GAO

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

160410

Resources, Community, and
Economic Development Division

B-279752

May 8, 1998

The Honorable John R. Kasich
Chairman, Committee on the Budget
House of Representatives

Subject: Department of Energy: Status of Fiscal Year 1999 Carryover Balances for Selected DOE Programs

Dear Mr. Chairman:

As agreed with your office, we are providing you with information on our review of the Department of Energy's (DOE) fiscal year 1999 budget request. This report provides information on funding balances remaining from prior years–carryover balances–that may be available to reduce the fiscal year 1999 funding requests for selected programs and on the level of carryover balances in comparison to prior-year appropriations and selected proposals in DOE's fiscal year 1999 budget request. Our review of carryover balances focused on operating funds for four major DOE program areas–Energy Efficiency, Energy Research, Fossil Energy, and Nuclear Energy. Additional information on carryover balances that we presented to your office in an April 14, 1998, briefing is contained in enclosure I.

SUMMARY

Our review found that these four program areas may have from $575 million to $682 million in potentially available carryover balances for operating funds at the beginning of fiscal year 1999. Over 80 percent of these balances are accounted for by the Energy Efficiency (conservation) and Fossil Energy program areas. DOE has proposed using $24.6 million in carryover balances from the four program areas to offset its fiscal year 1999 budget request. We believe that the carryover balances we identified represent a starting point from which to identify amounts that could be used to offset DOE's budget.

160410

BACKGROUND

DOE's fiscal year 1999 budget request totals over $18 billion, of which the funds for Energy Efficiency, Energy Research, Fossil Energy, and Nuclear Energy represent about 30 percent, or $5.4 billion, of the total.

Carryover balances represent funding from prior years' budgets and consist of both unobligated balances and uncosted obligations. Each fiscal year, DOE requests obligational authority from the Congress to meet the costs of running its programs.[1] Once DOE receives this authority, it obligates funds by placing orders or awarding contracts for goods and services that will require payment during the same fiscal year or in the future. Unobligated balances represent the portion of its authority that the Department has not obligated. Uncosted obligations represent the portion of its authority that the Department has obligated for goods and services but for which it has not yet incurred costs. Over the last several years, DOE has significantly reduced the overall level of carryover balances. Furthermore, the Congress has reduced DOE's budget request and recommended that the agency use carryover balances in lieu of new funding.

SOME CARRYOVER BALANCES MAY BE AVAILABLE TO REDUCE DOE'S FISCAL YEAR 1999 BUDGET

On the basis of DOE's program cost estimates for fiscal year 1998, we project that DOE will have about $1.1 billion in carryover balances at the beginning of fiscal year 1999 for operating funds in these four program areas. Using minimum goals for carryover balances of 12 percent and 15 percent,[2] we

[1]Some appropriations do not restrict the time in which funds must be obligated but state that the funds are "to remain available until expended." This situation is generally referred to as "no-year" authority. DOE receives no-year authority for most of its activities.

[2]As discussed in enc. II, we adopted minimum-level carryover balance goals based on an approach first developed by DOE's Environmental Management program. In prior years, we allowed 1 month's carryover balance (or 8 percent) for operating funds and 6 months' carryover balance (or 50 percent) for capital equipment funds. However, in fiscal year 1998, operating and capital equipment activities are no longer funded as separate categories. To account for this change, we calculated a new target percentage (12 percent) for calculating carryover balances that would equal the same carryover balance levels as those calculated under the dual-percentage method of prior years.

estimate that DOE will need a minimum of \$429 million to \$536 million to pay for prior years' commitments that have not yet been completed–thus, leaving about \$575 million to \$682 million in potentially available carryover balances at the beginning of fiscal year 1999. DOE has proposed using \$24.6 million in carryover balances to offset its fiscal year 1999 budget request in these four program areas.

