



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

**Resources, Community, and
Economic Development Division**

B-262207

August 7, 1995

The Honorable Richard Hastings
House of Representatives

Dear Mr. Hastings:

This report responds to your request for information on uncosted obligations held by the Department of Energy (DOE) and its management and operating (M&O) contractors. Uncosted obligations are budget authority that DOE has obligated to its contractors for goods and services that have not yet been provided and for which costs have therefore not been incurred. At the end of fiscal year 1994, uncosted obligations totaled about \$8.4 billion for DOE-funded programs. DOE's M&O contractors held about \$5.0 billion of these uncosted obligations.

This report discusses the uncosted balances reported at 13 DOE facilities and its headquarters offices.¹ During the past several years, we have conducted reviews designed to identify uncosted balances related to ongoing operations that could be used to offset DOE's budget request.² Our objective for this review was the same--to identify uncosted balances related to ongoing programs that could be

¹The 13 facilities are the Argonne National Laboratory in Illinois, Hanford Facility in Washington, Idaho National Engineering Laboratory in Idaho, Los Alamos National Laboratory in New Mexico, Lawrence Berkeley Laboratory in California, Lawrence Livermore National Laboratory in California, National Renewable Energy Laboratory in Colorado, Nevada Test Site in Nevada, Oak Ridge Facility in Tennessee, Rocky Flats Site in Colorado, Sandia National Laboratories in New Mexico, Savannah River Site in South Carolina, and Stanford Linear Accelerator Center in California.

²Energy Management: Use of Uncosted Balances to Meet Budget Needs (GAO/RCED-94-232FS, June 6, 1994) and Energy Management: Additional Uncosted Balances Could Be Used to Meet Future Budget Needs (GAO/RCED-94-26, Oct. 26, 1993).

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used to offset fiscal year 1996 budget needs. We focused our work on the funds in six of DOE's program areas-- Defense Programs, Energy Efficiency and Renewable Energy, Environmental Management, Energy Research, Fossil Energy, and Nuclear Energy. We selected these areas because they had the largest uncosted balances--totaling \$7.6 billion--at the end of fiscal year 1994.

In summary, we found \$529.2 million of uncosted balances that were not needed for their identified purpose, were not tied to specific needs, or were in excess of expected needs:

- At the end of fiscal year 1994, \$97.4 million in uncosted balances that were identified as "encumbered" or "approved work scope" should have been identified as "unencumbered"--that is, not tied to specific needs and therefore available for other needs in the budget.³ For example, we identified \$46.2 million reserved for 15 Savannah River projects that was no longer needed because of cost underruns, reductions in the projects' scope, or cancellation of the projects.
- At the end of fiscal year 1994, an additional \$247.5 million was for "prefinancing" and unencumbered (\$49.8 million and \$197.7 million, respectively). Prefinancing funds are a contingency amount held to ensure the continuity of operations in the event that funds are not available at the beginning of a fiscal year. The contractors had identified \$31.9 million as prefinancing, and we identified an additional \$17.9 million that had been reported in other categories. For example, \$11.2 million of the funds that the Argonne National Laboratory reported as approved work

³DOE has two major categories of uncosted obligations, encumbered--amounts needed for legally enforceable agreements, such as purchase orders or contracts--and unencumbered. The unencumbered funds are further divided into three subcategories; (1) approved work scope--funds for work that is clearly defined and specific in scope but that does not yet represent a legal commitment; (2) prefinancing--funds maintained to ensure that operations at the facilities continue if funding lapses at the beginning of a fiscal year; and (3) unencumbered--the remaining balance of uncosted obligations.

scope was actually for the continuity of operations. As discussed in a prior report,⁴ little support exists for DOE's current prefinancing policy. Prefinancing and unencumbered funds are not needed for specific programmatic activities and are therefore available for other needs.

- During fiscal year 1995, \$132.6 million became available because of changes in the scope of projects, terminations of projects, or project delays. For example, \$50.4 million were not needed because the Hanford Multi-Function Waste Tank Facility project was delayed, and DOE was considering canceling the project. Similarly, projections showed that \$11.2 million for Hanford's Fast Flux Test Facility Deactivation project could not be used in fiscal year 1995.
- Of the funds requested for certain activities in fiscal year 1996, \$51.7 million exceeds identified needs. For example, because Hanford's Cross Site Transfer System project was delayed, projections indicate that \$3.6 million in carryover funds can be used to reduce the amount requested for the project for fiscal year 1996. DOE also requested \$31 million for the delayed Hanford Multi-Function Waste Tank Facility project.

