



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

Resources, Community, and  
Economic Development Division

B-272441

August 8, 1996

Mr. Donald W. Pearman  
Acting Chief Financial Officer  
Department of Energy

Dear Mr. Pearman:

In each of the last several years, we have reviewed the unobligated and uncosted funds within the Department of Energy (DOE) that may be available to reduce the budget request for the next fiscal year.<sup>1</sup> In the course of our work this year, we noted that your office has established three restricted reserves to respond to unforeseen departmental funding requirements—the Prior-Year Deobligation Reserve, the Prior-Year Cost Adjustment Reserve, and the Project Overrun Reserve. These reserves are comprised of deobligated funds that no longer have a defined need and cannot be used unless released by your office.<sup>2</sup> However, we found that DOE has not consistently followed its own criteria for placing funds in or using funds from these three reserves. DOE officials told us that they view the criteria governing the three reserves as general guidance but that the criteria may need to be revised to better reflect departmental needs and the full range of purposes for which funds in these reserves can be used.

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<sup>1</sup>Once DOE receives its obligational authority from the Congress, it obligates funds by placing orders or awarding contracts for goods and services that will require payment during that fiscal year or in the future. Unobligated funds represent the portion of DOE's obligational authority that the Department has not obligated. Uncosted funds represent the portion of DOE's authority that the Department has obligated for goods and services but for which it has not yet incurred costs.

<sup>2</sup>Deobligated funds are the funds resulting from the downward adjustment of obligations that were previously made. Such deobligations may occur due to the cancellation of a project or contract or the correction of a recorded obligation.

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DOE'S CHIEF FINANCIAL OFFICER HAS ESTABLISHED THREE RESTRICTED RESERVES

According to Office of Budget officials, DOE has implemented certain management initiatives to promote efficiency and reduce the Department's overall budgetary requirements. One of those initiatives has been to centralize certain unobligated funds into headquarters-controlled financial reserves and then manage the allocation of funds from these reserves so that they are used in the best interests of the Department. Our review identified three such DOE reserves—the Prior-Year Deobligation Reserve, the Prior-Year Cost Adjustment Reserve, and the Project Overrun Reserve. All three reserves are controlled by DOE's Chief Financial Officer. The funds in these reserves maintain their appropriation identity and cannot be moved to another DOE appropriation account unless the transfer is specifically authorized by statute or meets the conditions of DOE's transfer authority.<sup>3</sup>

The Prior-Year Deobligation Reserve is comprised of funds resulting from the downward adjustment of obligations that were made in past fiscal years. According to Office of Budget officials, because the original obligation occurred in a prior year, the deobligated funds are not likely to be needed for the activity originally funded. Such deobligations may occur due to the cancellation of a project or the correction of a recorded obligation. Before establishing this reserve, prior-year deobligations were automatically available for reobligation by the DOE programs that had made the original obligations. With the establishment of this reserve, DOE programs were instructed to identify prior-year deobligations for transfer to this headquarters-controlled reserve.

Before obtaining funds from the Prior-Year Deobligation Reserve, a DOE program must submit a written request and obtain the approval of the Department's Office of Budget. Any request, according to DOE guidance, must meet one of the following criteria for approval: (1) necessary to meet emergency circumstances; (2) mandated by law; (3) a liability that is in the best interest of the government to liquidate as soon as possible; or

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<sup>3</sup>Under 42 U.S.C. 7269a, DOE may transfer funds between appropriations as long as (1) no more than 5 percent of either appropriation is reduced or increased and (2) DOE submits the proposed transfers to the House and Senate appropriations committees. Section 7269 of title 42 provides that DOE, when authorized in an appropriation act, in any fiscal year may transfer funds from one appropriation to another.

(4) necessary to prevent the detrimental delay or postponement of a project, program, or activity.

The Prior-Year Cost Adjustment Reserve is similar to the Prior-Year Deobligation Reserve. The reserve is comprised of deobligations from prior years that meet two criteria. First, the prior-year deobligations cannot be associated with a current operating program. Second, the prior-year deobligations should result from major, extraordinary, and significant accounting adjustments, such as those reflecting changes in policy or the correction of accounting errors. For example, in August 1993, about \$68.3 million was placed into the reserve as a result of DOE's overpayment on a contractor's employee life insurance program at the Sandia National Laboratory. DOE concluded that this overpayment could not be associated with a current operating program. Deobligations from construction work in progress are specifically excluded from this reserve. Requests for funds from this reserve must meet the same criteria outlined above, that is, they cannot be associated with a current operating program or construction work and should result from a significant accounting adjustment.

The Project Overrun Reserve is comprised of deobligated funds resulting from cost underruns on construction projects. The reserve is to be used to fund cost overruns on construction projects. For example, funds from this reserve have been used to close out activities on other construction projects. Each year, DOE has asked its organizations to review all open construction projects and close those projects that are warranted. According to DOE guidance, any obligations in excess of costs are to be deobligated and returned to headquarters to be placed into the Project Overrun Reserve. Placing funds in this reserve provides a source of funding to close other construction projects with cost overruns.

