosen on the basis of input from DOE field offices in response to a March 1992 memorandum from DOE's Acting Chief Financial Officer. In the memorandum, each DOE field office was asked to select the most reasonable of three prefinancing levels—funds sufficient for 10, 15, or 20 days. In response, nine of the offices recommended 20 days, two recommended 15 days, and one recommended 10 days. Most of the field offices indicated that funding for a period of 20 days eases the administrative burden associated with transferring new budget authority to the contractors if a funding lapse occurs.

However, it is likely that any funding lapse would be much shorter. Officials in DOE's budget office believe that a funding lapse affecting M&O contractors would be no longer than 7 days. They based this estimate on two factors: (1) the longest funding lapse DOE has experienced lasted 3 days and (2) budget authority could be provided to the contractors within 4 working days, once the budget is passed.[6]

With a potential funding lapse of only 7 days, significantly fewer funds would be required to maintain operations. As a result, the alternative sources of funding discussed in the previous section could provide a greater proportion of the resources needed during a funding lapse. For example, to maintain the Pinellas Plant for 7 days, $2.1 million would be needed. This amount is significantly less than the $5.9 million needed for 20 days and could be obtained entirely from the $5.3 million available in approved work scope funds.

[6]DOE conducted a test in 1989 to determine if, under an accelerated funding process, funds could be provided to M&O contractors within 4 days. In general, the test indicated that funding could be provided within that time if certain improvements were made in coordination and document transfers.

Certain Activities Can Be Continued Without Funding

A number of activities that DOE conducts are considered essential and therefore can be continued at minimum levels in the absence of funding without violating the Antideficiency Act. The act requires that agencies not spend or obligate funding in amounts greater than their approved appropriations. However, the Department of Justice interprets the act as permitting an agency to incur limited obligations in advance of appropriations during a temporary funding lapse, if the obligations are necessary for the safety of human life or the protection of property. Under policy guidance and instruction developed by the Office of Management and Budget, government agencies prepare contingency plans for the orderly shutdown of nonessential activities during a funding gap. These agencies also designate the activities that are considered essential and that will be maintained.

In DOE Order 5500.6B, DOE designates the activities it considers essential; that is, those that can be maintained during a temporary lapse in funding. These activities include many conducted by the M&O contractors, such as

- the nuclear waste operations program,
- operation and maintenance of the nuclear weapons development and production complex,
- maintenance of the Strategic Petroleum Reserve, and
- the physical security of all facilities.

However, the order does not identify the extent to which functions within these activities are covered. It states that (1) these activities have been identified on a generic basis, (2) not every action within an essential activity is necessarily protecting life or property, and (3) the Secretary of Energy will make the final determination of which functions are to be continued. Nevertheless, it is clear that some activities could be continued during a temporary funding lapse without violating the Antideficiency Act. As a consequence, prefinancing funds for these activities are not necessary.

Officials in DOE's Offices of Budget and Financial Policy stated that it may be possible to reduce the amounts of prefinancing funds. However, at this time, DOE does not have any plans to change its prefinancing policy, and no efforts are under way to reduce the number of days to be covered by prefinancing funds during a funding lapse. Similarly, there are no plans to require more complete justification of the amounts of prefinancing funds to verify that all the funds are needed.

Prefinancing Funds Are Not Adequately Controlled and Have Been Used for Purposes Other Than Funding Lapses

The federal budget review and execution process is intended as a system of controls over funds provided to federal agencies. The system ensures that the funds are (1) needed and adequately justified and (2) controlled and used appropriately. DOE's prefinancing policies and practices detract from the integrity of this process because the amounts of prefinancing funds provided have not been specifically requested and justified in DOE's annual budget. Moreover, because DOE has not maintained separate balances for this funding, the agency cannot demonstrate whether it has ever used prefinancing funds to cover a funding lapse. However, DOE has used these funds for other purposes, primarily to offset budget cuts.