The potentially available carryover balance in the Energy Efficiency and Renewable Energy areas (including conservation) is between \$251 million and \$273 million. By comparison, the fiscal year 1999 budget proposes an increase of \$261 million for the Climate Change Technology Initiative. The potentially available carryover balance of \$316 million to \$336 million in the Fossil Energy area exceeds the \$160 million being requested to support operation of the Strategic Petroleum Reserve without having to sell oil from the reserve. In fact, the carryover balance in Fossil Energy equals about 70 percent of its fiscal year 1998 appropriation (excluding the Clean Coal Technology portion).

These carryover balances represent potentially available funds–the amount of projected carryover balances that exceed a minimum goal for balances needed to meet program commitments. Thus, these balances represent a starting point from which to identify the amount that could actually be used to offset DOE's budget. It should also be noted that when calculating these balances, we did not place any limits on the amount of carryover balances allowed for certain unique program requirements, such as grants that involve multiyear funding. (See enc. II for information on the adjustments made for each program area.) DOE should be able to quantify any other unique characteristics of the programs that determine the need for balances over the goals in order to determine the amount of the balances available to offset the budget request.

AGENCY COMMENTS

We provided DOE with a draft of this report for review and comment. DOE had concerns with our characterization of "potentially available balances." DOE stated that the report "can be read to infer that the totals identified in the report could be used to offset" DOE's fiscal year 1999 request despite the

---

Recognizing that the split between operating and capital equipment funds could vary somewhat from year to year, we also calculated the carryover balance goals at a 15-percent level.

specific statements in the report that cite these balances as a starting point from which to identify, subject to additional justification from DOE, amounts that could be used to offset DOE's budget. In addition, DOE disagreed with the methodology used in our analysis because it relies on percentage goals and, according to DOE, does not take into account unique operating characteristics of DOE programs. Furthermore, DOE cited its own efforts to identify carryover balances and its preferred methodology for identifying levels of carryover balances based on costs and not total obligational authority, which our analysis uses. DOE also provided comments relating to certain Fossil Energy, Energy Research, and Energy Efficiency programs. Where appropriate, we made changes to the report in response to specific comments. (See enc. III for DOE's comments.)

Our report's characterization of "potentially available balances" is consistent with prior reports on this subject going back to 1996, as are the caveats–which DOE recognizes. The report clearly states that "these balances represent a starting point from which to identify the amount that could actually be used" subject to further justification by DOE. We disagree with DOE's comment that we did not take into account unique operating characteristics of DOE programs. In fact, to the extent that DOE provided us with justification for excluding certain balances from this analysis because of the programs' unique operating characteristics we did so (see enc. II for a list of these adjustments). With respect to DOE's preferred method of calculating carryover balances on the basis of cost as opposed to total obligational authority, our methodological difference with DOE has existed for several years, beginning with our April 1996 report on carryover balances.[3] We continue to disagree with DOE's sole reliance on costs to establish carryover balance goals because it does not account for the often large unobligated balances. Furthermore, since DOE's method uses historical data to establish carryover balance goals, it does not contain projections of what the balances may be for the future budget under consideration.

- - - - -

We performed our work from March through April 1998 in accordance with generally accepted government auditing standards. Because of the limited time available to complete this work, we did not verify the reliability of information contained in DOE's financial management information system, which we used

[3]DOE Management: DOE Needs to Improve Its Analysis of Carryover Balances (GAO/RCED-96-57, Apr. 12, 1996).

to analyze the carryover balances. However, DOE's financial management information system is the basis for the Department's its financial statements, which we recently gave an "unqualified opinion" in our review of the first-ever consolidated financial statement for the federal government. (See enc. II for a description of our objectives, scope, and methodology.)

As agreed with your office, we plan to distribute additional copies of this report to the appropriate congressional committees and to the Secretary of Energy. We will also make copies of this report available to others upon request. Please call me on (202) 512-7106 or Edward Zadjura, the Assistant Director responsible for this work, on (202) 512-9914 if you or your staff have any questions. Anne McCaffrey was a major contributor to this report.

Sincerely yours,

Susan D. Kladiva

Susan D. Kladiva
Associate Director, Energy,
Resources, and Science Issues

Enclosures - 3

ENCLOSURE I

GAO

Status of Carryover Balances for Major DOE Programs

Energy Efficiency
Energy Research
Fossil Energy
Nuclear Energy

GAO

Status of Carryover Balances for Major DOE Programs

- Carryover balances consist of:
  - Unobligated balances
  - Uncosted obligations

GAO Status of Carryover Balances for Major DOE Programs

- Unobligated balances are the portion of DOE's obligational authority that DOE has not obligated for goods and services.

