

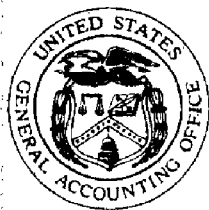
GAO

Report to the Secretary of Energy

October 1993

ENERGY MANAGEMENT

Additional Uncosted Balances Could Be Used to Meet Future Budget Needs





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

Resources, Community, and
Economic Development Division

B-247904

October 26, 1993

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

Dear Madam Secretary:

In our testimony last year, Energy Management: Systematic Analysis of DOE's Uncosted Obligations Is Needed (GAO/T-RCED-92-41, Mar. 24, 1992), we recommended that the Department of Energy (DOE) develop an effective system to ensure that uncosted obligations¹—which totaled about \$7.9 billion for DOE-funded programs at the end of fiscal year 1991—are analyzed as part of its budget formulation process. In response to our testimony, the Congress directed that DOE use some of the carryover funds to meet its fiscal year 1993 needs and required DOE to report annually on its uncosted obligation balances.

Our objectives in this review were to determine (1) the accuracy of the information presented in the new uncosted obligations report and (2) the extent to which uncosted balances related to delayed, canceled, or downsized programs could be used to offset DOE fiscal year 1994 budget needs.

Results in Brief

DOE has made significant progress towards effective evaluation of its uncosted balances as part of its budget preparation process. In response to our recommendation, DOE established a new uncosted balances reporting system and provided uniform definitions for categorizing these balances as encumbrances, approved work scope, prefinancing, or unencumbered.² DOE has also begun analyzing these data to determine what portion of the uncosted obligation balances is needed and what portion could be used to offset future budget requests. As with any new process, however, the absence of supporting accounting systems and unfamiliarity with the new definitions have caused inaccuracies in the data included in the first uncosted balances report. These inaccuracies limit the usefulness of the information as a tool to use in making budgetary decisions. We found

¹Generally, uncosted obligations are obligations that DOE has made to contractors for goods and services that have not yet been provided and for which costs have therefore not been incurred.

²See appendix I for DOE's definitions of these categories. Generally, (1) encumbrances are the amounts needed for legally enforceable agreements, such as purchase orders or contracts; (2) approved work scope are the funds for work, such as a purchase requisition, that is clearly defined and specific in scope but that does not yet represent a legal commitment; (3) prefinancing is the funding maintained to ensure that operations at the facilities continue if funding lapses at the beginning of a fiscal year; and (4) unencumbered funds are the balance of the uncosted obligations.

numerous examples in which the contractor had (1) overstated amounts reported as encumbrances because of errors and amounts that should have been reported in other categories; (2) made mistakes in estimating encumbrances when actual data were unavailable; (3) included funds in approved work scope even though the projects had been terminated, downsized, or completed; and (4) reported as approved work scope funds that DOE had not designated for a specific use or authorized the contractors to use.

DOE proposed using about \$1 billion of the uncosted balances to meet fiscal year 1993 and 1994 budget needs. DOE officials could not provide us with a breakdown that would have allowed us to determine whether the examples we found at the project level were included in these amounts. However, we believe that additional amounts could be used to offset future budget needs because our analysis of one program—the Defense Environmental Restoration and Waste Management Program—identified more funds than DOE proposed using from that program. DOE proposed using \$86.6 million of that program's uncosted funds. However, our analysis identified \$326.9 million that we believe could be used to offset future budget needs—or \$240.3 million more than the amount proposed by DOE. We also identified about \$19.3 million from other programs at four DOE facilities that could have been made available by reducing encumbered amounts for completed and terminated purchase orders to the amount needed to settle any final claims.

Background

DOE is the largest civilian contracting agency in the federal government, obligating about \$19 billion to its contractors in fiscal year 1992. Uncosted obligations are those amounts that have been obligated to contractors for goods or services that have not yet been provided and for which costs have therefore not been incurred. Uncosted obligation balances for DOE-funded programs have continued to grow. At the end of fiscal year 1992, the balances totaled \$9 billion—an increase of \$1.1 billion over the fiscal year 1991 balances.

In response to our testimony last year, DOE's Acting Chief Financial Officer required DOE's operations offices to report on the uncosted obligations held by the integrated management and operating (M&O) contractors³ as of September 30, 1992, and three times a year from then on. The operations offices were to report the breakdown of the uncosted obligation balances

³DOE's integrated M&O contractors are those that are integrated into DOE's accounting system. At the end of fiscal year 1992, DOE had 44 integrated M&O contractors.

by the categories of encumbrances, approved work scope, prefinancing, and unencumbered. The contractors developed the detailed information needed for the report on the September 30, 1992, balances, which the operations office staff submitted to headquarters. In most cases, the operations office staff's review was limited to broad evaluations of the reasonableness of the figures developed by the contractors.

The Energy Policy Act of 1992, signed October 24, 1992, requires DOE to submit with each annual budget request a report of its uncosted obligations at the end of the previous fiscal year. The report is to (1) show what part of the uncosted obligations were committed and uncommitted,⁴ (2) describe the purposes for which all such funds are intended, and (3) explain the effects that information in the report had on the annual budget request being submitted. The information submitted under DOE's new uncosted balances reporting system was the basis for DOE's first annual report to the Congress, Department of Energy Report on Uncosted Balances for Fiscal Year Ended September 30, 1992, dated April 5, 1993.

DOE's integrated M&O contractors, which held \$6 billion of the uncosted obligation balances at the end of fiscal year 1992, reported that \$2.5 billion was encumbrances, \$3.0 billion was approved work scope, \$0.2 billion was prefinancing, and \$0.3 billion was unencumbered. (See app. II for further details.) DOE reported the remaining \$3 billion—related to DOE's direct contracts with contractors that do not perform a management and operating service and are not integrated into the DOE accounting system—as encumbrances also.

