

GAO

June 1994

URANIUM ENRICHMENT

Activities Leading to Establishment of the U.S. Enrichment Corporation



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Resources, Community, and
Economic Development Division

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June 27, 1994

The Honorable John D. Dingell
Chairman
The Honorable Carlos J. Moorhead
Ranking Minority Member
Committee on Energy and Commerce
House of Representatives

The Honorable Philip R. Sharp
Chairman
The Honorable Michael Bilirakis
Ranking Minority Member
Subcommittee on Energy and Power
Committee on Energy and Commerce
House of Representatives

On August 6, 1993, you asked us to review the transition of the Department of Energy's (DOE) uranium enrichment program to a new government corporation, the United States Enrichment Corporation (the Corporation). Specifically, you asked us to evaluate

- the transfer of property and other assets to the Corporation, including uranium inventories and accounts receivable;
- decisions leading to the preparation of the Corporation's financial statements, pursuant to the requirements of section 1306 of the Atomic Energy Act of 1954, as amended;
- the Corporation's contracting practices, including the degree to which the Corporation conformed to appropriate federal acquisition regulations; and
- the Corporation's personnel policies, such as salary and staffing requirements.

After we briefed your offices on the results of our review, you asked us, on January 17, 1994, to provide you with a written report on our findings. This fact sheet responds to that request.

BACKGROUND

The Energy Policy Act of 1992 (P.L. 102-486), passed in October 1992, established the United States Enrichment Corporation and authorized a transition manager (to be named by the President within 30 days from the effective date of P.L. 102-486) to perform the activities needed to establish the Corporation and begin operations by July 1, 1993. However, the outgoing Bush administration did not name a transition manager until mid-January 1993. In early March, President Clinton named a new transition manager. Therefore, the actual transition period lasted only 114 days, from March 9, 1993, to July 1, 1993, the date the act required the Corporation to assume responsibility for conducting and marketing DOE's uranium enrichment services.

A number of major tasks had to be accomplished during this period. These included (1) establishing the organization of the Corporation along with a new personnel system (including a pay and benefits program), (2) hiring staff, (3) negotiating a lease with DOE to use the two existing enrichment plants that remained under DOE's ownership and taking responsibility for managing the two plants, (4) setting up a new accounting and financial management system with new financial statements and related controls, (5) establishing a procurement process and awarding support contracts, and (6) establishing an environmental and nuclear safety regulatory strategy and policy in coordination with the Nuclear Regulatory Commission, the Occupational Safety and Health Administration, DOE, and the two states--Kentucky and Ohio--where the two enrichment plants are located.

SUMMARY OF FINDINGS

Despite the short transition period, a small team of fewer than 40 people, including the Corporation's employees, employees detailed from DOE, contractor personnel, and consultants, successfully accomplished all of the steps needed to establish the Corporation on July 1, 1993. Within DOE, a second team of employees and contract staff effectively accomplished the steps needed to complete the lease agreement, prepare for regulatory oversight responsibilities, and accomplish the transfer of government assets. The total cost of the transition was about \$11.9 million, including DOE's costs of about \$6.5 million and the transition team's costs of about \$5.4 million. Most of DOE's costs were for (1) the planning studies completed before the transition team was formed and (2) the work done during the transition phase to support the development of

the lease agreement for the uranium enrichment plants and the transfer of property to the Corporation. All of the transition costs were paid with funds from DOE's uranium enrichment program account. Funds in this account that were associated with the enrichment functions that the Corporation assumed responsibility for were subsequently transferred to the Corporation. (See sec. 1 for a detailed summary of the transition costs.)

During our review, DOE and the Corporation readily made available all information needed to evaluate the transition activities. Furthermore, the information was well documented, and both DOE and Corporation staff were accessible and cooperative. The following sections summarize our findings in the four specific areas you asked us to review.

