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ENERGY MANAGEMENT

Systematic Analysis of DOE's Uncosted Obligations Is Needed

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Mr. Chairman and Members of the Subcommittee:

We appreciate the opportunity to discuss our work on how the Department of Energy (DOE) analyzes uncosted obligations when formulating its budget requests. Generally, uncosted obligations are obligations that DOE has made to contractors for goods and services that have not yet been provided and, as such, for which no costs have been incurred. Thus, costs relating to the obligations will be incurred in future periods. Our statement discusses (1) the size of DOE's growing uncosted obligations, (2) their significance in the budget formulation process, (3) why the uncosted balances exist, and (4) DOE's analysis of uncosted obligations for its fiscal year 1993 budget request.

Our statement is based on work conducted at DOE headquarters and five DOE field offices that had responsibility for more than 50 percent of DOE's uncosted obligations at the end of fiscal year 1991. As agreed with your office, our testimony focuses on uncosted obligations relating to programs for which DOE receives appropriations and completes our work on your request.

In summary, DOE ended fiscal year 1991 with approximately $9.7 billion in uncosted obligations. About $7.9 billion of this amount relates to programs for which DOE receives appropriations, with the remaining $1.8 billion relating to reimbursable work that DOE performs for other agencies and private parties. The ending balances of uncosted obligations related to DOE-appropriated programs grew by about $2.4 billion between fiscal years 1989 and 1991--an increase of about 45 percent.

Uncosted obligations need to be analyzed as part of the budget formulation process to determine the extent to which uncosted amounts may be used to reduce future appropriation requests. However, we found that DOE does not have an effective system in place to ensure that uncosted obligations are analyzed as part of its budget formulation process. Neither DOE headquarters nor any of the five field offices we visited carried out systematic reviews of uncosted obligations as part of their formulation of DOE's fiscal year 1993 budget request.

One reason why DOE's uncosted obligations occurred is because goods and services ordered by contractors from suppliers had not yet been received. We also found that uncosted obligations were occurring for other reasons, such as project delays and cancellations. For example, cognizant DOE staff cited weapons systems cancellations as a reason why approximately $69.4 million in defense program funding at one site was uncosted as of September 30, 1991. Uncosted obligations occurring as a result of factors such as these may potentially be used to reduce future budget requests.

Accordingly, we believe that DOE needs to take steps to ensure that uncosted obligations are systematically analyzed as part of its budget formulation process. This would include providing direction to DOE units on the need for such analyses and guidance on how they are to be performed. DOE's Acting Chief Financial Officer has agreed with us that improvements in DOE's analysis of uncosted obligations are needed. However, because systematic reviews of uncosted obligations were not undertaken during the formulation of the fiscal year 1993 budget, we are still concerned that neither DOE nor the Congress can be assured that DOE's fiscal year 1993 request represents the minimum amount of funds DOE needs to carry out its operations effectively and efficiently.

BACKGROUND

DOE, the largest civilian contracting agency in the federal government, obligated about $17.6 billion to its contractors in fiscal year 1990. About $14 billion of this amount went to the Department's management and operating (M&O) contractors who, among other things, research, produce, and test nuclear weapons and provide day-to-day management of DOE's national laboratories and the strategic and naval petroleum reserves. The M&O contracts generally are negotiated for 5-year periods and include broad statements of work.

In the federal budget structure, an obligation represents an order placed, a contract awarded, or a similar transaction that will require an expenditure of appropriated funds. When the goods or services are received, these obligations are "costed." DOE obligates the majority of the funding to be provided to its M&O contractors at the beginning of each fiscal year. As a result, obligations may be made before specific programmatic plans for the use of the funds have been developed.

The funding that DOE provides to its contractors is divided into three categories--capital equipment, plant acquisition and construction, and operating funds. Plant acquisition and construction funds are used for buildings and structures (or modifications to existing buildings and structures) along with all equipment necessary to make the building a usable, completed facility. Capital equipment funds are used to acquire and install equipment not related to construction projects. Generally, all other expenses, such as salaries and utilities, are included under operating funds.

Uncosted obligations are made up of committed and uncommitted funds. For construction and capital equipment, DOE defines committed funds as those amounts that contractors have legally committed to suppliers or subcontracts as well as amounts committed internally for various reasons. For example, contractors commit part of the uncosted obligations for outstanding purchase orders or subcontracts. Uncommitted funds could include goods and services requisitioned but not yet ordered. Because DOE has not defined operating fund commitments, we did not find a standard definition at the sites we visited. Appendix I provides information we obtained from the Albuquerque, Idaho Falls, Oak Ridge, Richland, and San Francisco field offices we visited on the portion of their uncosted obligations that were committed and uncommitted as of September 30, 1991.