In a January 8, 1993, memorandum to operations offices, DOE's Director, Office of Budget, requested additional information to use in analyzing the uncosted obligation information submitted. The questions asked included whether the DOE definitions were followed, what was included in the approved work scope category, why prefinancing amounts were needed, and whether there were reasons why unencumbered amounts should not be withdrawn. A DOE budget official told us that the additional information was used to make some gross estimates of the amounts that might be available to be used to offset fiscal year 1994 budget needs. This information was then provided to the program staff, who made the final decision on what portion of the uncosted balances would be used to offset

⁴In the past, DOE categorized its uncosted obligations for capital equipment and construction funds as either committed or uncommitted. The four new categories defined as part of DOE's new reporting system apply to operating, capital equipment, and construction funds. Of the new categories, encumbrances generally would have been categorized as committed funds, and the remaining three categories as uncommitted funds.

future budget requests. The program staff identified approximately \$1 billion proposed for use in fiscal years 1993 and 1994.

New System Provides the Type of Information Needed, but Inaccuracies Limit Its Usefulness

The new reporting system provides information not formerly available that will give DOE staff the opportunity to monitor uncosted balances and analyze the extent to which there are firm plans for how those funds will be used. However, our review of the documentation supporting the amounts the contractors reported identified a number of inaccuracies that limit the usefulness of the data in this first report. In general, we found examples showing that encumbrances and approved work scope were overstated.

Encumbrances Were Overstated Because of Errors and Amounts That Belonged in Other Categories

From our examination of the supporting documentation for the encumbrance amounts selected for review, we found that (1) because of mistakes in recording transactions, unneeded amounts remained recorded as encumbrances and (2) some categories of transactions included in the amounts reported as encumbrances did not comply with DOE's definition for that category. For example:

- At DOE's Mound Facility, we found that the contractor had overstated encumbrances for capital equipment and construction projects by using the estimated cost of the projects rather than the actual value of outstanding purchase orders. In examining the support for about \$5 million in equipment encumbrances, we found that only about \$2 million was supported by purchase orders. Similarly, our review of support for about \$12.3 million in construction encumbrances identified only about \$7.4 million supported by purchase orders. The remaining balance for these programs should have been reported as approved work scope and possibly even unencumbered.
- At the Lawrence Livermore National Laboratory, we found that the encumbrances included two purchase order entries totaling \$0.8 million that had been established in error. Although the entries were removed, the amounts incorrectly committed for those orders were still reported as encumbrances as of September 30, 1992.
- At the Sandia National Laboratory, we identified \$26.5 million classified as encumbrances when the amount should have been reported as approved work scope or prefinancing. For example, support for \$5.4 million of the encumbrances showed that this amount was the projected cost for 14 days of purchase orders. DOE's definition restricts purchase orders reported as encumbrances to those that have been issued.

- At the Argonne National Laboratory, we found that the amount reported as encumbrances included over \$2.1 million in "manual commitments." According to contractor staff, manual commitments were transactions that had not been entered into the system at the end of the fiscal year. However, our examination of the supporting documentation showed that these transactions were requisitions, not purchase orders, and should have been included in approved work scope. The contractor staff agreed with our assessment but indicated that they disagreed with DOE's encumbrance definition.

See appendix IV for a description of the methodology that we used to select the amounts for review.

Questionable Estimates for Encumbrances Were Reported at Some Locations

Because the new requirement was established with minimal lead time, DOE's Acting Chief Financial Officer recognized that some estimating might be necessary and asked each contractor to make a best efforts approach to make the data as accurate as possible. Two contractors, for example, had to report estimates because they did not have information systems that provided data on encumbrances at the level (such as program level) required for the report. While we are not in a position to determine exactly what the estimated numbers should have been, we did find that some of the estimates reported were questionable as a result of problems identified with the contractors' procedures for calculating these estimates.

For example, we found several problems with the process the contractor for DOE's Savannah River facility used to develop the encumbrances reported to DOE headquarters. Because Savannah River's contractor does not have an accounting system that collects commitment or encumbrance information by program for operating funds, it had to estimate the encumbrance amounts reported.⁵ Although DOE's Financial Information System showed that as of September 30, 1992, Savannah River had uncosted obligations totaling about \$286 million related to operating funds, the contractor based its estimate on information from its procurement system that showed open purchase orders with outstanding

⁵Savannah River's September 30, 1992, uncosted obligations totaled \$832 million. Of this amount, about \$286 million was operating funds, \$161 million was capital equipment funds, and \$386 million was construction funds. (Amounts do not add up to the total because of rounding.)

balances totaling \$584 million. The contractor made several adjustments⁶ that reduced this amount to about \$368 million and allocated this amount among the programs on the basis of its spend-out plan (the DOE-approved planned spending level by program) for fiscal year 1992. For some of the programs, the encumbrance amounts allocated exceeded the uncosted obligation balances. In addition, the allocated encumbrances, when added to the amounts reported for the approved work scope, prefinancing, and unencumbered categories, exceeded the uncosted obligation balances for many of the other programs.