DOE's budget request is intended to provide information to the Congress on the programs DOE will conduct during the relevant fiscal year and the funds needed for those programs. According to DOE financial policy officials, prefinancing funds have not been specifically requested but instead have been obtained from excess uncosted obligations that are not otherwise encumbered or part of approved work scope. They said that these funds have accumulated from amounts that (1) were included in past annual budget requests in order to create prefinancing funds or (2) became available when activities cost less than expected or were cancelled. Consequently, DOE has neither adequately justified the need for these funds nor made the Congress, during its annual review of DOE's budget request, aware of the amounts of prefinancing funds.

To help address this deficiency, the Congress required—in the Energy Policy Act of 1992—that DOE report annually on uncosted balances, including prefinancing. DOE issued the first of these required reports, entitled Report on Uncosted Balances for Fiscal Year Ended September 30, 1992, in April 1993. However, because this is the first report, it is too early to tell whether the Congress will need additional information on DOE's prefinancing funds in order to make sound budgetary decisions.

Equally important, DOE has not ensured that these funds remain available to protect against a funding lapse. Although prefinancing funds are intended to provide such protection, DOE does not require contractors to maintain specific balances of prefinancing funds. Instead, these funds are integrated with the contractors' operating funds or, in some cases, with construction funds. DOE has not tracked the availability of these funds, nor does it have records to show when or whether prefinancing funds were used to ensure operations during funding lapses. According to DOE budget officials, funding lapses have occurred, and the contractors have used available uncosted balances to maintain operations. But no documents exist to show whether operations were maintained using prefinancing funds or were funded with other uncosted obligations held by the contractors.

DOE has, however, identified and used prefinancing funds to minimize the impact of budget reductions. For example, in response to urgent budget requirements in fiscal year 1989, DOE used all of the prefinancing funding it identified in its defense-related programs—$173 million—to offset budget shortfalls. Although prefinancing funding for defense programs was completely exhausted in fiscal year 1989, such funding gradually built up to over $70 million by the end of fiscal year 1992. Once again, DOE is using these funds to offset fiscal year 1993 budget cuts in its defense programs. This pattern of using such funds to offset budget cuts calls into question the need for prefinancing as insurance against funding lapses. Yet DOE officials said that no efforts are being made to require contractors to maintain separate balances of prefinancing funds to ensure that these funds remain available and are used only for prefinancing purposes.

Conclusions

DOE has historically allowed its M&O contractors to maintain significant sums of uncosted obligations for prefinancing to ensure that they are not without funding during a funding lapse. Over the years, DOE has set aside large amounts of budget authority—hundreds of millions of dollars—for prefinancing. This practice needs to be revisited to ensure that it is necessary, that the amounts of funds so designated are minimized, and that proper controls are exercised over these funds.

DOE has done little to justify its prefinancing practices. Its current policy allows contractors to hold prefinancing funds without sufficient analysis by the Department of (1) the likely number of days contractors would be without funds if a funding lapse occurred, (2) the activities for which funding needs to be provided, and (3) the availability of other mechanisms to provide funds during any such lapse. As a result of its prefinancing practices, DOE, in a period of constrained budgets, is providing contractors with funding authority without assessing and validating the amounts that would actually be needed during a funding lapse.

Equally significant, DOE is providing these funds to the contractors with their operating or construction funds and not requiring that separate balances of prefinancing funds be maintained. Consequently, these funds can potentially be used for other purposes, such as minimizing the impact of budget reductions or funding activities not related to funding lapses.

Even when DOE can fully justify the need for prefinancing funds, it does not now have adequate controls to ensure that these funds remain available should they be required to cover funding lapses.

We recognize that DOE has taken action to better control prefinancing funds by, among other things, reporting to the Congress on the amounts of such funds. However, DOE is not changing its prefinancing policy. As a result, prefinancing may increase in the future without consideration of other alternatives or justification for its need. A reconsideration of DOE's prefinancing policy is warranted to ensure that the need for prefinancing is clearly demonstrated. In reconsidering its use of prefinancing, DOE should make every effort to minimize the amounts of prefinancing funds. It will also be important for DOE to institute appropriate controls over any prefinancing that is justified to ensure that the funds remain available for their intended purpose.