We also questioned additional balances totaling \$207.4 million, but we were unable to quantify the exact amount of these funds that might be available to offset DOE's budget request. For example, we identified \$73.8 million tied to closed contracts. Some portion of these funds may be needed to pay final claims related to these contracts, but the portion of the funds that will not be needed will not be determined until final audits are completed. We also questioned \$133.6 million categorized as approved work scope by the Lawrence Livermore National Laboratory, the National Renewable Energy Laboratory, and the Argonne National Laboratory for which the contractors could not provide the documentation to support that these funds met DOE's definition for approved work scope. However, we were unable to determine how much of these funds could be used to meet future budget needs.

⁴DOE Management: Funds for Maintaining Contractors' Operations Could Be Reduced and Better Controlled (GAO/RCED-94-27, Oct. 25, 1993).

We recognize that DOE is itself seeking some reductions in its uncosted balances. For example, as part of its fiscal year 1996 budget request, DOE has proposed using \$300 million in uncosted balances to meet the fiscal year 1996 needs of its Environmental Management program. When we examined DOE's uncosted balances, it had not specifically determined which uncosted balances it would use to offset fiscal year 1996 activities. Since we completed our work, DOE may have already designated some of the balances we identified for use as offsets in fiscal year 1996. In commenting on this report, officials in DOE's Office of Chief Financial Officer noted that since the fiscal year 1996 budget went to the Congress, two rescissions were enacted which reduced the six programs GAO examined by \$340 million, and that it is likely that uncosted balances would be used to offset these reductions. Nevertheless, some of the amounts we identified could potentially be used to increase DOE's use of uncosted balances to offset fiscal year 1996 budget needs.

It is important to stress, as we have in past reports, that our review of uncosted obligations was a "bottom-up" look that examined in detail the contractors' documentation and justifications for retaining these balances. In contrast, DOE's assessment of an appropriate amount of reduction was conducted in a "top-down" method and is a general estimate of the amounts that may be available. Consequently, our results are based on specific and identifiable areas in which DOE can make use of uncosted obligations with minimum impacts. Since DOE's approach is to make broad estimates for using uncosted obligations and later seek ways to meet them, DOE cannot ensure that it is using the maximum amount of available uncosted balances or that it will be taking uncosted balances from the correct programs or facilities.

Enclosure I contains six tables that detail the funds that exceed identified needs. Table I.1 provides a summary of the data. Table I.2 presents the amounts of uncosted obligations that were not, but should have been, listed as unencumbered. Table I.3 shows the prefinancing and unencumbered amounts that are available for use. Table I.4 identifies fiscal year 1995 funds that have become available during the fiscal year. Table I.5 presents funds requested for fiscal year 1996 that exceed identified needs. Table I.6 lists the areas which we questioned but could not quantify the amount of funds available.

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We provided a draft of this report to DOE and discussed the information presented with officials from DOE's Office of Chief Financial Officer, including the Director, Budget Analysis Division. They said that our report suggests that potentially higher balances are available for offsets against budget requirements than the department assumed. We agree. This situation exists because DOE does not yet have an effective methodology for examining the entire spectrum of uncosted balances and determining the maximum amount of available uncosted balances in its programs and facilities. Additionally, DOE officials stated that the report appeared to assume that only prefinancing and remaining unencumbered balances could be used to offset the department's needs. They noted that because DOE's needs for offsetting balances was greater than the amounts in the prefinancing and remaining unencumbered categories, they would also need to use funds in the approved work scope category. We did not intend to suggest that approved work scope could not be used for offsets and, in fact, identified numerous instances where approved work scope funds were not adequately supported and could be used.

We conducted our work from February through July 1995 in accordance with generally accepted government auditing standards. Enclosure II discusses of our objective, scope, and methodology.

As agreed with your office, unless you publicly announce its contents earlier, we plan no further distribution until 30 days after the date of this letter. At that time, we will send copies to the appropriate congressional committees and the Secretary of Energy. We will also make copies available to others upon request.

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I trust that this information will assist you in your oversight of DOE's uncosted balances. Please call me at (202) 512-3841 if you or your staff have any questions.

Sincerely yours,

A handwritten signature in black ink, appearing to read "Victor S. Rezendes". The signature is fluid and cursive, with a large initial "V" and "R".