DOE operations office staff disagreed with the data generated by the contractor and expressed some concerns regarding the definitions used for DOE's analysis of uncosted obligations. For example, in the operations offices's December 3, 1992, letter transmitting Savannah River's uncosted obligation data to DOE headquarters, the operations office stated that the contractor had advised the office that if the definition for contractor encumbrance had been strictly applied, it would result in negative uncosted balances for several of the programs. According to the transmittal letter, in order to "comply with the report requirements, we have chosen to eliminate all such negative differences by first reducing and/or eliminating prefinancing values and, if additional reductions were necessary, making additional reductions, primarily to contractor encumbrance values." For example, the allocation process described above applied \$87.6 million of the \$368 million in encumbrances to the Waste Management Program. This program, however, had an uncosted obligation balance of only \$14.8 million, and the contractor had reported approved work scope of \$4.3 million. Accordingly, the DOE staff reduced the encumbrance amount for the program to \$10.5 million. Similarly, the encumbrances allocated to the Material Support Program totaled \$233 million, but DOE staff reduced the encumbrances reported to \$199 million—the amount of the uncosted obligation balance for the program. In total, the DOE staff reduced the amount reported as encumbrances by about \$122 million.

The significant adjustments that had to be made to the encumbrance amounts estimated by this allocation process raise questions about the reasonableness of the allocation process chosen and the amounts reported as encumbrances. DOE recognizes that the absence of a system to account

⁶According to contractor officials, they adjusted the outstanding balances for the purchase orders by deducting (1) all of the outstanding balances except for the termination costs for all of the purchase orders that had an outstanding balance over \$5 million, (2) the outstanding balance for all of the task and blanket purchase orders that had an original purchase order amount of \$1 million or more, and (3) the estimated year-end accrual amount.

for contractor encumbrances is a significant deficiency, and, according to the DOE operations office, actions are under way at Savannah River to develop a system that accounts for encumbrances at the program level. Because the contractor does not have such a system, we could not determine whether Savannah River had obligated more funds than authorized.

We also identified problems with the process the contractor at DOE's Kansas City Plant used to estimate the amounts reported as encumbrances. The contractor had outstanding purchase orders for the weapons activities related to DOE work, Department of Defense (DOD) work, and a third unassigned category. The contractor allocated the outstanding balances in the unassigned category to the DOE and DOD categories using the percentage each held of the assigned orders. We found, however, that the contractor had omitted an outstanding DOD commitment in calculating the percentage of outstanding orders related to DOD. As a result, DOD's share was understated, and DOE's encumbrances were overstated by about \$13 million.

Unneeded Amounts Related to Terminated, Downsized, and Completed Projects Were Incorrectly Reported as Approved Work Scope

Supporting documentation showed that some of the funds reported as approved work scope did not appear to be needed for their original purpose. The amounts reported as approved work scope included funds for terminated projects, projects whose scope had been reduced, and projects completed at a cost lower than originally estimated. As a result, we believe that the funds should have been reported as unencumbered.

We identified examples totaling about \$40.6 million in the Defense Environmental Restoration and Waste Management Program (see app. III). At DOE's Hanford Facility, for example, a contractor reported \$10.3 million in approved work scope for a project to construct a laundry facility. We found, however, that DOE had decided in June 1992 to contract with a private firm for laundry services, which meant that DOE no longer intended to build this laundry facility.⁷ According to an operations office official, in late August 1992, DOE notified the contractor that the project would be terminated but that DOE wanted to complete the design phase because it believed the design could be used at some other location. On September 30, 1992, DOE approved a project modification that reduced the amount encumbered for the design phase by \$3.1 million and terminated the remainder of the project. This action, however, was not reflected in the

⁷In addition to the amounts carried over at the end of fiscal year 1992, the fiscal year 1993 budget provided \$7.4 million funding for this project that will no longer be needed.

reported uncosted balances. Since the project was terminated by September 30, 1992, the \$3.1 million (encumbrances) and the \$10.3 million (approved work scope) should have been reported as unencumbered.

The Kansas City Plant contractor reported \$2 million as approved work scope in the Stockpile Support Program because the funds were to be used to produce rolamites at a contractor plant in Connecticut. However, we did not find any documentation supporting the scope, milestones, and deliverables for this work, but we did find a September 1992 document showing that a decision had been made to move the rolamites production capability to the Kansas City Plant rather than purchase the component from the contractor.

We also identified about \$1.3 million in the Stockpile Support Program at the Rocky Flats Plant and \$0.1 million in the Weapons Activities Research and Development Program at Lawrence Livermore National Laboratory for completed or canceled capital equipment projects that were reported as approved work scope.

Amounts DOE Had Not Yet Authorized the Contractors to Spend Were Reported as Approved Work Scope

According to DOE's definitions, approved work scope was to consist of balances for work that is clearly defined in task or work authorizations or program direction letters and that has clearly defined milestones and tangible deliverables where possible. However, at several locations, we found that contractors were reporting all uncosted balances for construction and capital equipment funds that were not encumbered as approved work scope. The staffs indicated that they believe the review and approval these projects receive from both DOE and the Congress during the budget process justify classifying these funds as approved work scope. In our view, the review and approval given to initiate a multiyear program do not generate the specific work authorizations and clearly defined milestones called for in the definition of this category. Furthermore, this approach masks the excess funds that accumulate when projects are extensively delayed. DOE headquarters officials agreed that properly classifying these funds as unencumbered would result in the analysis of whether these funds were needed during the period under consideration.

In our review, we found instances in which amounts were reported as approved work scope when the contractor did not yet have program authority to spend the funds. For example, we identified \$70.1 million related to the Defense Environmental Restoration and Waste Management

Program that was reported under the approved work scope category, but the contractors had not yet been given program authority to spend these funds. (See app. III.)

Officials of DOE's Hanford Operations Office told us that when the funds for construction projects are allotted to them by headquarters, they immediately obligate the entire amount to the contractors. The funds cannot be used for any other purpose unless reprogramming is approved. The contractors, however, cannot use these funds until they have requested and received program authorization to proceed with the work. DOE officials characterized the funds that they have not yet authorized as a type of management reserve. For example, of the \$72 million uncosted balance for the Hanford Environmental Compliance project, the contractor reported \$29 million as approved work scope. We found, however, that this amount included almost \$15 million not covered by a project authorization, which the contractor, therefore, could not use.