Recommendations

To minimize the need for prefinancing funds and to better control any such funds, we recommend that you direct the following changes in prefinancing practices:

- Justify all prefinancing funds for M&O contractors. Such justification should, at a minimum, (1) be based on a detailed analysis of the number of days contractors would likely be without funding at the beginning of the fiscal year and (2) clearly show that other funds would not be available to maintain facility operations in the event of a funding lapse. Prefinancing funds that cannot be adequately justified should be eliminated.
- For all prefinancing funds that are adequately justified, establish controls that ensure that the funds (1) are readily identifiable and (2) used only for their intended purpose.

Agency Comments

We requested written comments from the Department of Energy, but none were provided. However, we met with DOE's Controller, Deputy Controller, and Director, Office of Budget, to obtain their views on the report. They agreed with the information presented and stated that actions will be taken to minimize the amounts of prefinancing funds. The DOE officials believe that most, if not all, prefinancing will be eliminated. They did, however, express concern that our second recommendation could be interpreted as requiring DOE to include prefinancing funds as a line item in its budget. We revised the language in our recommendation to make it clear that it was not our intent for DOE to include prefinancing funds as a line item in its budget.

We conducted our review between January and July 1993 in accordance with generally accepted government auditing standards. Appendix II provides a discussion of our objectives, scope, and methodology.

As you know, 31 U.S.C. 720 requires the head of a federal agency to submit a written statement of the actions taken on our recommendations to the Senate Committee on Governmental Affairs and the House Committee on Government Operations not later than 60 days after the date of this letter and to the House and Senate Committees on Appropriations with the agency's first request for appropriations made more than 60 days after the date of this letter.

We are also sending 20 copies of this letter to your Audit Liaison Division for distribution within your agency. In addition, we will send copies to the appropriate congressional committees; the Director, Office of Management and Budget; and other interested parties. We will also make copies available to others upon request.

This report was prepared under the direction of Victor S. Rezendes, Director, Energy and Science Issues, who may be contacted at (202) 512-3841 if you or your staff have any questions. Major contributors to this report are listed in appendix III.

Sincerely yours,

J. Dexter Peach
Assistant Comptroller General

Contents

Letter	1
Appendix I Amounts of Prefinancing Funds at DOE Facilities	14
Appendix II Objectives, Scope, and Methodology	16
Appendix III Major Contributors to This Report	18

Abbreviations

DOE	Department of Energy
GAO	General Accounting Office
M&O	management and operating

Amounts of Prefinancing Funds at DOE Facilities

DOE facility	M&O contractor	Amount
Ames Laboratory	Iowa State University	$ 1,628,731
Argonne National Laboratory	University of Chicago	13,008,765
Bettis Atomic Power Laboratory	Westinghouse Electric Corp.	7,000,000
Brookhaven National Laboratory	Associated Universities, Inc.	335,827
Energy Technology Engineering Center	Rockwell International Corp.	600,000
Fermi National Accelerator Laboratory	Universities Research Association	5,928,000
Fernald	Westinghouse Environmental Management Company	5,500,000
Grand Junction Projects Office	Chem-Nuclear Geotech, Inc.	6,198,524
Hanford Site	Hanford Environmental Health Kaiser Engineers Hanford Co. Westinghouse Hanford Co.	0 0 0
Idaho National Engineering Laboratory	Babcock and Wilcox Idaho EG&G Idaho, Inc. M-K Ferguson Co. Westinghouse Idaho	0 6,654,242 6,338,728 9,382,793
Kansas City Plant	Allied-Signal, Inc.	9,823,217
Knolls Atomic Power Laboratory	General Electric Co.	8,058,000
Lawrence Berkeley Laboratory	University of California	1,252,812
Lawrence Livermore National Laboratory	University of California	0
Los Alamos National Laboratory	University of California	1,184,993
Mound Plant	EG&G Mound Applied Technologies	5,254,335
National Renewable Energy Laboratory	Midwest Research Institute	5,235,248
Naval Petroleum and Oil Shale Reserves	Bechtel Petroleum Operations, Inc. John Brown E. & C., Inc.	8,618,000 0
Nevada Test Site	EG&G Energy Measurements Raytheon Services, Inc. Reynolds Electrical and Engineering	354,739 438,453 6,986,817
Oak Ridge National Laboratory	Martin Marietta Energy Systems, Inc.[a] M-K Ferguson Co. Oak Ridge Associated Universities	30,549,847 0 4,469,717
Pacific Northwest Laboratories	Battelle Memorial Institute	893,147
Pantex Plant	Mason and Hanger-Silas Mason Co.	7,517,016
Pinellas Plant	Martin Marietta Specialty Components, Inc.	5,978,914
Portsmouth Plant	Martin Marietta Energy Systems, Inc.	4,395,000
Princeton Plasma Physics Laboratory	Princeton University	2,148,527
Rocky Flats Plant	EG&G Rocky Flats, Inc.	0
Sandia National Laboratories	AT&T Technologies, Inc.	24,473,223
Savannah River Site	Westinghouse Savannah River Company	748,726
Stanford Linear Accelerator Center	Stanford University	3,988,184
Strategic Petroleum Reserve	Boeing Petroleum Services, Inc.	6,541,644
Superconducting Super Collider Laboratory	Universities Research Association	15,830,000