DOE'S UNCOSTED OBLIGATIONS ARE SUBSTANTIAL AND GROWING

At the end of fiscal year 1991, DOE had approximately $9.7 billion in uncosted obligations. About $7.9 billion of this amount was related to DOE-funded programs. The balance--$1.8 billion--stemmed from funds that DOE received from other federal agencies or private parties to carry out reimbursable work. As shown in appendix II, about one-half of the September 30, 1991, uncosted balances for DOE funded programs ($4.1 billion) occurred in programs funded by the Atomic Energy Defense Activities Appropriation. Within this appropriation, the largest uncosted balances were $1.4 billion for environmental restoration/waste management programs and $2.3 billion for defense programs.

The ending uncosted obligations related to DOE-funded programs increased by about $2.4 billion between fiscal years 1989 and 1991

--about a 45 percent increase. As shown in appendix III, operating funds make up the biggest portion of the uncosted balances, amounting to $4.7 billion at the end of fiscal year 1991.

DOE'S UNCOSTED OBLIGATIONS SHOULD BE EXAMINED DURING BUDGET FORMULATION

An analysis of uncosted obligations is an important part of the budget formulation process to determine whether uncosted obligations may be used to reduce DOE budget requests. For example, if a program has funding that is uncosted, the reason(s) for this should be examined before a decision is made to provide additional funding. Without an analysis of uncosted obligations, DOE cannot be sure that its budget requests include the minimum amount the Department needs for that fiscal year because it may have uncosted obligations that could be used to meet part of the budget request.

Both DOE and Office of Management and Budget (OMB) officials acknowledged that an analysis of uncosted obligations is an important part of the budget formulation process. OMB officials told us that they have particular concerns about uncosted obligations at DOE in part because of DOE's extensive use of M&O contractors, to which DOE can easily obligate funds. In cases where there have been large uncosted balances carried forward year after year, the officials said it may be that the programs are being funded at levels higher than appropriate. An analysis is needed to determine if uncosted balances are truly associated with contractual commitments that have been made in the budget year, or whether the funds are merely being carried forward as unobligated balances would be carried forward in other agencies.

REASONS FOR UNCOSTED OBLIGATIONS VARY

We found that the reasons for uncosted obligations varied. While in some cases the uncosted obligations represented binding, contractual commitments to suppliers or subcontractors, in other cases the uncosted obligations appeared to result from such things as project delays and terminations and money set aside for contingencies, such as plant closings. As I mentioned earlier, such uncosted obligations offer the potential to reduce future budget requests. I would like to discuss a few of the examples we found where uncosted obligations as of September 30, 1991, stemmed from factors other than firm, contractual commitments.

-- At DOE's Kansas City Plant (which reports to DOE's Albuquerque field office) approximately $69.4 million in defense program funding was uncommitted as of September 30, 1991. Cognizant DOE area office staff told us that the uncosted obligations were probably caused in part by the cancellation of weapons systems. Contractor personnel told us in January 1992 that the funds were not earmarked for any specific work. A February 1992 memo from DOE's Albuquerque field office indicated that the funds were being held to cover costs associated with expected lay-offs at the Kansas City Plant and to reduce the impact of budget shortfalls at several weapons facilities.

-- DOE's Pantex Plant (which also reports to Albuquerque) had $7.5 million in defense program funding committed for the Short Range Attack Missile II program that was cancelled by the Secretary of Defense, at the direction of the President, on September 28, 1991. The committed funds included a $6.5 million "budget contingency" that contractor personnel said was created because of concerns that these funds would be taken for other projects. DOE has since decided that the funds will continue to be needed at Pantex.

-- About $54 million in uncosted obligations at the Idaho National Engineering Laboratory was uncommitted because of two environmental waste management projects. Neither project can proceed until the environmental assessments required by the National Environmental Policy Act are approved. One environmental assessment was submitted to DOE headquarters for approval in November 1990 and had not been approved as of March 12, 1992. The other environmental assessment has not yet been submitted to DOE headquarters.

-- Because of problems with obtaining approval for the required environmental assessment, a project to replace an Oak Ridge facility used for plating weapons components is at least a year behind schedule. As a result, over $8.6 million of the $10.1 million that had been obligated to Oak Ridge contractors for the project remained uncosted as of September 30, 1991. Of the uncosted balance, only $2 million had been committed. The environmental assessment had not been approved as of March 16, 1992.