Transfer of Property to the Corporation

- On June 30, 1993, or shortly thereafter, determination orders signed by the Director, Office of Management and Budget, authorized DOE to transfer to the Corporation approximately \$106.5 million in cash, \$142.5 million in accounts receivable, property (such as spare parts, production materials, and office equipment) valued at about \$58.8 million, and about 46,800 metric tons of natural uranium.¹
- The Energy Policy Act states that the Secretary of Energy shall transfer to the Corporation, without charge, all raw and low-enriched uranium inventories necessary for the fulfillment of contracts transferred to the Corporation. DOE transferred about 38,000 metric tons of natural uranium--worth about \$988 million--that was originally provided to DOE by utilities under the terms

¹The Office of Management and Budget initially determined that only about half of the amount set aside for transfer to the Corporation from DOE's uranium enrichment cash and accounts receivable accounts would actually be transferred to the Corporation on July 1, 1993. The remaining amounts were to be transferred when certain issues were resolved. Later, a November 29, 1993, determination order stated that the remaining amounts would be transferred on March 31, 1994, or earlier if an agreement was reached with Russia to purchase highly enriched uranium that was removed from the country's nuclear weapons and was for sale as commercial fuel.

of their enrichment contracts and about 8,800 metric tons of uranium, at various stages of enrichment, that DOE had originally purchased. The DOE-purchased uranium was valued at about \$690 million.² DOE officials stated that they transferred the uranium purchased by DOE to the Corporation because they no longer needed it and because they would have used it to overfeed the plants under normal operating conditions. About 16,300 metric tons of natural uranium previously set aside for government purposes remained with DOE. However, DOE and Corporation officials are continuing to discuss the transfer of additional inventory as provided for in the Energy Policy Act.

- On January 14, 1994, the Corporation signed a long-term agreement with Russia for the purchase of about 500 metric tons of highly enriched uranium that is to be blended down for commercial use and transported to the United States for sale by the Corporation. Under a November 29, 1993, determination order, the amounts remaining in DOE's cash and accounts receivable accounts--about \$107 million and \$143 million, respectively--were to be transferred to the Corporation when this agreement was signed. Although the accounts receivable amount was subsequently transferred, DOE has transferred only \$52.6 million in cash to the Corporation. DOE officials stated that they had to move about \$42 million out of the cash account to cover obligations for which they did not receive appropriations and that other circumstances further reduced the amount in the cash account after the November 1993 determination order was signed. The Corporation's management still considers the remaining amount (about \$54 million) an asset (receivable from DOE) on its balance sheet and is negotiating an agreement with DOE officials to transfer additional unexpended funds and inventories that will bring to closure outstanding issues on unexpended transfers of funds.
- In total, assets initially valued at about \$2.2 billion--including about \$159.1 million in cash, \$284.1 million in accounts receivable, property worth about \$58.8 million, and \$1.7 billion in uranium inventories--were transferred

²Later, after the Corporation conducted an analysis of its inventory, the total value of the uranium transferred was adjusted from \$1.68 billion to \$1.76 billion on the Corporation's initial balance sheet.

to the Corporation. (See sec. 2 for a summary of all assets transferred to the Corporation.)

Establishment of the Corporation's
Financial Accounting Systems

- The transition team hired a contractor to establish an interim accounting system at headquarters with appropriate financial controls and initially established a simplified system of accounts for use when the Corporation started operating. According to the Corporation, the system performed the necessary tasks but a new system is required for the long term and will be implemented by the end of calendar year 1994. Corporation officials also told us that, by April 1994, they had also implemented a new integrated system of accounts for the two operating enrichment plants. The Corporation's end-of-the-year financial statements were audited by an independent accounting firm and received an unqualified audit opinion. As agreed with your offices, we will continue monitoring the development of the Corporation's accounting systems to ensure that they conform to appropriate accounting principles.

- In February 1994, in accordance with the time frame specified in the Energy Policy Act, the Corporation issued its first annual report, which included an initial balance sheet for the Corporation as of July 1, 1993. The report showed total assets of about \$2.48 billion, liabilities of about \$1.06 billion, and a total equity for stockholders of about \$1.37 billion. (The total value of the Corporation's assets is slightly higher than the amounts cited in the determination orders because of various adjustments made since July 1993 and because of the Secretary of Energy's decision to transfer construction work in progress, valued at over \$100 million, to the Corporation. This work was not included in the determination orders because at the time, the need for the work to be transferred or subject to the lease was undecided. Subsequently, in May 1994, DOE and Corporation officials decided not to transfer most of the construction work in progress as it was not usual for a lessee to take on the lessor's historical capital costs. However, completion of these projects will be the Corporation's responsibility.) The report also stated that the Corporation had sales of about \$427 million during its first quarter of operations (July 1, 1993, through Sept. 30, 1993). Following its first quarter of operations, the Corporation declared a dividend of \$30

million, which it paid to the Department of the Treasury in February 1994.