Victor S. Rezendes
Director, Energy and
Science Issues

Enclosures - 2

THE DEPARTMENT OF ENERGY'S EXCESS UNCOSTED OBLIGATIONS**Table I.1: Summary of DOE Funds That Are Excess to Identified Needs**

Dollars in millions

	Energy and Water Development accounts	Interior and Related Agencies accounts	Total
Fiscal year 1994 encumbered and approved work scope amounts that should be unencumbered (see table I.2)	\$ 75.5	\$21.9	\$ 97.4
Fiscal year 1994 prefinancing and unencumbered amounts (see table I.3)	225.4	22.1	247.5
Fiscal year 1995 funds that are no longer needed (see table I.4)	132.6	-	132.6
Fiscal year 1996 funds in DOE's budget request that exceed identified needs (see table I.5)	51.7	-	51.7
Total	\$485.2	\$44.0	\$529.2

Table I.2: Fiscal Year 1994 Encumbered and Approved Work Scope Amounts That Should Be Unencumbered

Dollars in millions

	Encumbered	Approved work scope	Total
ENERGY AND WATER DEVELOPMENT ACCOUNTS			
Weapons Activities			
Lawrence Livermore National Laboratory	\$0.029	-	\$ 0.029
Nevada Test Site	-	\$ 0.374	0.374
Rocky Flats Site	-	1.023	1.023
Sandia National Laboratories	-	2.500	2.500
Savannah River Site	-	6.541	6.541
Subtotal	0.029	10.438	10.467
Materials Support and Other Defense Programs			
Chicago Operations Office	0.005	-	0.005
Nevada Test Site	-	0.032	0.032
Oak Ridge (Y-12)	-	5.670	5.670
Sandia National Laboratories	-	0.730	0.730
Savannah River Site	-	46.203	46.203
Subtotal	0.005	52.635	52.640
Defense Environmental Restoration and Waste Management			
Argonne National Laboratory	-	0.118	0.118
DOE Headquarters	0.815	-	0.815

	Encumbered	Approved work scope	Total
Hanford Site	-	\$ 4.360	\$ 4.360
Rocky Flats Site	-	4.032	4.032
Savannah River Site	-	0.578	0.578
Subtotal	\$0.815	9.088	9.903
Nuclear Waste Disposal Fund			
Nevada Test Site	0.016	-	0.016
Subtotal	0.016	0.000	0.016
Energy Supply Research and Development			
Argonne National Laboratory	0.056	-	0.056
Chicago Operations Office	0.159	-	0.159
Hanford Site	-	0.050	0.050
Lawrence Berkeley Laboratory	-	0.003	0.003
Lawrence Livermore National Laboratory	0.496	-	0.496
National Renewable Energy Laboratory	-	1.640	1.640
Subtotal	0.711	1.693	2.404
General Science and Research			
Lawrence Berkeley Laboratory	-	0.021	0.021
Subtotal	-	0.021	0.021
Subtotal - Energy and Water Development Accounts	1.576	73.875	75.451

	Encumbered	Approved work scope	Total
INTERIOR AND RELATED AGENCIES ACCOUNTS			
Naval Petroleum and Oil Shale Reserves			
Nevada Test Site	-	\$ 0.167	\$ 0.167
Naval Petroleum Reserve #1 and #2 (Elk Hills)	-	19.000	19.000
Subtotal	-	19.167	19.167
Strategic Petroleum Reserve			
DOE headquarters	-	1.800	1.800
Subtotal	-	1.800	1.800
Energy Conservation			
National Renewable Energy Laboratory	-	0.964	0.964
Subtotal	-	0.964	0.964
Subtotal - Interior and Related Agencies Accounts	-	21.931	21.931
Total	\$1.576	\$95.806	\$97.382

Table I.3: Fiscal Year 1994 Prefinancing and Unencumbered Amounts

Dollars in millions

	Prefinancing	Unencumbered	Total
ENERGY AND WATER DEVELOPMENT ACCOUNTS			
Amount identified in DOE's uncosted obligation reporting system	\$14.754	\$193.814	\$208.568
Additional prefinancing amounts identified during our review			
Argonne National Laboratory	10.220	-	10.220
Lawrence Berkeley Laboratory	0.616	-	0.616
Oak Ridge (Y-12)	5.977	-	5.977
Subtotal	31.567	193.814	225.381
INTERIOR AND RELATED AGENCIES ACCOUNTS			
Amount identified in DOE's uncosted obligation reporting system	17.148	3.854	21.002
Additional prefinancing amounts identified during our review			
Argonne National Laboratory	1.008	-	1.008
Lawrence Berkeley Laboratory	0.118	-	0.118
Subtotal	18.274	3.854	22.128
Total	\$49.841	\$197.668	\$247.509