A contractor official at DOE's Oak Ridge Facility indicated that any amounts not encumbered through either direct or indirect commitments in the Environmental Restoration program were reported as approved work scope. The officials indicated that this reporting was appropriate because any amounts not needed for current work would be reallocated to higher-priority projects and thus become part of an approved work scope program.

We found similar situations in other programs. For example,

- \$9.1 million in the Stockpile Support Program at the Rocky Flats Plant and \$11 million in the Weapons Activities Research and Development Program at Lawrence Livermore National Laboratory were reported as approved work scope, but DOE had not yet authorized the contractors to spend these capital equipment and construction funds and
- \$22.5 million was reported as approved work scope under Argonne National Laboratory's Basic Energy Science Program for the construction of the Advanced Photon Source facility. The project officer, however, could provide documentation showing spending plans for only about \$10 million of these funds. The plans for the remaining \$12.5 million had not yet been approved.

Savannah River officials told us that a project would require an approved Request for Project Authorization or a Notice of Authorization before work could begin and before the funds would meet DOE's definition of

approved work scope. However, in response to the Office of Budget's January 8, 1993, memorandum questioning the need for funds reported as unencumbered, operations office officials decided that about \$121 million of the amount reported as unencumbered for the facility really belonged in the approved work scope category. Even though the required documents had not been processed for these projects by the end of fiscal year 1992, the officials indicated that they wanted to reclassify the funds because these amounts were not "free and available" as some people might interpret them to be. We also noticed that DOE had obligated about \$54 million in operating funds to the Savannah River contractor on the very last day of fiscal year 1992. Since only \$7.7 million of the operating funds were reported as unencumbered, the bulk of the \$54 million had to be in either the encumbrances or approved work scope categories. However, the contractor was unable to provide any documentation showing that paperwork had been processed that met either the encumbrance or approved work scope definition.

DOE Could Apply Additional Uncosted Amounts Toward Meeting Future Budget Needs

In its Report on Uncosted Balances, DOE proposed using \$173 million of its uncosted balances to meet fiscal year 1993 needs and \$851 million to offset its fiscal year 1994 budget request. DOE officials could not provide us with a breakdown that would have allowed us to determine whether the examples we found at the project level were included in these amounts. However, we believe that additional amounts could be used to offset future budget needs because our analysis of one program—the Defense Environmental Restoration and Waste Management Program—identified more funds than DOE proposed using from that program. Our analysis identified \$326.9 million, \$240.3 million more than the \$86.6 million DOE proposed using. We also believe that additional amounts could be made available if the amounts encumbered for completed and terminated purchase orders were reduced to reflect the actual amount needed to complete those orders.

DOE Did Not Identify All of the Uncosted Balances Available in One Program

DOE proposed using about \$86.6 million of the \$1.4 billion uncosted obligation balance for the Defense Environmental Restoration and Waste Management Program—of which \$426.1 million was reported as encumbrances, \$892.0 million as approved work scope, \$24.9 million as prefinancing, and \$68.2 million as unencumbered—to offset future budget needs. As shown in table 1, however, we have identified about \$326.9 million that we believe could be applied to meet future needs.

Table 1: Defense Environmental Restoration and Waste Management September 30, 1992, Uncosted Balances That GAO Estimates Could Be Used to Offset Future Budget Needs

Dollars in millions		Uncosted balances
Unencumbered funds		\$68.2
Prefinancing		24.9
Uncosted funds reported as approved work scope that are no longer needed or for which there is no immediate need (see app. III)		
Funds related to terminated, downsized, and completed projects	\$40.6	
Funds not yet designated or authorized for a specific use	70.1	
Funds for projects that cannot be started until required approvals received	123.1	233.8
Total		\$326.9

We believe that both the \$68 million in unencumbered funds and the \$25 million in prefinancing should be available to help offset pending budget requests. DOE budget officials agreed that unencumbered funds would be considered available unless there is specific justification for why they are needed. Furthermore, as we discuss in an upcoming report on prefinancing,⁸ we believe that DOE has not adequately justified the need for up to 20 days of prefinancing—funds to cover contractors' normal operating costs during a funding lapse caused by delayed appropriations. In addition, some prefinancing amounts are not needed because other funds are available—such as those in the approved work scope category—that would allow continued operations during a period when appropriations might be delayed.

In addition, as discussed in previous sections, we found that the \$40.5 million in excess funds related to completed or downsized projects and the \$70.1 million not yet designated for specific uses did not meet DOE's definition for approved work scope. Therefore, because these amounts should have been reported as unencumbered funds, we believe that they should be made available to offset future budget needs.

Finally, we identified \$123 million related to three large Idaho Falls construction projects that have been delayed (see app. III). According to Idaho budget officials, these projects were awaiting headquarters approval of the required National Environmental Policy Act (NEPA) documentation. Funding for these projects was to be provided in segments over the

⁸DOE Management: Prefinancing Funds Could Be Reduced and Better Controlled (GAO/RCED-94-27, Oct. 1993).

planned life of the projects. However, because the actual start of construction has been delayed, the contractors have accumulated more funds than will be needed to proceed with these projects. DOE, however, has continued to ask for additional segments of funding for these projects each year. Although Idaho budget officials told us that most of these funds will probably be needed to complete these projects, they may not be needed in fiscal year 1993, and a significant portion of the funds will probably not be needed in fiscal year 1994. In defining approved work scope, DOE itself indicated that any balances "resulting from delays and slippage are prime candidates for reversion to the remaining unencumbered category."

