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Department of Energy

Progress Made Under Its Strategic Alignment and Downsizing Initiative

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Mr. Chairman and Members of the Subcommittee:

We are pleased to be here today to summarize the results of our recently completed report on the progress the Department of Energy has made on its Strategic Alignment and Downsizing Initiative. At your request, we (1) determined whether savings projected to date under the Initiative have been met and if additional savings will likely be achieved and (2) identified additional opportunities for DOE to reduce its current and future expenditures. This testimony is based on our May 1996 report, which your committee is releasing today.¹

In summary, we found that DOE's planned budget savings are on target. By amending its fiscal year 1996 budget request and selling excess assets, DOE will save the \$221 million that it had planned to achieve this year under the Initiative. During the rest of the Initiative's 5-year period, DOE plans to maintain and expand the first year's savings to achieve the Initiative's goal to save \$1.7 billion.

In addition, DOE is depending on process improvements and reengineering efforts to enable it to fulfill its missions under the reduced budgets called for by the Initiative. Because some activities are in their early stages and many milestones have yet to come due, it is not yet clear if DOE will reduce costs in certain areas to the extent planned in its budget reductions. Furthermore, some overly optimistic initial reports of cost savings illustrate the need for DOE management to be diligent in validating claims of cost savings. Otherwise, managers might believe those savings were occurring in specific activities, when the target reductions were being absorbed elsewhere.

Discussions with DOE officials revealed several opportunities to achieve additional cost savings by more broadly applying some aspects of the Initiative's plans and strategies. For example, one way would be to encourage its contractors to sell more of DOE's excess assets by providing incentives and policies for the contractors to identify and sell them. However, fulfilling the potential of these opportunities will require further actions by DOE.

Background

DOE's May 1995 Strategic Alignment and Downsizing Initiative is part of a broader set of DOE efforts to reduce its budget. In December 1994, the

¹Energy Downsizing: While DOE Is Achieving Budget Cuts, It Is Too Soon to Gauge Effects (GAO/RCED-96-154, May 13, 1996).

Secretary identified the following major efforts to save \$14.1 billion between fiscal years 1996 and 2000: (1) implementing a strategic alignment and downsizing initiative; (2) selling four of its Power Marketing Administrations, one of its Naval Petroleum Reserves, and stores of highly enriched uranium; (3) improving cleanup techniques and contracting approaches at its weapons sites; and (4) implementing recommendations from two commissions to improve DOE's defense laboratories and applied research programs.

The Initiative's efforts to achieve savings use six strategies: reduce federal staffing levels, travel budgets, and support service contracts as well as sell assets, improve information management systems, and streamline its National Environmental Policy Act (NEPA) process. Under these six strategies, DOE allocated federal staffing reductions and budget targets to individual offices. DOE senior managers next instructed offices to develop workforce plans to absorb their assigned cuts. They then established teams led by senior-level "champions" to prepare plans to implement DOE's strategies to work within its staff and budget reductions. Both sets of plans include reengineering and process improvement efforts.

Budget Savings Are on Schedule, but It Is Too Soon to Gauge Success of Cost-Saving Strategies

By amending its fiscal year 1996 budget request to reflect planned savings, DOE has already achieved the savings projected for the first year of its Initiative. It plans to achieve future savings under the Initiative through additional reductions in its budgets. DOE's strategies for cutting costs to absorb the fiscal year 1996 budget reductions are on track. However, many planned actions, such as process improvements and reengineering efforts that are needed to fulfill DOE's missions within future budget reductions, are just starting.

DOE's Targeted Savings Are on Schedule

DOE has met most of its fiscal year 1996 targeted savings. In June 1995, DOE amended its fiscal year 1996 budget request to reflect savings of \$208 million from implementing the Initiative. DOE also anticipates an additional savings of \$15 million from asset sales during fiscal year 1996. DOE has made the cuts needed to meet the targeted cost-savings reflected in its fiscal year 1996 budget request. As of March 31, 1996, DOE had cut 1,467 positions from its fiscal year 1995 allocation of 14,057 full-time positions; this reduction surpasses its goal of eliminating 1,380 positions by the end of this fiscal year.²

²This base level excludes the five Power Marketing Administrations and the Federal Energy Regulatory Commission.

Other plans to achieve cost savings for fiscal year 1996 also appear to be on track. For example, obligations for support service contracts are currently lower than planned. In fact, DOE projects that its cost savings from these contracts, as well as its strategies for travel and information resources management, will be greater than planned. Savings from selling assets and streamlining the NEPA process are also on track to reach DOE's targeted cost savings for fiscal year 1996.

DOE plans to use future budget reductions to achieve the Initiative's remaining savings. For some strategies, DOE could achieve its targeted cost savings for the Initiative's remaining years by maintaining the cost savings it will have achieved in fiscal year 1996. For example, DOE's strategies relating to the budgets for travel and support service contracts require only that DOE maintain fiscal year 1996 cost savings each year through the year 2000. For other strategies, DOE must take additional actions to achieve the necessary cost savings. The targeted cost savings from reducing the workforce require eliminating an additional 2,408 positions between fiscal years 1997 and 2000. Similarly, achieving the targeted cost savings from improving information management, selling assets, and streamlining the NEPA process will require additional actions each year over the Initiative's 5-year period. For example, DOE's strategy to sell assets will require that it continue to identify excess assets in its inventory and sell them.