Table I.4: Fiscal Year 1995 Funds That Are No Longer Needed

Dollars in millions

	Amount	Reason for availability
ENERGY AND WATER DEVELOPMENT ACCOUNTS		
Weapons Activities		
Los Alamos National Laboratory		
Project 88-D-10605 Dual Axis Radiographic Hydrodynamic Test Facility	\$14.00	On hold pending completion of environmental impact statement
Subtotal	14.00	
Defense Environmental Restoration and Waste Management		
DOE Headquarters		
Miscellaneous Contracts	9.39	Excessive carryover balances
Subtotal	9.39	
Hanford Site		
Project 93-D-183 Multi-Function Waste Tank Facility	50.44	Delayed; may be canceled
Project 93-D-183 Initial Pretreatment Module	7.75	Delayed; scope reduced
Project 93-D-182 Cross Site Transfer System	6.92	Delayed
Project 90-D-172 Aging Waste Transfer Lines	1.71	Delayed; being rescoped
Project 94-D-411 Waste Receiving and Processing Facility	8.30	On hold pending privatization

	Amount	Reason for availability
Project 94-D-411 Enhanced Radioactive Mixed Waste Facility	\$ 5.62	Delayed
Project 94-D-411 Solid Waste Retrieval Facility	1.74	Delayed
Tank Waste Remediation System	1.80	General plant project; not initiated in a timely manner
N-Springs Barrier Wall	4.71	Delayed
Fast Flux Test Facility Deactivation Project	11.20	Costs less than estimated
Project 94-D-407 Initial Tank Waste Retrieval System	5.27	Funds will not be needed in fiscal year 1995
Subtotal	105.46	
Idaho National Engineering Laboratory		
Record Storage Facility	1.10	Abandoned; no longer needed
Change/Lunch Room	1.10	Abandoned
Naval Reactor Facility Parking Lot	0.70	Scope reduced
Remote Analytical Laboratory Upgrade	0.20	Suspended
Bunkhouse Expansion	0.60	Abandoned
Subtotal	3.70	
Subtotal - Energy and Water Development Accounts	132.55	
INTERIOR AND RELATED AGENCIES ACCOUNTS		
None	-	
Total	\$132.55	

Table I.5: Fiscal Year 1996 Funds in DOE's Budget Request That Exceed Identified Needs

Dollars in millions

	Amount	Reason funds in excess of needs
ENERGY AND WATER DEVELOPMENT ACCOUNTS		
Weapons Activities		
Savannah River Site		
Project 93-D-123 Nonnuclear Reconfiguration	\$3.739	On hold
Subtotal	3.739	
Material Support and Other Defense Activities		
Naval Reactors		
Project 90-N-102 Expended Core Facility Dry Cell Project	0.800	Delayed
Oak Ridge (Y-12)	2.025	Funds that will not be needed in fiscal year 1996
Subtotal	2.825	
Defense Environmental Restoration and Waste Management		
Idaho National Engineering Lab		
Waste Management Capital Equipment Funds	0.200	Unneeded contingency funds
90-D-177 Waste Characterization and Storage Facility	1.400	Delayed

	Amount	Reason funds in excess of needs
92-D-181 Test Area North Water Line Upgrade Building 602	\$ 0.800	Building to be closed; project scope reduced
General Plant Projects	0.400	Construction delays
Subtotal	2.800	
Hanford Site		
93-D-183 Multi-Function Waste Tank Facility	31.000	Delayed; may be cancelled
93-D-182 Cross Site Transfer System	3.590	Delayed
90-D-172 Aging Waste Transfer Lines	2.000	Delayed; being rescoped
94-D-411 Enhanced Radioactive Mixed Waste Storage Facility	2.060	Delayed; scope reduced
94-D-407 Initial Tank Waste Retrieval System	2.230	Funds not needed in fiscal year 1996
Subtotal	40.880	
Lawrence Livermore National Laboratory		
Capital Equipment funds	0.900	Could be used to offset fiscal year 1996 request
Subtotal	0.900	
Subtotal- Defense Environmental Restoration and Waste Management	44.580	

	Amount	Reason funds in excess of needs
Energy Supply Research and Development		
Lawrence Berkeley Laboratory		
Project 94-E-339	\$ 0.598	Delayed; funds will not be needed until fiscal year 1997
Subtotal	0.598	
Subtotal - Energy and Water Development Accounts	51.742	
INTERIOR AND RELATED AGENCIES ACCOUNTS		
None	-	
Total	\$51.742	

Table I.6: Other Areas Where Fiscal Year 1994 Carryover Funds May Be Available for Budget Reduction