For example, a contractor at DOE's Idaho Facility reported \$40.8 million in approved work scope for the transuranic waste characterization and storage facility project. Construction of this project, originally scheduled to start in fiscal year 1991, is on hold pending approval of the NEPA documentation, which Idaho officials acknowledge may not even be received by the end of fiscal year 1993. In addition to the \$40.8 million in approved work scope carried over from fiscal year 1992, \$41.7 million was appropriated for this project for fiscal year 1993. Idaho Operations Office officials estimate that only \$11.5 million of these funds will have been spent or encumbered by the end of fiscal year 1993, leaving over \$70 million to carry over into fiscal year 1994. In addition, DOE's fiscal year 1994 budget request includes \$21.7 million for this project.

Although we were not able to quantify excess amounts related to operating funds, we believe that some of these uncosted balances might also be available to offset future budget needs. For example, an analysis of the Waste Management Program operating funds for two of Idaho's contractors shows uncosted obligations at the end of fiscal year 1992 of about \$35.4 million. In addition, this program received about \$178.0 million from fiscal year 1993 appropriations. Even if fiscal year 1993 costs reach the \$160.0 million estimated by Idaho officials (which is about \$58 million more than average costs over the last 3 fiscal years), the uncosted balance at the end of fiscal year 1993 would still grow to \$53.3 million.

Encumbered Amounts for Closed and Completed Purchase Orders Will Not All Be Needed

From our review, we found that additional funds could be made available if DOE had its contractors reduce the outstanding balances for completed and terminated purchase orders and contracts to the amount needed to settle them. DOE officials agreed that contracting officers could reduce the encumbered amount to the estimated amount needed to settle these

contracts and purchase orders. At several locations, however, we found that the outstanding balance remained encumbered until all action on the contract or purchase order was completed. As a result, unneeded amounts are not being promptly released for other uses.

For example, in reviewing the supporting documentation at the Kansas City Plant, we found that \$14.9 million of the amount reported as encumbrances was for 10 purchase orders that were being terminated. The contracting staff estimated that less than \$3.4 million would be paid out to close these purchase orders. As shown in table 2, we identified about \$19.3 million related to such terminated or completed purchase orders that could have been released and used for other purposes.

Table 2: Amounts for Completed or Terminated Purchase Orders or Contracts That Could Have Been Released for Other Uses

Dollars in millions		
Location	Amount	Completed or terminated activities
Argonne National Laboratory	\$ 0.4	34 purchase orders or contracts for which no further costs are expected
Kansas City Plant	11.5	10 terminated purchase orders encumbered for \$14.9 million that will be settled for \$3.4 million or less
Lawrence Livermore National Laboratory	0.2	2 purchase orders subsequently cancelled
	0.6	16 fabrication accounts (accounts for the accumulation of costs for the internal fabrication of equipment) that should be terminated
Mound Facility	6.6	12 completed purchase orders that should be terminated
Total	\$19.3	

In addition, we identified another \$45 million related to contracts and purchase orders that were completed but awaiting audit. Of these amounts, however, the respective contracting officers had not determined what portion of the total would be needed to pay any final settlements. This included \$12.8 million for 39 completed purchase orders at the Savannah River facility, \$3.5 million for 7 completed purchase orders at the Rocky Flats Plant, and \$28.9 million for 192 contracts at the Oak Ridge facility. Some of these amounts have been tied up for extended periods of time. At Oak Ridge, for example, 70 of the contracts had been expired 5 years or more.

Conclusions

The new reporting system is an important improvement in DOE's oversight and analysis of uncosted obligation balances. However, the types of inaccuracies we identified in DOE's first annual report provided to the Congress limit the report's usefulness as a tool to use in making budgetary decisions. As a result, developing the systems to accumulate the information in the format needed for this report would improve the reliability of the information reported. In addition, revising the definition of what should be reported as approved work scope could help identify delayed projects that have accumulated more funding than can be used effectively during the following fiscal year.

The process of gathering and analyzing the data has focused attention on the issue and led DOE to identify about \$1 billion of the uncosted balances that it believes could be used to meet fiscal year 1993 and 1994 needs. We believe, however, that additional amounts of the uncosted balances could be used to reduce the budget amount needed for fiscal year 1994. In addition, procedures requiring the prompt release of encumbered amounts not needed to settle completed and terminated purchase orders and contracts would help ensure that such amounts are not reported as encumbrances in the future.

Recommendations

We recommend that the Department of Energy develop measures to improve the usefulness of the information provided in the new uncosted balances reporting system by

- requiring contractors to develop systems that will account for outstanding encumbrances at the program level to provide the information needed for these reports and reduce the need for estimates,
- clarifying the approved work scope definition by describing the type of DOE approval needed for capital equipment and construction funds to be reported in this category, and
- establishing procedures for contracting officers to estimate the funds needed to settle completed and terminated purchase orders and contracts and deobligate the remaining amounts no longer needed.

Agency Comments

The DOE Acting Chief Financial Officer, in commenting on a draft of this report, agreed that there are improvements yet to be made. She also concurred with our conclusion that improvements to definitions, systems, and procedures could enhance the usefulness of the uncosted obligations report and could, perhaps, lead to the application of additional balances to

meet budget needs. For example, she acknowledged the overstatement of approved work scope due to errors in interpreting definitions. (See app. V.)

