



UNITED STATES GENERAL ACCOUNTING OFFICE
WASHINGTON, D.C. 20548

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RESOURCES, COMMUNITY,
AND ECONOMIC DEVELOPMENT
DIVISION

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B-178205

The Honorable Philip R. Sharp
Chairman, Subcommittee on Fossil
and Synthetic Fuels
Committee on Energy and Commerce
House of Representatives

RELEASED

Dear Mr. Chairman:

Subject: Information on the Energy Information
Administration's Financial Reporting System
(GAO/RCED-85-51)

In your May 19, 1983, letter you expressed concern about the ability of the Energy Information Administration (EIA) to carry out its responsibilities and asked us to review several energy information areas in which you were particularly interested. In your request and subsequent discussions with your office, we were asked to review areas related to EIA's independence from policy influences, EIA's quality assurance procedures, and the impact of budget reductions on six EIA programs and to develop information on EIA's Financial Reporting System (FRS). This report provides information on FRS and specifically discusses EIA's original plans for developing FRS and FRS' data, products, and current status. Audit work addressing each of the other areas is described on page 3. The following sections discuss our objectives, scope, and methodology and the results of our review. In commenting on this report, the EIA Deputy Administrator said that he found the report useful and factually correct and suggested one change, which we have incorporated into the report (see enc. I).

BACKGROUND

The Department of Energy Organization Act of 1977 established EIA to provide an independent source of energy data collection and analysis. One of EIA's responsibilities under the act was to develop and implement FRS to provide detailed, comparable, and consistent information concerning the financial structure and operation of energy companies. An objective of the act was for EIA to collect this information to provide a statistically accurate profile of the oil, natural gas, and other sectors of the energy-producing companies.



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EIA collected data from the 26 major energy-producing companies in the United States and published reports on those data for 1977 through 1982 (see enc. II). In 1982, all but one of these companies were on Fortune magazine's list of the 500 largest U.S. industrial corporations, and all but three were among the top 100 corporations, based on their sales.¹

Although the 26 companies included in FRS are involved in various types of business activities, their predominant activities are in the energy area. Based on FRS' report for 1982, these companies accounted for over one-half of U.S. crude oil and natural gas liquids production, approximately one-half of natural gas production, and more than three-fourths of domestic refinery capacity.

Until 1981, EIA planned to expand FRS beyond the original 26 companies to obtain data on a more diverse group of companies in the energy industry. In 1981, however, the administration, to reduce costs and public reporting requirements, submitted to the Congress proposed legislation to repeal several energy information requirements, including the requirement for FRS. Although the Congress did not enact this legislation, EIA did not request any funding for FRS for fiscal years 1982 through 1984.

Nevertheless, in the conference report, the Congress specified that \$2.356 million of EIA's appropriation for fiscal year 1982 be used for FRS.² However, in appropriating funding for EIA's fiscal year 1983 activities, the Congress did not specify the portion of the appropriation that should be used for FRS. Subsequently, in February 1983, EIA suspended FRS after the former EIA Administrator decided not to provide any of EIA's fiscal year 1983 funding for FRS. EIA's documentation on the suspension of FRS showed that the former Administrator decided not to provide funding for the system because he believed that

--the amount of EIA's appropriation was not sufficient to carry out fully each of EIA's statutory mandates,

--it was clear in appropriations hearings that EIA's budget request was premised on the discontinuance of FRS, and

¹Fortune, May 2, 1983.

²The appropriation act for the Department of the Interior and Related Agencies for fiscal year 1982 provided for a reduction of that act's budget authority. EIA indicates that this reduced the amount earmarked for FRS to approximately \$2.2 million.

--the legislative history associated with EIA's budget did not specify that the Congress intended that FRS be continued.

In June 1983, FRS' suspension was challenged by a lawsuit filed by several energy consumer organizations, an energy trade association, and three members of Congress. According to EIA, the lawsuit was settled during the same month when EIA agreed to resume FRS for fiscal year 1983. The former EIA Administrator said that EIA had decided to resume FRS because it was apparent that the Congress would make funding available for FRS in the future. Subsequently, in the committee reports, the Congress specified that \$2 million of EIA's fiscal year 1984 appropriation be used for FRS. In its fiscal year 1985 budget request, EIA requested \$1 million for FRS.

OBJECTIVES, SCOPE, AND METHODOLOGY

In your May 19, 1983, letter and subsequent discussions with your office, we were asked to review

- EIA's independence from energy policy influences;
- the specific procedures EIA uses to ensure the quality of its data;
- EIA's budget reductions that occurred from fiscal year 1981 through fiscal year 1984 and their effects on six EIA programs; and
- EIA's original plans for developing FRS and the data, products, and current status of the system.

As suggested, we coordinated the request with the Professional Audit Review Team (PART), which was performing its annual evaluation of EIA's performance.³ We informed your office that PART planned to address EIA's independence and quality assurance procedures in its review, and your office told us that PART's work would satisfy your needs for information in these areas. PART issued its report on June 15, 1984, and provided your

³PART was mandated by the Department of Energy Organization Act of 1977 to make an annual evaluation of EIA's performance and to determine whether data collection and analytical activities are being performed in an objective and professional manner consistent with the intent of the Congress.

office a copy of the report, which included chapters on EIA's independence and quality assurance procedures.⁴

In our discussions with your office, we agreed to prepare separate reports on EIA's budget reductions and FRS. Our report on the budget reductions was issued on May 4, 1984.⁵ However, as agreed, our work on FRS was deferred until an ongoing review of natural gas profit data, which included a segment on FRS, neared completion.⁶ Accordingly, this review was performed from February 1984 through August 1984 at EIA offices in Washington, D.C.