The following table shows the fiscal year-end balances in the three reserves since September 1993 and the funds available as of May 1996.

Table 1: Year-End Balances of DOE's Three Reserves, Fiscal Years 1993 to 1995 and Through May 1996

Fiscal year	Prior-Year Deobligation Reserve <sup>a</sup>	Prior-Year Cost Adjustment Reserve <sup>b</sup>	Project Overrun Reserve <sup>c</sup>	Total
September 1993	\$96,061,261	\$4,824,255	\$1,114,209	<b>\$101,999,725</b>
September 1994	\$82,808,042	\$2,320,500	\$2,806,747	<b>\$87,935,289</b>
September 1995	\$31,779,215	\$2,320,500	\$3,687,765	<b>\$37,787,480</b>
May 1996	\$30,792,216	\$903,107	\$11,137,582	<b>\$42,832,905</b>

<sup>a</sup>The highest balance in this reserve has been about \$110 million, which was attained in midfiscal year 1993.

<sup>b</sup>The highest balance in this reserve has been about \$69 million, which was attained in midfiscal year 1993.

<sup>c</sup>The highest balance in this reserve has been about \$11 million, which was attained in May 1996).

Source: DOE.

Of the three reserves, DOE has used the Prior-Year Deobligation Reserve most frequently. Since September 1993, DOE has funded 53 requests totaling about \$91.4 million from this reserve. Conversely, the other two reserves have been used sparingly. Since September 1993, three requests amounting to about \$4.5 million have been funded from the Prior-Year Cost Adjustment Reserve and two requests totaling about \$0.6 million have been funded from the Project Overrun Reserve.

DOE HAS NOT CONSISTENTLY ADHERED TO ITS CRITERIA GOVERNING THE THREE RESERVES

We found that DOE has not consistently adhered to its criteria governing the three reserves. Specifically, we noted that DOE has not consistently followed its own criteria governing the use of funds from the Prior-Year Deobligation Reserve and the Prior-Year Cost Adjustment Reserve. In addition, DOE has not consistently followed its own guidance for placing funds into the Project Overrun Reserve.

Any request for funds from the Prior-Year Deobligation Reserve must be submitted in writing and meet one of four criteria. We identified, however, four requests during fiscal years 1992 through 1995 that involved DOE's Departmental Administration in which funds were obtained from the reserve without documentation as to why those funds were needed.<sup>4</sup> The four requests totalled over \$3.2 million. The DOE staff responsible for reviewing these requests said the requests were most likely verbally discussed before being approved. The DOE staff, however, could not provide us any record of those discussions or detailed information on how the funds were used for our review.

In additional requests for funds from the Prior-Year Deobligation Reserve, the reason stated on the request did not meet one of DOE's four criteria for approval: emergency circumstances, congressional mandate, a government liability that is in the best interests of the government to liquidate as soon as possible, or prevention of detrimental project delay. The following examples illustrate requests that did not meet any of DOE's criteria.

- The Office of the Chief Financial Officer, in fiscal year 1994, received about \$130,000 from the reserve to computerize the Departmental Audit Report Tracking System.
- The Office of Resource Management, Assistant Secretary for Policy, in fiscal year 1995, received about \$460,000 from the reserve to establish a DOE

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<sup>4</sup>Departmental Administration is a DOE appropriation account. Offices funded by this appropriation account include such offices as the Office of the Chief Financial Officer; the Office of the Assistant Secretary for Policy, Planning, and Program Evaluation; and the Office of the Assistant Secretary for Human Resources and Administration.

office in Moscow to work closely with the U.S. embassy in coordinating all departmental programs in Russia and the newly independent states.

- The Office of Public and Consumer Affairs, in fiscal year 1995, received about \$2,300 from the reserve to pay for DOE press releases and monitoring newsclips about DOE.
- Energy Supply Research and Development, a DOE program, in fiscal year 1995, received about \$100,000 from the reserve to provide funds to the Hispanic Radio Network for programs designed to encourage and assist Hispanic students in pursuing careers in scientific and technical fields.
- The Office of the Chief Financial Officer, in fiscal year 1996, received about \$600,000 from the reserve to promote U.S.-Israeli cooperative science and technology activities.

The DOE Controller and the Director, DOE's Budget Analysis Division, told us that their office has viewed the four criteria as only general guidance to follow in addressing each request for funds from the Prior-Year Deobligation Reserve. Accordingly, if a valid funding requirement or programmatic need arose, as was the case in some of the examples cited above, it has been their office's practice to review the issues on a case-by case basis and to fund the requirement as prudence dictates.