Transition Team's Contracting Practices

- The Energy Policy Act of 1992 exempts the Corporation from the Federal Property and Administrative Services Act of 1949. Under this exemption, according to the Corporation, the substantive provisions of the Competition in Contracting Act do not apply, since these provisions are amendments to the Federal Property and Administrative Services Act of 1949. Nevertheless, the transition team obtained some competition (two or more proposals) before awarding all but 2 of 13 contracts. Those two remaining contracts included a contract for administrative support services and a small contract (worth about \$19,000) with a law firm that had experience with an ongoing uranium antidumping case. The total cost of the 13 contracts was about \$4 million. The two largest contracts were the administrative support services contract (about \$1 million) and a contract for legal services (about \$1.5 million). Each of the contract files was fully documented, and a justification was provided for the final award. Furthermore, according to the Transition Manager, all of the contractors completed their required tasks by the end of the contract period--June 30, 1993. On July 1, 1993, the Corporation issued its own procurement policies and procedures, which adhere to the key principles of the Federal Acquisition Regulations. (See sec. 3 for a list of the contracts awarded by the transition team.)

Corporation's and DOE's Personnel Activities

- Under the Energy Policy Act of 1992, compensation for the Corporation's officers and employees will be determined by the Board of Directors of the Corporation without regard to the civil service pay provisions of title 5 of the United States Code. Consequently, the transition team awarded a contract to a general management consultant to assist in the development of (1) an organization chart and (2) pay and benefit plans. Corporation officials told us that they wanted to develop pay and benefit plans that incorporated the best aspects of the government's programs but could easily be converted to the private sector. The contractor's initial reports were delivered in May 1993. Subsequently, the Transition Manager adopted some of the contractor's recommendations, including a pay band system

that provided most of the DOE employees that the transition team hired with a small (less than \$5,000) raise. Furthermore, throughout the transition period, the Corporation's executives were paid at federal senior executive service levels. However, the management company's reports suggested that, on the basis of a pay comparability study of similarly sized corporations, the annual salary for the Corporation's senior officers should range from \$108,000 to \$390,000, the latter for the Chief Executive Officer. In late 1993, the Transition Manager adopted a pay scale toward the lower end of this range for his top managers in order to attract experienced executives to work for the Corporation. The Transition Manager, however, continued to be paid at the senior executive service level. According to a senior corporation official, the cognizant congressional oversight committees were informed of the Corporation's salary scale.

- All decisions made by the Transition Manager are subject to review by the Board of Directors. In November 1993, the President transmitted his nominations for the Corporation's Board of Directors to the Senate. The five individuals named were confirmed in February 1994 and sworn in on March 22. They are currently reviewing the past actions of the Transition Manager and developing a corporate plan and business strategy. In May 1994, the board named the Transition Manager as President and Chief Executive Officer of the Corporation. The board will set his salary at a future date.
- On July 1, 1993, the Corporation consisted of 10 Corporation employees, 12 DOE detailees, 13 contractor employees, and 3 consultants. By November 1993, the Corporation had 50 employees, 15 of whom were former DOE employees and only 1 of whom was a DOE detailee; by the end of April 1994, the staff had increased to 92. The Corporation plans to have a staff of about 125 on board by the end of 1994.
- When the Energy Policy Act of 1992 was passed, DOE's Office of Uranium Enrichment had a staff of 110. (DOE's budgets for fiscal years 1992-93 show a much higher number of full-time equivalent staff [about 195] for the program, but this number includes support staff located throughout the Department, such as Office of General Counsel and procurement support staff who contributed to the program. The program office itself had only 110 staff on board.) As of November 30, 1993,

DOE's Uranium Office, which retained responsibility for certain waste management and cleanup activities at the two enrichment facilities as well as other landlord-type activities for facilities not leased by the Corporation, had a staff of 47 employees. None of the displaced staff were released; 15 transferred to the Corporation, and most of the others were transferred or detailed to other DOE programs. (See sec. 4 for more details on DOE's uranium enrichment staff.)