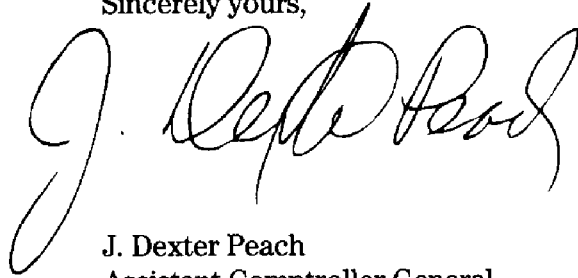
We identified selected amounts from the new reporting system and traced them to the supporting documentation to determine whether the amounts reported were accurate and in accordance with the definitions established by DOE for the categories. We selected the amounts to be examined to allow us to look at the programs with the largest uncOSTed balances as well as balances at different locations and contractors. We also examined programs experiencing delays and cancellations to determine whether the excess funds related to these programs had been considered in determining future budget needs. We conducted our review from January through June 1993 in accordance with generally accepted government auditing standards. As noted earlier, additional information on our scope and methodology is contained in appendix IV.

The head of a federal agency is required by 31 U.S.C. 720 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 sending 20 additional copies of this report to DOE's Director of Audit Liaison. Copies will also be sent to the Director, Office of Management and Budget, and the House and Senate Committees on Appropriations. We will make copies available to others upon request.

This work was conducted under the direction of Victor S. Rezendes, Director, Energy and Science Issues, who can be reached on (202) 512-3841 if you or your staff have any questions. Major contributors to this report are listed in appendix VI.

Sincerely yours,

A handwritten signature in cursive script, appearing to read "J. Dexter Peach". The signature is written in black ink and is positioned above the printed name and title.

J. Dexter Peach
Assistant Comptroller General

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Abbreviations

DOD	Department of Defense
DOE	Department of Energy
GAO	General Accounting Office
M&O	management and operating
NEPA	National Environmental Policy Act

The Department of Energy's Definitions for Categories Used in the Uncosted Balances Report

Encumbered (Committed) Uncosted Obligations

These amounts include the uncosted balances under contracts awarded by the integrated management and operating (M&O) contractor and balances related to other integrated M&O contractor liabilities. Encumbrances consist of uncosted balances of (1) purchase orders issued; (2) contracts and subcontracts awarded, including the full liability under lease purchases and capital leases; (3) termination cost for incrementally funded, firm fixed price contracts, operating lease agreements, and multiyear service contracts that contain termination clauses; (4) other agreements for the acquisition of goods and services not yet received and uncosted balances related to other integrated M&O contractor liabilities. Encumbrances include uncosted balances of work orders or authorizations issued to integrated M&O construction contractors provided such work is specific in scope and had clear milestones or tangible deliverables.

Unencumbered (Uncommitted) Uncosted Obligations

These amounts represent the portion of the uncosted obligation balance that has not yet been encumbered by the integrated M&O contractor. The unencumbered uncosted obligation balance consists of the following categories:

- Approved Work Scope consists of balances for work that is clearly defined in task or work authorizations or program direction letters. Such work must be specific in scope and have clearly defined milestones and tangible deliverables where possible. This category may not at the end of the year include any costs for which funds are appropriated in the subsequent fiscal year (e.g., level of effort for research and development activities or to maintain capability in Defense Programs). Any balances in this category resulting from delays and slippages are prime candidates for reversion to the remaining unencumbered category (see below) absent convincing justification for retention.
- Prefinancing is funding maintained for the purpose of ensuring continuity of contractor operations during a potential funding lapse at the beginning of the fiscal year. Prefinancing is limited to those amounts required to cover salaries and related benefits and other mandatory requirements; for example, rent and utilities, not otherwise covered in the encumbered and approved work scope categories, for up to 20 calendar days.
- Remaining Unencumbered is the portion that remains after subtracting approved work scope and prefinancing and is potential excess funding resulting from project and program underruns and changing program missions that may be available for withdrawal and reallocation to support current or future departmental funding requirements.

Uncosted Obligations Reported by DOE's Integrated M&O Contractors as of September 30, 1992

Dollars in millions

Appropriation	Uncosted obligations	Encumbered	Approved work scope	Prefinancing	Unencumbered
Energy and Water Development Accounts					
General Science and Research Activities	\$ 365.4	\$ 222.6	\$ 104.5	\$ 27.8	\$ 10.5
Energy Supply Research and Development Activities	849.8	328.0	467.3	32.2	22.3
Weapons Activities	1,644.1	815.3	715.4	73.6	39.7
Defense Environmental Restoration and Waste Management	1,411.2	426.1	892.0	24.9	68.2
Materials Production and Other Defense Programs	1,078.5	451.2	457.8	32.1	137.3
Other Energy and Water Development	434.4	242.9	176.5	8.3	6.7
Subtotal, Energy and Water Development Accounts	5,783.2^a	2,486.1	2,813.5	198.9	284.7
Interior and Related Agencies Accounts	239.2	58.5	157.8	19.2	3.7
Expired Accounts	.3		.1		.1
Total DOE	\$6,022.7	\$2,544.6	\$2,971.4	\$218.1	\$288.5

^aFigures do not add to subtotal because of rounding.