Similarly, for the Prior-Year Cost Adjustment Reserve, we identified four requests that were funded but did not meet DOE's established criteria. The reserve is not to be used for ongoing programs and, specifically, not for ongoing construction work. However, in fiscal year 1994, Defense Environmental Restoration and Waste Management obtained over \$500,000 from this reserve to settle a subcontractor's claim against the K-Reactor Cooling Tower construction project at the Savannah River Plant. Likewise, in fiscal year 1993, Defense Programs obtained over \$1.5 million from the reserve to complete cost activities associated with the construction of the Replacement Tritium Facility at the Savannah River Plant. Both cases were not only construction projects but both were also ongoing at the time of the requests.

In regard to the Project Overrun Reserve, we identified 37 cases that did not consistently follow DOE's Office of Budget guidance for placing funds into this reserve. This guidance asks that any funds from a project underrun be returned to headquarters to be placed into the Project Overrun Reserve. Instead, DOE's program offices often used their underrun funds to offset the reduction in its fiscal year 1996 appropriation. Defense Programs, for example,

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used about a \$7.4 million underrun from the construction of missile warhead production facilities to help offset its fiscal year 1996 appropriation reduction. One DOE budget reviewer, in explaining such cases to us, said because of the large appropriation reduction that fiscal year, DOE's Office of Budget had no recourse other than to allow the program offices to use the underrun funds as needed.

The DOE Controller and the Director, DOE's Budget Analysis Division, believed it was reasonable to use the reserves for other valid purposes, such as offsets to nonspecific budget reductions and prior-year balances, which were not clearly spelled out in the existing criteria. They recognized that the Department needs to revise its criteria to broaden the possible uses of these reserves.

### CONCLUSIONS

DOE has not consistently followed its own criteria for placing funds in or using funds from the reserves. For instance, in some cases, funds have been allocated from the reserves without any documented reason as to why the funds were needed. In other cases, funds have been allocated for purposes that do not meet established DOE criteria. As a result, DOE cannot ensure that the funds in these three reserves are used in the best interests of the Department.

### RECOMMENDATION

We recommend that you clarify the purpose for the Prior-Year Deobligation Reserve, the Prior-Year Cost Adjustment Reserve, and the Project Overrun Reserve and revise, as necessary, the criteria governing the three reserves. In addition, we recommend that you instruct officials within your office to place a high priority on following the criteria and better documenting that the criteria have been followed.

### AGENCY COMMENTS

We provided copies of a draft of our report to DOE for its comments. We met with department officials, including the DOE Controller and the Director, DOE's Budget Analysis Division. These officials agreed with the facts presented in this report. However, they were concerned with our interpretation of the criteria governing the uses of these reserves. These officials noted that they viewed the criteria as only general guidance and

pointed out that there are valid requirements, such as emerging programmatic needs, that are not covered by the existing criteria.

While we recognize that there may be other justifiable purposes for which funds in these reserves can be used, we believe the criteria should explicitly describe those purposes. In addition, the criteria should clearly delineate DOE's policy on the uses of the reserves so DOE can ensure that they are being used in the best interests of the Department. To reflect DOE's views, we have modified certain sections of the report as well as our conclusions and recommendation.

#### SCOPE AND METHODOLOGY

Our objectives were to (1) identify any restricted financial reserves created by DOE to respond to unforeseen funding requirements and (2) determine whether DOE has been using these reserves according to its criteria. To identify such reserves, we interviewed DOE's Office of Budget officials who informed us of the following three reserves that DOE uses to meet unforeseen funding requirements: the Prior-Year Deobligation Reserve, the Prior-Year Cost Adjustment Reserve, and the Project Overrun Reserve.

To examine whether DOE has been using the three reserves according to its established criteria, we interviewed DOE's Office of Budget officials and reviewed pertinent DOE files and reports. The documentation we analyzed included, but was not limited to, Office of Budget memoranda outlining the criteria governing the reserves; individual requests for funding from the reserves for the period of June 1992 through May 1996; print-outs from DOE's computerized fund distribution system, which provides summary information on the amount of funds in the Prior-Year Deobligation Reserve; DOE's Base Table Report, which provides summary information on the amount of funds in the Prior-Year Cost Adjustment Reserve; and DOE's Status of Appropriation Report, which provides departmental financial information, including the amount of funds in the Project Overrun Reserve.

We performed our work from February through July 1996 at DOE's headquarters. Our work was done in accordance with generally accepted government auditing standards.

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We are sending copies of this report to DOE's Director of Audit Liaison; the Director, Office of Management and Budget; and the House and Senate




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Committees on Appropriations. We will make copies available to others upon request.

If you or your staff have any questions about this report, please contact me at (202) 512-3841. Major contributors to this review were Farrell Fenzel and Robert Baney.

Sincerely yours,

  
for Victor S. Rezendes  
Director, Energy, Resources, and  
Science Issues

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