- Uncosted obligations are the portion of its obligational authority that DOE has obligated for goods and services but for which it has not yet incurred costs.

GAO Status of Carryover Balances for Major DOE Programs

FY 1998 beginning carryover balance

+ FY 1998 new obligational authority

- FY 1998 projected costs

Projected FY 1999 beginning balance

GAO Status of Carryover Balances for Major DOE Programs

- The carryover balance goal represents the minimum carryover balance needed to meet program requirements.

- The carryover balance goal is calculated by adding the FY 1998 beginning unobligated balance and the FY 1998 new obligational authority and multiplying the result by the carryover balance goal assumption.

GAO Status of Carryover Balances for Major DOE Programs

- The difference between the projected carryover balance and the carryover balance goal represents the potentially available balance at the beginning of FY 1999.
- Adjustments were made to account for individual programs' characteristics that would affect the amount of carryover balance needed to meet unique program requirements.

GAO Status of Carryover Balances for Operating Funding Assuming 12% Carryover Balance

DOE program	FY 1998 beginning balance	FY 1999 projected beginning balance	FY 1999 carryover balance goal	Potentially available balance
Energy and Water Development				
Energy Efficiency	$170,581,458	$110,236,458	$32,842,560	$77,393,898
Energy Research	$369,595,295	$286,219,739	$227,930,871	$58,288,868
Nuclear Energy	$75,312,033	$31,499,033	$30,665,880	$833,153
Total	**$615,488,786**	**$427,955,230**	**$291,439,311**	**$136,515,919**

GAO

Status of Carryover Balances for Operating Funding Assuming 12% Carryover Balance

DOE program	FY 1998 beginning balance	FY 1999 projected beginning balance	FY 1999 carryover balance goal	Potentially available balance
Interior				
Energy Efficiency (Conservation)	$274,180,679	$264,638,679	$55,370,520	$209,268,159
Fossil Energy	$449,697,847	$418,158,457	$82,122,120	$336,036,337
Total	**$723,878,526**	**$682,797,136**	**$137,492,640**	**$545,304,496**

GAO Status of Carryover Balances for Operating Funding Assuming 15% Carryover Balance

DOE program	FY 1998 beginning balance	FY 1999 projected beginning balance	FY 1999 carryover balance goal	Potentially available balance
Energy and Water Development				
Energy Efficiency	$170,581,458	$110,236,458	$41,053,200	$69,183,258
Energy Research	$369,595,295	$286,219,739	$284,913,588	$1,306,151
Nuclear Energy	$75,312,033	$31,499,033	$38,332,350	($6,833,317)
Total	**$615,488,786**	**$427,955,230**	**$364,299,138**	**$63,656,092**

GAO Status of Carryover Balances for Operating Funding Assuming 15% Carryover Balance

DOE program	FY 1998 beginning balance	FY 1999 projected beginning balance	FY 1999 carryover balance goal	Potentially available balance
Interior				
Energy Efficiency (Conservation)	$274,180,679	$264,638,679	$69,213,150	$195,425,529
Fossil Energy	$449,697,847	$418,158,457	$102,652,650	$315,505,807
Total	**$723,878,526**	**$682,797,136**	**$171,865,800**	**$510,931,336**

OBJECTIVES, SCOPE, AND METHODOLOGY

Our objectives in this review were to identify the Department of Energy's (DOE) fiscal year 1999 funding balances remaining from prior years--carryover balances--that may be available to reduce the agency's fiscal year 1999 funding requests for selected programs and to compare the level of carryover balances to prior-year appropriations and selected proposals in DOE's fiscal year 1999 budget request.