Critical Milestones, Process Improvements, and Reengineering Efforts to Achieve Additional Cost Savings Are in Their Early Stages

While DOE plans to improve many of its processes and operations and take other actions to fulfill its missions within the reduced budgets planned under the Initiative, the cost-savings potential of its efforts is uncertain because most of them are just beginning and some are not scheduled to be completed for several years. For example, of DOE's 45 implementation plans, 22 plans have milestones that delineate future actions (to be met after May 1996) and 5 of those plans have milestones that will not come due until the year 2000. Furthermore, many of the workforce plans identified process improvements and reengineering efforts that were just beginning. Because these actions are in their early stages, it is not yet clear if they will reduce costs to the extent DOE envisioned. According to DOE's Associate Deputy Secretary for Field Management, who is chairing the Initiative's implementation team, if process improvements and reengineering efforts do not keep pace with budget cuts, operational problems could result. This situation would likely either force the improvements to occur or curtail the associated function. Finally, he stated that if a function could absorb major cuts while not changing its

processes, it may indicate that the function was over-funded or is not critical to DOE's operations.

Some Initial Claims of Cost Savings Were Overly Optimistic

While DOE's Initiative has achieved some overall savings through planned budget cuts, we identified several examples of initial reports of cost savings that were overstated and thus do not reliably depict the progress that DOE has been making toward operating within its reduced budget. According to DOE officials responsible for monitoring the Initiative, these initial reports had not yet been validated. For example, an initial DOE report on the information management strategy included an annual savings of \$9.9 million for fiscal year 1996 by providing electronic versions of DOE directives departmentwide through a system called Explorer. This annual savings was based on using the Internet to eliminate hard-copy distributions of DOE directives at 85 sites. However, these officials believe that this system has been implemented at only one site to date and thus will result in savings of about \$115,000. Moreover, these officials were uncertain if the system would be implemented at all the remaining sites in time to achieve the full cost savings the initial report had claimed.

The same DOE report on the information management strategy also overstated the savings from implementing DOE's Automated Transportation Management System at the Hanford site. According to the headquarters transportation management official responsible for implementing this system, the projected savings claimed by the Hanford site should have been about \$550,000 rather than \$3 million, which represented the projected saving for implementing this system departmentwide.

Both of these initial claims illustrate the importance of DOE's validating claims of cost savings. If DOE managers were to depend on these reports containing overstated cost savings, they might think that planned actions intended to absorb budget reductions occurred, when in fact they had not. Officials in DOE's Office of Information Management told us that they have begun to develop a process and guidance to validate cost savings claimed under its information management strategy.

Additional Opportunities Exist for DOE to Reduce Current and Future Expenditures

Discussions with DOE officials revealed opportunities to achieve additional cost savings by more broadly applying some aspects of the Initiative's plans and strategies. However, to fulfill the potential of these opportunities will require further actions by DOE.

For example, according to DOE officials, the Department lacks an adequate inventory system to identify excess assets to sell. These officials added that because of the vast supply of assets DOE owns, it could potentially realize significantly more income than the \$75 million projected by selling assets under the Initiative. However, DOE's contractors have no incentives to inventory and sell the excess assets they manage. DOE is developing policies to provide incentives for identifying and selling excess assets and to transfer proceeds from their sale to the Treasury. However, until these policies are implemented, DOE believes the strategy to sell excess assets will not achieve its full potential.

DOE could also achieve greater savings if it included its management and operating contractors in its strategy to improve information management. According to its Office of Information Management, although DOE based its goals to achieve cost savings through improving information management on budgetary data for all of its offices and sites, it does not plan to include all of DOE's contractors. DOE's information management office does not believe the Department has the authority to compel contractors to identify their site information resources or to implement improvements. However, if DOE included all of its contractors, the Department could achieve substantial additional savings because its contractors annually spend over 90 percent of DOE's funds for information technology (an estimated \$1.45 billion out of \$1.6 billion for fiscal year 1997).

Moreover, according to DOE officials, substantially greater savings could be achieved under the Initiative's planned action to consolidate its transportation and packaging functions. While consolidating these functions at the headquarters level was estimated to save \$6.4 million, DOE officials said that implementing this action at the site level could achieve an estimated cost savings of \$432.5 million during the Initiative's 5-year period. This additional savings will depend on DOE's ability to restructure its field transportation activities and establish interfaces between site and headquarters transportation management systems. According to DOE officials, however, DOE may not be able to accomplish these two tasks because of staff and funding reductions.

In conclusion, Mr. Chairman, although DOE plans to meet the Initiative's savings goals through budget cuts, many of its planned actions to maintain operations under the Initiative's budget and staffing reductions are just beginning. For DOE to continue to fulfill its missions, its management needs to focus its attention on implementing all the Initiative's planned actions. Some overly optimistic initial reports of cost savings illustrate the need for DOE management to be diligent in validating claims of cost savings, lest managers believe those savings are occurring in specific activities, when in fact, the reductions are being absorbed elsewhere. As DOE continues to implement its Strategic Alignment and Downsizing Initiative, DOE also needs to be alert for and consider additional opportunities for savings.

Mr. Chairman, this concludes our prepared statement, which has highlighted some of the information contained in our report. We will be happy to respond to any questions you or any of the Members of the Subcommittee may have.

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