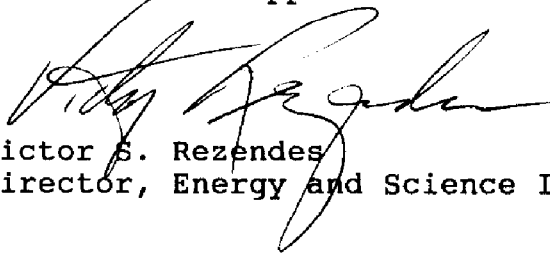
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To obtain the information on these issues, we interviewed Corporation officials and uranium enrichment officials within DOE. We also reviewed pertinent files of DOE and the Corporation, including their correspondence files. In addition, we reviewed the files for each of the contracts awarded by the transition team and the Corporation's procurement policy. We also reviewed the reports prepared by the Corporation's management contractor.

We discussed a draft of this fact sheet with officials of DOE and the Corporation. They generally agreed with the facts, and we have incorporated their comments where appropriate. As requested, we did not obtain written agency comments. Our review was conducted from August 1993 through May 1994.

As arranged with your offices, unless you publicly announce its contents earlier, we plan no further distribution of this fact sheet until 30 days from the date of this letter. At that time, we will send copies to the appropriate congressional committees, the Secretary of Energy, the Corporation's Transition Manager, and the Director, Office of Management and Budget. We will also make copies available to others on request.

Please contact me on (202) 512-3841 if you or your staff have any questions. Major contributors to this fact sheet are listed in appendix I.



Victor S. Rezendes
Director, Energy and Science Issues

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ABBREVIATIONS

DOE	Department of Energy
GAO	General Accounting Office

SECTION 1

SUMMARY OF UNITED STATES ENRICHMENT CORPORATION'S
TRANSITION COSTS

Type of transition cost	Amount
Office operation expenses	\$140,850
Capitalized expenditures (computer equipment, phones, etc.)	311,765
Salaries	484,372
Professional services	3,694,270
Support services	695,000
Travel and subsistence	64,704
Total transition team costs	5,390,961
DOE transition costs	6,524,855
Total transition costs	\$11,915,816

Legend

DOE = Department of Energy.

Source: DOE and the United States Enrichment Corporation.

SECTION 2

SUMMARY OF ASSETS TRANSFERRED TO THE UNITED STATES ENRICHMENT CORPORATION

Dollars in thousands

Asset	Value ^a
Cash	\$159.1
Accounts receivable	284.1
Property	58.8
Uranium	
Customer supplied	988.0
DOE purchased	689.7
Total	1,677.7
Total assets transferred	\$2,179.7

Legend

DOE = Department of Energy.

^aThe values of the transferred assets are taken from the determination orders, except for the cash amount, which reflects only the amount actually transferred. As explained in the letter, DOE has not transferred the full amount of cash stated in the November 29, 1993, determination order. In addition, the Corporation changed the value of some of these assets on its initial balance sheet as the result of later inventory analyses and other adjustments.

Source: DOE and the United States Enrichment Corporation.

SECTION 3

CONTRACTS AWARDED BY THE TRANSITION TEAM

Contractor	Final contract amount	Description of services/supplies
SAIC	\$1,021,893	Administrative and technical support services
Arthur Andersen	483,966	Accounting and financial support services
Skadden & Arps	1,508,063	Legal support services
Mercer Consulting	153,667	Management consulting services
Newman & Holtzinger	191,698	Nuclear regulatory legal support services
ROLM	105,879	Phone equipment
ENVIRON	179,785	Environmental support services
Wolfco, Inc.	57,190	Marketing consulting
Robinson Lake	78,915	External communications support services
LDJA Limited Part.	64,606	Lease office space
Actrix Systems, Inc.	139,790	Computer equipment
Northgate Company	20,216	Computer equipment
Steptoe & Johnson	19,093	International trade legal support services
Total	\$4,024,761	

Source: The United States Enrichment Corporation.

SECTION 4

ANALYSIS OF DOE'S URANIUM ENRICHMENT STAFF, AS OF NOVEMBER 30, 1993

Description of staff	Headquarters staff	Field staff	Total
When Energy Policy Act of 1992 passed	55	55	110
Transferred to USEC	11	4	15
Still detailed to USEC	1	0	1
Remaining with DOE	41	47	88
Resigned or retired	2	4	6
Remaining with DOE's uranium program	20	27	47
Transferred or detailed within DOE	21	20	41

Legend

DOE = Department of Energy.

USEC = United States Enrichment Corporation.

Source: DOE.

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