Dollars in millions

Facility	Amount	Description of funds
Carryover funds associated with closed contracts at DOE offices or M&O contractors		
Lawrence Livermore National Laboratory	\$ 1.964	These funds are encumbered by contracts, which expired as far back as September 1985, that are awaiting audit. Funds will be released after audit but probably could be released now.
Chicago Operations Office	23.100	These funds are encumbered by contracts awaiting final audit. The majority of these funds could be released now.
Oak Ridge	44.964	These funds are encumbered by completed contracts awaiting final audit. The majority of these funds could be released now.
National Renewable Energy Laboratory	0.124	These funds are encumbered by six contracts that have been audited but not yet closed. These funds will be made available when the contracts are formally closed. There are 384 additional completed, but not yet closed, contracts that may yield additional funds when closed.
Savannah River Site	0.386	These funds are associated with a contract that has been completed. The contractor is retaining the funds for closeout costs, which are not likely to be incurred.

Facility	Amount	Description of funds
Albuquerque Operations Office	\$ 3.222	These are additional funds held for claims resulting from permanent station changes. These funds were obligated between 1986 and 1991, and it is unlikely that claims will be made for these funds.
Subtotal	73.760	
Carryover approved work scope funds that contractors did not properly justify		
Lawrence Livermore National Laboratory	38.897	These funds were reported as approved work scope; however, support provided was for purchase requisitions for indirect items, which we found to be invalid. Moreover, this support does not meet the approved work scope definition. Laboratory officials said that they do have work for these funds that would meet the definition, but they did not provide documentation of the work during our review. Consequently, we are unable to determine how much of these funds could be used to offset future budget needs.

Facility	Amount	Description of funds
National Renewable Energy Laboratory	\$ 46.600	At the end of fiscal year 1994, the laboratory had categorized \$49.6 million as unreserved approved work scope funds. Work authorizations for these funds often did not have specific milestones and therefore did not meet DOE's approved work scope definition. Laboratory officials said that these funds are for work they plan to conduct in the future and, therefore, are approved work scope; however, we found that fiscal years 1994 and 1995 work and funding are indistinguishable from each other. Consequently, we are unable to determine how much of these funds could be used to offset future budget needs.
Argonne National Laboratory	48.100	Argonne had an approved work scope balance of \$48.1 million for which it could not provide support that met the approved work scope definition. These programs are primarily in the basic research area, and laboratory officials do not believe it feasible to hold such programs to the definition. The officials said that there are approved program activities to support these funds, but they did not have the necessary documentation. Consequently, we are unable to determine how much of these funds could be used to meet future budget needs.
Subtotal	133.597	
Total	\$207.357	

OBJECTIVE, SCOPE, AND METHODOLOGY

Our objective in this review was to identify uncosted balances related to ongoing programs that could be used to offset the Department of Energy's (DOE) fiscal year 1996 budget needs. To attain our objective, we assessed whether (1) uncosted obligations were being presented accurately in DOE's uncosted obligations report and (2) all funds being requested for fiscal year 1996 were needed on the basis of projected uncosted obligations balances.

To assess the overall status of uncosted obligations, we obtained and reviewed reports generated by DOE's Office of Departmental Accounting and Financial Systems that detailed the uncosted obligations that existed at the end of fiscal year 1994. Using these reports, we selected for review uncosted balances at the 13 DOE facilities.

To determine the accuracy of the information in the uncosted obligations reports, we compared a judgmental sample of the amounts reported as encumbrances and approved work scope to supporting documentation to verify if there was evidence supporting the amounts reported by contractors and the reason why the amounts were not listed as unencumbered. For those programs selected at a facility, we traced the amounts reported as encumbrances to the contractors' information systems or summary listings. We then selected the largest transactions--such as a purchase order--from those listings and traced the transactions to the actual documentation. We used a similar process to examine the work authorization and milestone data for amounts reported as approved work scope.

To determine the amount of funds being requested for fiscal year 1996 that may not be needed, we identified projects at each facility for which fiscal year 1996 funds are being requested. We examined the status of uncosted obligations relating to each project. We discussed with DOE and contractor officials the need for the amounts that DOE had not authorized the contractor to spend, amounts for projects that had been delayed, and amounts for projects that had been reduced in scope or cancelled. We compared these amounts to each project's fiscal year 1996 requested funding to determine the amount that could be used to offset fiscal year 1996 budget needs. Additionally, as we conducted our work, we identified funds that became available during fiscal year 1995 as a result of program redirections, or other actions taken by DOE or contractors that reduced funding needs.

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