We estimated potentially available carryover balances for operating activities for four major DOE program areas--Energy Efficiency, Energy Research, Fossil Energy, and Nuclear Energy. To estimate the amount of potentially available operating fund balances for these four programs at the beginning of fiscal year 1999, we (1) projected their carryover balances at the beginning of fiscal year 1999, (2) set carryover balance goals for each program, and (3) analyzed the difference between the goals and the projections to identify potentially excess balances.

We developed our projected total carryover balances for these programs by adding carryover balances at the beginning of fiscal year 1998 to new funding in fiscal year 1998. We then developed fiscal year 1998 cost estimates on the basis of actual costs for the first 4 months of fiscal year 1998, as compared to actual costs for fiscal year 1997. We then subtracted fiscal year 1998 cost estimates from the total resources available to arrive at the projected carryover balances for the beginning of fiscal year 1999. We provided these cost estimates and the resulting carryover balances to program officials for their review and comment. The Energy Research program accepted our cost estimates, while the other three programs provided their own cost estimates, which we then used to establish the final projected carryover balance for the beginning of fiscal year 1999.

To develop the minimum-level carryover balances needed to meet program requirements, we adopted goals based on an approach first developed by DOE's Environmental Management program of 1 month's carryover balance (or 8 percent) for operating funds and 6 months' carryover balance (or 50 percent) for capital equipment funds. However, beginning in fiscal year 1997, operating and capital equipment activities are no longer funded as separate categories. To account for this change, we calculated a new target percentage (12 percent) for calculating carryover balances that would equal the same carryover balance levels as those calculated under the dual-percentage method of prior years. Recognizing that the split between operating and capital equipment funds could vary somewhat from year-to-year, we also calculated the carryover balance goals at the 15-percent level.

We then compared the projected fiscal year 1999 carryover balances to goals for the minimum-level carryover balances needed to meet program needs for fiscal year 1999. The resulting difference represents the pool of potentially available carryover balances for fiscal year 1999. In analyzing the differences, we adjusted the goals, where possible, to reflect individual programs' characteristics that would affect the amount of carryover balances needed to meet unique program requirements. For example, cooperative agreements in the Fossil Energy area were excluded because they are multiyear agreements with private industry. Table II.1 summarizes the areas in which we made adjustments.

Table II.1: Adjustments to Carryover Balance Goals for DOE Programs

DOE program	Specific adjustment
Energy Efficiency (Conservation)	Grants were not included in the analysis because grants often provide multiyear funding and are awarded late in the fiscal year.
Energy Research	Grants were not included in the analysis because grants often provide multiyear funding and are awarded late in the fiscal year.
Energy Research	The carryover balance goal was adjusted to exclude funding for major items of equipment that have the characteristics of construction projects.
Energy Research	The Small Business Innovative Research Program was not included in the analysis because it is not funded by a specific appropriation but by an assessment on all government research and development funding.
Nuclear Energy	The Naval Reactor Program was not included in the analysis because its activities are not controlled by DOE's Nuclear Energy Program.
Nuclear Energy	The International Nuclear Safety Program was not included in the analysis because its funding is for construction-related projects in the former Soviet Union.
Fossil Energy	Cooperative agreements were not included in the analysis because they are multiyear agreements with private industry.
Fossil Energy	The Clean Coal Technology Program was not included in the analysis because its funding is primarily for long-term construction-related projects.

COMMENTS FROM THE DEPARTMENT OF ENERGY

Department of Energy
Washington, DC 20585

May 1, 1998

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

Dear Mr. Rezendes:

We appreciate the opportunity to review and comment on the draft report "Department of Energy: Status of Fiscal Year 1999 Carryover Balances for Selected DOE Programs," GAO/RCED-98-162R. We have reviewed the report and held discussions with General Accounting Office (GAO) representatives. The Department has a number of specific concerns which are detailed below. Our most significant concern, however, regards the report's characterization of "potentially available balances."

We take issue with the methodology used to arrive at totals and feel that it is not done at a sufficiently detailed level to reveal genuine potential balances. The draft report includes the following statement:

> "...these balances represent a starting point from which to identify the amount that could actually be used to offset DOE's budget...DOE should be able to quantify any other unique program characteristics that determine the need for balances over the goal in order to determine the amount of the balances available to offset their budget request."