Uncosted Obligations, Reported as Approved Work Scope (as of Sept. 30, 1992) for One Program, That Are No Longer Needed or for Which There Is No Immediate Need

Dollars in millions

Project	Uncosted obligations	Reason funds no longer needed
Hanford Decontamination Laundry Facility	\$ 13.4	Project canceled
Savannah River Inter Area Line Upgrade	2.0	Project canceled
Savannah River Hazardous Low Level Waste Processing Tank	4.9	Project canceled
Savannah River Capital Equipment and General Plant Projects	11.2	Projects canceled, closed, and scope reduced
Oak Ridge Production Waste Storage Facility	5.5	Scope of project reduced
Fernald Capital Equipment	2.6	Projects completed and closed
Fernald Cafeteria Upgrade	1.0	Scope of project reduced
Subtotal	40.6	
Hanford Management Reserve Funds	41.0	Funds not specifically committed or for which program authorization has not been received
Savannah River Capital Equipment and General Plant Projects	29.1	Dollars not authorized to be spent or not specifically committed
Subtotal	70.1	
Idaho Transuranic Waste Characterization and Storage Facility	40.8	Delay in NEPA approval needed to start project
Idaho High Level Waste Tank Farm Replacement	45.5	Delay in NEPA approval needed to start project
Idaho Transuranic Storage Area Retrieval Enclosure	36.8	Delay in safety analysis report needed to start project
Subtotal	123.1	
Total	\$233.8	

Objectives, Scope, and Methodology

Our objectives in this review were to determine (1) the accuracy of the information presented in the Department of Energy's (DOE) new uncOSTed obligations report and (2) the extent to which uncOSTed balances related to delayed, canceled, or downsized programs could be used to further offset DOE's fiscal year 1994 budget needs. We reviewed selected uncOSTed balances held by the M&O contractors at the following facilities: Argonne National Laboratory, Argonne, Illinois; Fernald Feed Materials Production Center, Fernald, Ohio; Hanford Facility, Richland, Washington; Idaho Facilities, Idaho Falls, Idaho; Kansas City Plant, Kansas City, Missouri; Lawrence Livermore National Laboratory, Livermore, California; Mound Facility, Miamisburg, Ohio; Oak Ridge National Laboratory and Y-12 Plant, Oak Ridge, Tennessee; Rocky Flats Plant, Golden, Colorado; Sandia National Laboratory, Albuquerque, New Mexico; Savannah River Laboratory and Plant, Aiken, South Carolina; and Superconducting Super Collider Laboratory, Waxahachie, Texas. We did not examine the uncOSTed balances related to DOE's direct contracts with non-M&O contractors.

To determine the accuracy of the information in the uncOSTed obligations report, we compared a judgment sample of the amounts reported as encumbrances and approved work scope to supporting documentation to determine if there was evidence supporting the numbers reported by contractors and if the amounts included in a category complied with DOE's definition of what should be included in those categories. We selected programs and facilities that had large uncOSTed obligation balances for review. Table IV.1 shows the programs and facilities selected.

**Appendix IV
Objectives, Scope, and Methodology**

**Table IV.1: Program and Facility
Uncosted Obligation Balances
Selected for Review by GAO**

Dollars in millions			
Appropriation	Uncosted obligations	Encumbrances	Approved work scope
General Science and Research Activities			
Superconducting Super Collider	\$155.6	\$129.5	\$ 10.4
Energy Supply Research and Development Activities			
Argonne	\$101.0	\$ 49.7	\$ 47.1
Hanford	\$ 19.3	\$ 1.5	\$ 17.9
Weapons Activities			
Kansas City	\$142.2	\$ 98.6	\$ 33.3
Lawrence Livermore	\$143.7	\$ 54.4	\$ 89.2
Mound	\$ 59.7	\$ 37.8	\$ 8.9
Rocky Flats	\$222.3	\$ 74.0	\$147.3
Savannah River	\$ 73.4	\$ 30.6	\$ 33.8
Sandia	\$174.7	\$122.1	\$ 40.5
Defense Environmental Restoration and Waste Management			
Argonne	\$ 11.5	\$ 3.3	\$ 7.3
Fernald	\$178.8	\$ 76.6	\$ 93.3
Hanford	\$248.3	\$ 73.2	\$173.9
Oak Ridge	\$139.1	\$ 48.6	\$ 75.9
Savannah River	\$170.4	\$ 23.8	\$119.0
Materials Production and Other Defense Programs			
Savannah River	\$532.8	\$217.7	\$234.1

For those programs selected at a facility, we traced the amounts reported as encumbrances and approved work scope to the contractors' information systems or summary listings. We then selected the largest transactions from those listings and traced the transaction to the actual documentation. For example, when possible we compared the amount reported as an encumbrance for a program to a summary list of outstanding purchase orders. Then we selected the largest amounts to compare to the actual purchase orders. We used a similar process to examine the work authorization and milestone data for amounts reported as approved work scope. When estimates were reported because actual data were not available, we examined the process used to calculate these estimates.

To determine the extent to which uncosted balances could be used to offset future budget needs, we focused our examination on the Defense Environmental Restoration and Waste Management Program because DOE was already considering major reductions in the Weapons and Materials Production programs. In addition to following up on the need for funds questioned in the above examination, we examined uncosted balances at the Idaho Falls Operations Office. To determine the amounts that might be available to meet future budget needs, we focused primarily on the amounts reported as approved work scope. We discussed with contractor and DOE officials the need for the amounts that DOE had not authorized the contractor to spend by the end of fiscal year 1992, amounts for construction projects that had been delayed awaiting various approvals, and amounts for projects that had been downscoped or canceled. We then compared the amounts we identified with the total proposed by DOE for use in offsetting fiscal years 1993 and 1994 budget needs.

Comments From the Department of Energy



Department of Energy
Washington, DC 20585

SEP 22 1993

Mr. Victor S. Rezendes
Director, Energy and Science Issues
Resources, Community, and
Economic Development Division
U.S. General Accounting Office
Washington, D.C. 20548

Dear Mr. Rezendes:

The Department of Energy appreciates the opportunity to review and comment on the General Accounting Office (GAO) draft report entitled "Energy Management: Additional Uncosted Balances Could Be Used To Meet Future Budget Needs (GAO/RCED-93-198)."