-- The Kansas City Plant had committed $43 million of its uncosted obligations as a contingency fund for payments to contractor employees in the event of a layoff. The amount of the contingency fund is equal to 60 days of payroll costs for the approximately 5,400 employees at the plant.

DOE DOES NOT HAVE AN EFFECTIVE PROCESS FOR ANALYZING UNCOSTED OBLIGATIONS

DOE does not have an effective process to ensure that uncosted obligations are analyzed during the budget formulation process. While DOE's Acting Chief Financial Officer and Office of Budget personnel said that reviews of uncosted balances are to be performed during the budget formulation process, DOE does not have directives or guidance that specifically call for DOE units to analyze uncosted obligations or setting forth requirements on how analyses are to be performed. In addition, DOE does not have adequate internal controls to ensure that these analyses are performed. DOE officials provided documentation of five instances where uncosted obligations were considered by headquarters budget analysts during the formulation process for the fiscal year 1993 budget, but they acknowledged that (1) DOE could not state that reviews of uncosted obligations were being done systematically and (2) they did not have documentation of other reviews. DOE budget officials also said that staff turnover for the budget analyst positions at headquarters is high and that many of the analysts are new in their jobs. They acknowledged that some new staff are not reviewing uncosted balances.

In addition, while DOE headquarters reported that detailed reviews of uncosted obligations would generally be performed by DOE's field offices, none of the five field offices we visited carried out systematic reviews of uncosted obligations as part of their formulation of the fiscal year 1993 budget. Their reasons for not performing the analyses varied. For example, the DOE Budget Director at the Oak Ridge field office said that she was aware of the need for DOE to examine these obligations further during budget formulation to determine whether the contractors are using DOE funding effectively and efficiently, but had not been able to do so because of staffing constraints. On the other hand, the Albuquerque field office stated that it generally did not consider uncosted obligations when developing initial budget requests because there was no guarantee that the funds would still be available at the beginning of the budget year. The office noted that DOE traditionally uses uncommitted balances for reprogramming actions or to mitigate program impacts caused by budget reductions.

We also identified some other factors that reduce DOE's ability to effectively analyze uncosted obligations. First, although a fundamental question an analyst would ask about uncosted obligations is what amounts are committed and uncommitted, DOE does not receive periodic commitment information for all of its uncosted obligations. For example, while DOE receives monthly reports from M&O contractors on the amount of capital equipment and construction funds that have been committed, DOE does not routinely collect commitment information on contractor operating funds. As I stated earlier, DOE also has not defined operating fund commitments, such as identifying the types of contingency funding that may be committed.

DOE's ability to conduct analyses of uncosted obligations is also hampered because DOE has not established a clear policy for how much "prefinancing" contractors should be allowed to maintain. Prefinancing is intended to cover M&O contractors' salaries and mandatory requirements in the event DOE's appropriations are not passed by the beginning of the fiscal year. In 1989, DOE proposed a policy that would permit its contractors a maximum of 7 days of prefinancing. However, according to DOE, the policy was never finalized in part because of protests by some contractor officials that 7 days of prefinancing was insufficient. We found that DOE contractors include varying levels of prefinancing in their budget requests. On March 5, 1992, DOE's Acting Chief Financial Officer agreed with us that a clear policy on prefinancing is needed.

CONCLUSIONS

A thorough, systematic evaluation of uncosted obligations during the budget formulation process is needed to ensure that DOE's budget requests include only those funds projected to be required for the budget year. Such reviews can be expected to result in adjustments to projected funding needs because of program changes, uncertainties, terminations, and delays.

Because we did not find evidence that systematic reviews of uncosted balances had been performed at either the field offices or DOE headquarters for the fiscal year 1993 budget formulation, we believe that neither DOE nor the Congress can be assured that DOE's 1993 request represents the minimum amount of funds DOE needs in fiscal year 1993 to efficiently and effectively carry out its operations.

Weaknesses in DOE's analyses of uncosted obligations stem, at least in part, from the fact that DOE did not have adequate internal controls in place to ensure that analyses were performed. For example, there is no written directive calling for DOE units to analyze uncosted obligations and no effective system in place to determine whether the reviews have been carried out.

RECOMMENDATION

To correct shortcomings in DOE's analyses of uncosted obligations, we recommend that the Secretary of Energy direct the Chief Financial Officer to develop controls to ensure that analyses of uncosted obligations are performed as part of the DOE budget formulation process. This should include (1) guidance to DOE units on the need for analyses of uncosted obligations and direction on how to perform the analyses, (2) policies defining operating fund commitments and setting forth the levels of funding for contractor prefinancing that DOE believes should be included in DOE budget requests, and (3) controls to ensure that analyses of uncosted obligations are performed DOE-wide.