Despite this statement the report can be read to infer that the totals identified in the report could be used to offset the Department's FY 1999 request for appropriations. The report does not address the programmatic consequences if these balances were taken as an offset, which would be severely detrimental. The real "availability" of funds for each of the various programs varies and cannot be determined without detailed scrutiny. As detailed below, many of these funds are not yet "costed" because they are being held awaiting the fulfillment of contractual commitments

General Comments

- **The Department disagrees with the overall methodology used by GAO in the analysis of carryover balances.** GAO's approach relies on the application of a percentage goal that is not based on any available analysis and does not take into consideration the unique operating characteristics of the Department of Energy. The methodology produces broad estimates of "potentially available" balances which are not supported by any analysis of the

ENCLOSURE III

Department's operating characteristics or actual performance in managing uncosted balances. In fact, GAO issued a report in April of 1996, "DOE Needs to Improve Analysis of Carryover Balances," which criticized DOE for using the methodology GAO is now employing. We believe that it is inaccurate to set a criterion without any analytical data to support it and then allege that amounts above this criterion are "potentially available."

- **GAO did not identify specific areas where they believe balances may be available.** This is partly due to the fact that no review of the programmatic activities was performed to determine if there were truly any "potentially available" balances and partly because GAO's analysis was conducted at the overall program level (i.e. Energy Conservation, Fossil Energy, etc.) The lack of specific areas where GAO believes balances may be available makes it extremely difficult for DOE to provide an analysis confirming or refuting the existence of "potentially available" balances.

- **The GAO report does not present a balanced view on the management of the Department's carryover balances.** The Department of Energy has made great progress in our analysis, management, and reduction of uncosted balances over the past several years. We believe the GAO approach may foster a false perception that the Department's uncosted balances are not being managed effectively. The following is a summary of DOE's significant accomplishments in this area:

  * Developed a comprehensive methodology for the analysis of uncosted balances
  * Reduced total uncosted balances by $3.8 billion since FY 1994 (38% reduction)
  * Reduced total uncosted balances by $440 million from FY 1996
  * Reduced unobligated balances by $2 billion since FY 1994 (57% reduction)
  * Identified $146.2 million of prior year balances to offset FY 1998 requirements
  * Identified $49.3 million to offset the FY 1999 budget request

  These reductions are representative of the increased emphasis on better understanding and managing uncosted obligations throughout the Department. The ultimate goal of these efforts is to determine the "right level" of uncosted balances for DOE and manage to that target. At this point the Department believes it has achieved an overall level of uncosted balances consistent with sound financial management. Significant budget reductions based on the use of uncosted balances would be detrimental to the Department's ability to accomplish its missions in an effective manner.

- In response to the FY 1996 GAO report, the Department has worked diligently to develop an approach to analyzing uncosted balances to yield reduced balances. In addition to utilizing cost (rather than total obligational authority) as a base, the Department's methodology identifies percentage thresholds based on sound financial management practices for specific types of financial/contractual arrangements and which reflect the unique program, procurement and financial characteristics. This allows the Department to evaluate its overall performance based on the variance between the calculated thresholds and actual balances and to establish more meaningful benchmarks for desired uncosted balance

2

levels. The Department's approach also provides analysis of these balances down to a level below the overall programmatic levels and requires specific justifications for those balances exceeding expectations. This ensures that uncosted balances are managed effectively and drives reductions in overall balances GAO has not disputed this methodology This approach and results of the last analysis are documented in the Department's "Report on Uncosted Balances for Fiscal Year Ended September 30, 1997." We believe GAO should adopt the DOE approach for analyzing carryover balances.

Program Specific Comments

Fossil Energy

- At the beginning of FY 1998. Fossil Energy R&D had an uncosted balance of $240,611,574, of which $83.3 million represents the uncosted portion of 120 cost shared contracts with industry. The remaining balance of $157.3 million is due to ongoing work in various programs.