I am pleased that the draft report acknowledges significant progress towards effective evaluation of uncosted balances since the GAO first addressed the subject in March, 1992. However, I agree that there are improvements yet to be made. The Department concurs with GAO's conclusion that improvements to definitions, systems, and procedures could enhance the usefulness of the uncosted obligations report and could, perhaps, lead to the application of additional balances to meet budget needs. The report's finding of weaknesses in contractor systems for reporting encumbrances at the program level is acknowledged, as is the finding regarding the overstatement of Approved Work Scope due to a variety of errors in interpreting definitions and guidance, particularly as regards capital equipment and construction funds. Finally, we agree that procedures should be established for estimating the funds needed to settle completed and terminated purchase orders and contracts, so that the unneeded balances can be deobligated.

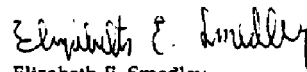
The Department is moving out aggressively in two parallel approaches to the problem of potentially excessive uncosted balances: First, this topic is being examined as part of the Contract Reform Initiative led by Deputy Secretary White. My office has submitted to the Deputy Secretary a range of possible solutions which could lead to better control over these balances. Second, the Budget Advisory Committee has created a subcommittee on uncosted obligations, which held its first meeting on September 16. The Budget Advisory Committee membership represents all major stakeholder groups - contractors, headquarters program and budget offices, and operations offices. The subcommittee was presented with GAO's findings and recommendations and my office's suggestions to the Deputy Secretary, and was asked to help me find a workable, cost-effective solution to the problem.

Now GAO/RCED-94-26

Appendix V
Comments From the Department of Energy

It is my belief that in the second annual report to Congress on uncosted balances, which will accompany the FY 1995 budget, we will be able to describe improvements to systems and procedures which address the concerns of the draft report and which should be effective in providing better management oversight of uncosted balances.

Sincerely,



Elizabeth E. Smedley
Acting Chief Financial Officer

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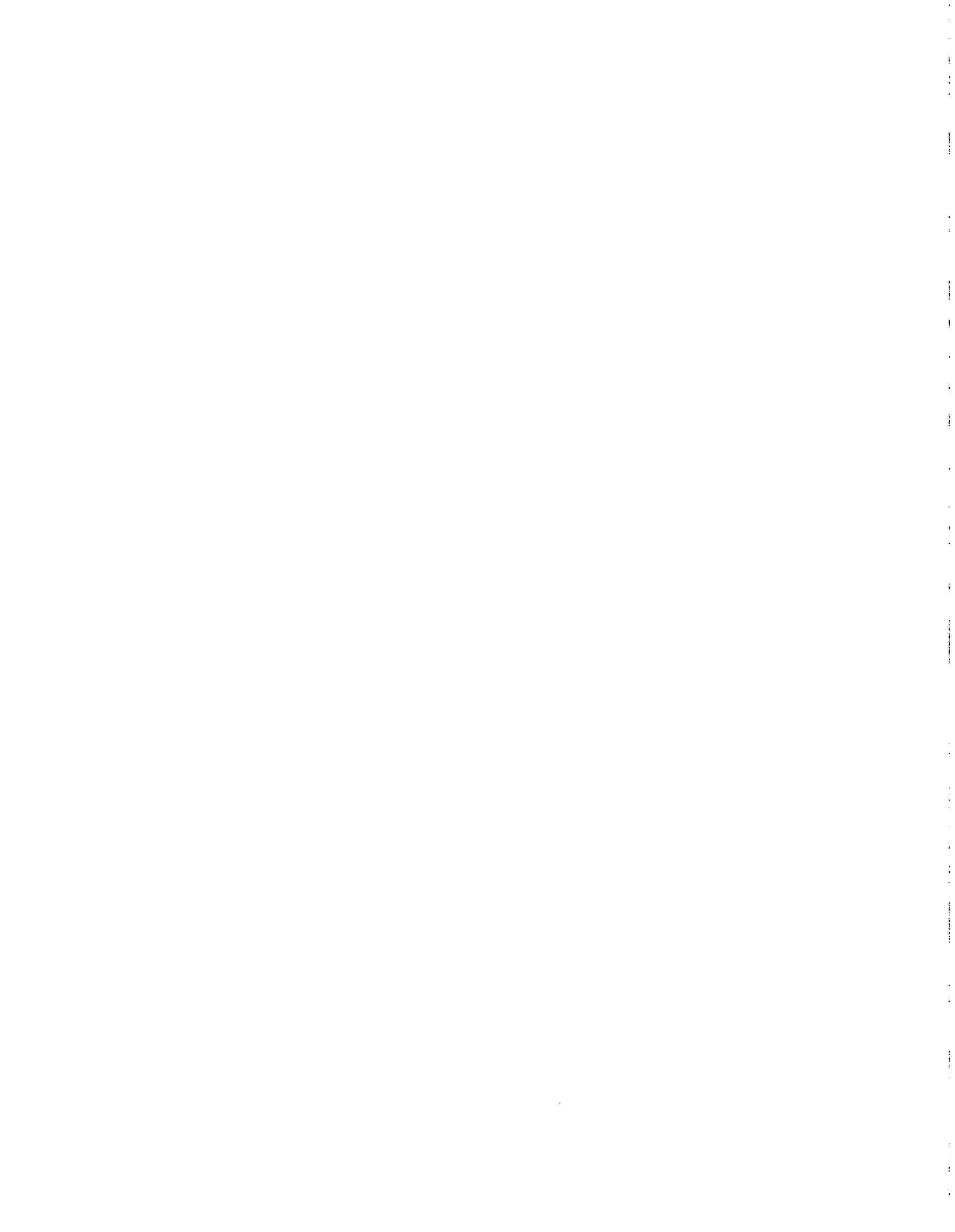
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