On March 5, 1992, we discussed these matters with DOE's Acting Chief Financial Officer, who agreed that improvements are needed in DOE's analysis of uncosted obligations. We therefore anticipate that DOE will be receptive to these recommendations.

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This concludes my prepared statement. I would be pleased to respond to any questions you or Members of the Subcommittee may have.

PORTION OF UNCOSTED OBLIGATIONS THAT WERE UNCOMMITTED BY TYPE OF FUND AS OF SEPTEMBER 30, 1991

Millions of dollars

	Uncosted obligations	Uncommitted uncosted obligations	Percent
Capital Equipment Funds			
Albuquerque	$ 227.8	$ 30.1	13
Idaho Falls	37.5	23.8	63
Oak Ridge	152.4	19.0	12
Richland	67.7	23.6	35
San Francisco	82.2	46.7	57
Construction Funds			
Albuquerque	470.2	241.0	51
Idaho Falls	216.9	142.2	66
Oak Ridge	486.9	248.6	51
Richland	205.0	173.2	84
San Francisco	138.7	104.4	75
Operating Funds			
Albuquerque	882.9	[a]	
Idaho Falls	224.4	148.7	66
Oak Ridge	830.1	419.6	51
Richland	217.2	118.9	55
San Francisco	267.7	[a]	
Total All Funds			
Albuquerque	1,581.0[b]		
Idaho Falls	478.9[b]	314.7	66
Oak Ridge	1,469.4	687.2	47
Richland	489.9	315.7	64
San Francisco	488.6		
Total	$4,507.8[c]		

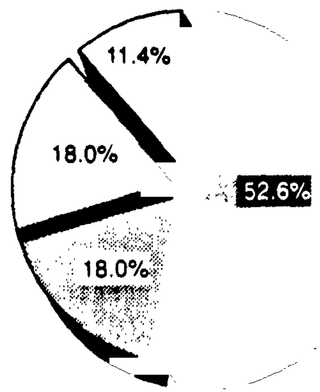
[a] Because uncommitted amounts for operating funds were available only from the contractors, totals for these field offices were not readily available. Of the San Francisco field offices's uncosted obligations for operating funds, the Lawrence Livermore National Laboratory accounted for about $118.5 million. Of this amount, about $60.4 million was uncommitted.

[b] Totals do not add due to rounding.

[c] The uncosted obligations for these five field offices constitute more than 50 percent of the $7.9 billion of uncosted obligations for DOE-funded programs.

FISCAL YEAR 1991 UNCOSTED BALANCES BY APPROPRIATION ($7.9 BILLION)

GAO Fiscal Year 1991 Uncosted Balances by Appropriation ($7.9 Billion)

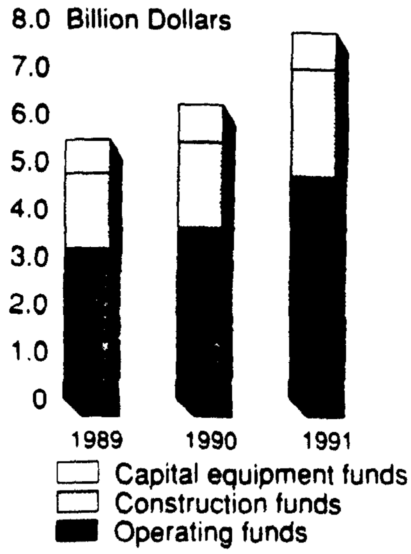


Other ($.9 billion) 11.4%
Other Major Appropriations ($1.4 billion) 18.0%
Energy Supply R&D ($1.4 billion) 18.0%
Atomic Energy Defense Activities ($4.1 billion) 52.6%

Note 1 Other major appropriations are Energy Conservation ($470 million), Uranium Enrichment ($372 million), General Science ($319 million), and Fossil Energy Research and Development ($253 million).
Note 2 Activities funded in the Atomic Energy Defense Activities Appropriation in fiscal year 1991 were funded under four separate appropriations in fiscal year 1992
Note 3 Total does not add due to rounding
Source U S Department of Energy Report of Status of Obligational Authority Report 6, excluding reimbursable work for other governmental agencies and private parties.

UNCOSTED OBLIGATIONS FOR DOE-FUNDED PROGRAMS
FISCAL YEARS 1989 THROUGH 1991

GAO Uncosted Obligations for DOE-Funded Programs FYs 1989 Through 1991



Note 1: Some construction and capital equipment items are also included in the operating funds.

Source: U.S. Department of Energy Report of Status of Obligations by Program, excluding reimbursable work for other governmental agencies and private parties.