  The M&O contract at the former Bartlesville site has a $10 million balance that will eventually be released to the contractor once claims are settled. Invoices pending in the Fuel Cell program total close to $25 million and will be liquidated as soon as project costs are verified. A contractor operated facility in Alabama requires the purchase of long lead procurement items that has $16 million in balances reserved. The Department of the Army has work in progress on a project that has over $8 million in uncosted balances. Eleven contracts totaling over $24 million are in progress in our Advanced Clean Fuels Program. Over 100 small contracts with balances less than $1 million each are being monitored at the Federal Energy Technology Center or at the National Petroleum Technology Office in Oklahoma. The balance of the uncosted balances are in various stages of close out with over 95% of these balances going to the contractor to settle claims against the contract or to pay for adjustments to the general and administrative rates allowed by the Federal Procurement Regulations.

  With regard to NPR, GAO has not factored into their review any of the costs associated with close-out activities such as: auditing the unit plan partnership agreement; finalization of equity in the Elk Hills field between Chevron USA and the Government; environmental remediation and post-sale historic preservation responsibilities; litigation close-out regarding contractor performance; NPR-2 lease oversight; and, long-term stewardship of Teapot Dome post remediation and abandonment. Adjustments for these activities should be made in order to establish a meaningful "Carryover Balance Goal". Once these adjustments are considered, we believe the balances that GAO characterizes as potentially available would be reasonable.

3

Energy Research

- GAO has not excluded termination activities related to the Superconducting Super Collider These termination costs represent uncontrollable costing activities which should be excluded from the analysis Additionally, GAO has recognized that construction projects experience significant costing delays due to long lead times and other factors and has therefore excluded construction from their analysis. However, they have not excluded general plant projects and accelerator improvement projects which are also construction activities These activities should also be excluded since long procurement lead times are also associated with fabrication of equipment devices.

  When the balances already excluded by GAO and the above activities are set aside, only about $126 million in uncosted balances for Energy Research remains. This amount equals only nine percent of the available budget authority and, given GAO's methodology, would indicate excellent performance in this area. Additional reductions would adversely impact the program's ability to accomplish its mission.

Energy Efficiency

- GAO did not exclude uncosted balances for Cooperative Research and Development Agreements (CRADAs) nor financial assistance awards (grants) other than those related to Weatherization and State Energy Programs. All grants and CRADAs should be excluded from the GAO analysis since they all experience similar costing delays driven by the same factors.

  The following additional amounts should be subtracted from the GAO estimates of potentially available balances, consistent with their exclusion of other CRADA and grant activities:

$36,523,000	CRADA Funding
$29,500,000	Financial Assistance Grants
$66,023,000	Total Additional Adjustments to "Potentially Available"

Thank you for the opportunity to provide agency comments on your draft report. If you have any questions concerning these comments, please contact me or have your staff contact Betty Smedley at 202-586-4171.

Sincerely,

M L Telson

Michael L. Telson
Chief Financial Officer

4

(141170)

Ordering Information

The first copy of each GAO report and testimony is free. Additional copies are $2 each. Orders should be sent to the following address, accompanied by a check or money order made out to the Superintendent of Documents, when necessary. VISA and MasterCard credit cards are accepted, also. Orders for 100 or more copies to be mailed to a single address are discounted 25 percent.

Orders by mail:

U.S. General Accounting Office
P.O. Box 37050
Washington, DC 20013

or visit:

Room 1100
700 4th St. NW (corner of 4th and G Sts. NW)
U.S. General Accounting Office
Washington, DC

Orders may also be placed by calling (202) 512-6000
or by using fax number (202) 512-6061, or TDD (202) 512-2537.

Each day, GAO issues a list of newly available reports and testimony. To receive facsimile copies of the daily list or any list from the past 30 days, please call (202) 512-6000 using a touchtone phone. A recorded menu will provide information on how to obtain these lists.

For information on how to access GAO reports on the INTERNET, send an e-mail message with "info" in the body to:

info@www.gao.gov

or visit GAO's World Wide Web Home Page at:

http://www.gao.gov

United States
General Accounting Office
Washington, D.C. 20548-0001

Bulk Rate
Postage & Fees Paid
GAO
Permit No. G100

Official Business
Penalty for Private Use $300

Address Correction Requested