(continued)

DOE facility	M&O contractor	Amount
Waste Isolation Pilot Plant	Westinghouse Electric Corp.	0
West Valley Project	West Valley Nuclear Services	2,000,000
Total		**$219,316,169**

[a]Martin Marietta Energy Systems' responsibilities at Oak Ridge include the National Laboratory, the Oak Ridge and Paducah Gaseous Diffusion Plants, and the Y-12 Plant.

Objectives, Scope, and Methodology

This report presents the results of a segment of our review of the Department of Energy's (DOE) uncosted obligation balances. The objectives of the overall review are to determine (1) if DOE's reporting system for uncosted obligations is providing reliable information to support informed budgetary decisions and (2) which DOE programs and projects have funds in excess of fiscal year 1993 needs that can be used for fiscal year 1994 requirements. During the course of this work, we determined that additional issues relating to prefinancing needed to be addressed separately. To do this, we focused our work on examining whether the current amounts of prefinancing funds are appropriate and whether such funds are adequately controlled and used for their intended purposes.

To achieve these objectives, we met with officials in DOE's Offices of Budget and Financial Policy to obtain information on DOE's policy on prefinancing. We discussed the development of the current prefinancing policy, the rationale for retaining and using these funds, the oversight of prefinancing amounts conducted by their offices, and the way prefinancing is presented in DOE's budget. We also met with officials in the Office of Defense Programs and discussed how prefinancing has been used in the past and DOE's current plans for using prefinancing balances to offset current budget reductions.

We obtained and reviewed documents on the development of, need for, and use of prefinancing. These included documents on a 1989 test of an accelerated system for distributing funding to the management and operating (M&O) contractors, input received from field offices and contractors in response to a March 1992 DOE memorandum on appropriate prefinancing levels, and DOE orders on shutting down operations if appropriations are not enacted. We also obtained DOE data on the amount of prefinancing funds held by each M&O contractor at the end of fiscal year 1992 as well as the amounts of funds held in other categories of uncosted obligations, such as approved work scope. Furthermore, we collected data on how prefinancing amounts were calculated at 12 DOE facilities we visited: the Argonne National Laboratory in Illinois, Fernald Plant in Ohio, Hanford Site in Washington, Idaho National Engineering Laboratory in Idaho, Kansas City Plant in Missouri, Mound Plant in Ohio, Oak Ridge National Laboratory in Tennessee, Lawrence Livermore National Laboratory in California, Rocky Flats Plant in Colorado, Sandia National Laboratories in New Mexico, Savannah River Site in South Carolina, and Superconducting Super Collider project in Texas. These facilities were selected because they represent a broad cross section of DOE facilities. At each facility, we reviewed the procedures used to determine the amount of prefinancing funds held at the end of fiscal year 1992.

This work was performed between January 1993 and July 1993 in accordance with generally accepted government auditing standards.

Major Contributors to This Report

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