The objectives of this review were to (1) determine EIA's original plans for developing FRS, (2) identify the data and products of FRS, and (3) obtain information on the current status of FRS. We interviewed EIA officials in the Economics and Statistics Division and National Energy Information Center to obtain an overview on FRS. We reviewed EIA's planning documents to determine how it intended to develop FRS and budget documents to determine annual funding for the system for fiscal years 1978 through 1984. For fiscal year 1985, we reviewed documentation supporting EIA's budget request. To determine EIA's plans to expand and supplement FRS data, we reviewed information on EIA's activities to increase the number of FRS reporting companies and EIA's studies of other data sources and their application to FRS.

We analyzed the FRS data collection form to determine the types and amounts of data collected. To identify FRS products, we reviewed reports, studies, analyses, and papers prepared with FRS data collected since 1977. To determine the current status of FRS, we interviewed the EIA Team Leader for Industry and Financial Analysis, Economics and Statistics Division.

Our review was performed in accordance with generally accepted government auditing standards.

⁴Performance Evaluation of the Energy Information Administration (PART-84-1, June 15, 1984).

⁵Information on Budget Reductions in Energy Information Administration Programs (GAO/RCED-84-128, May 4, 1984).

⁶On March 8, 1984, we provided your office with a copy of our report entitled Natural Gas Profit Data (GAO/RCED-84-3, Mar. 1, 1984). The report includes information on the profit data collected by EIA through FRS.

EIA's ORIGINAL PLANS
FOR DEVELOPING FRS

EIA's documentation for FRS shows that, to meet the requirements of the Department of Energy Organization Act, EIA planned to create an information system that would enable energy policy review in the areas of market competition, energy resource development, and the effects of government policies on industry performance and structure. EIA originally planned for FRS to collect financial and operating data from major energy-producing companies and to use data from other sources, such as federal agencies and industry trade associations.

EIA planned to develop a profile of the energy industry by energy source, operating segment, and geographical area. To initiate FRS, EIA decided to collect data from companies that were the 26 major U.S. energy producers during 1976. EIA planned to expand its data collection to include (1) additional companies that produce oil, gas, coal, and uranium and (2) specialized energy companies, such as those devoted to petroleum and natural gas exploration and to refining and marketing activities.

EIA's first data collection from the 26 companies was for 1977 data, and the collection was carried out in 1979. To expand its data collection for FRS, EIA hired a contractor to develop criteria that could be used to select companies that would provide a statistically adequate representation of the different energy areas. By using the criteria developed by the contractor in 1981, EIA identified 115 potential FRS companies consisting of 24 uranium, 44 coal, and 47 petroleum companies. However, as discussed on page 2, the FRS data collection was not expanded beyond the 26 companies that had been included in FRS since its inception in 1978.

In addition to collecting data from the 26 companies, EIA employed contractors from 1979 to 1982 to determine the feasibility of using EIA and Federal Energy Regulatory Commission data sources to supplement FRS data collections. Based on their reviews of several EIA and other federal agency data sources, the contractors concluded that FRS data could be supplemented by some of these data sources.

The EIA Team Leader for Industry and Financial Analysis told us that while it might be possible to substitute certain Federal Energy Regulatory Commission data for FRS data, only a few accounting items were found to be directly comparable to FRS data and that it would be necessary to convert the reporting formats of these sources to make them compatible with the FRS format. He also said that EIA performed assessments and determined that these

conversions would not be warranted for the small number of comparable accounting items because of the amount of work that would be involved. According to the team leader, the assessments were not documented.

DATA, PRODUCTS, AND CURRENT
STATUS OF FRS

FRS collects financial and operating data on the 26 companies' performance. These include data on income and investment for domestic and worldwide petroleum activities; income tax expense; net income from investments in petroleum, natural gas, coal, and uranium; and sales of domestic refined products, such as gasoline.

Among the information sources used by FRS are corporate-wide income statements, balance sheets, and statements of sources and uses of funds. FRS data from these sources are separated by petroleum, which includes natural gas and oil, coal, nuclear, and other energy sources.⁷ FRS also collects data to enable a breakdown of the data into energy source segments. For example, FRS collects data on petroleum segments, including domestic refining and marketing, domestic production, transportation of crude oil through federally regulated or state-regulated pipelines, foreign refining and marketing, foreign production, and high seas marine transportation of foreign-source crude oil. In addition, FRS collects detailed data within each of these segments. For example, in the domestic refining and marketing segment, FRS collects data on petroleum raw materials purchased and sold.

The FRS products have been (1) a series of six reports entitled Performance Profiles of Major Energy Producers for calendar years 1977 through 1982 and (2) a report entitled Energy Company Development Patterns in the Postembargo Era, which covered calendar years 1974 through 1980. In July 1984, EIA completed its collection of 1983 data from the 26 companies and plans to publish a report in January 1985. According to EIA records, distribution of FRS reports has averaged about 2,400 copies a year.⁸ In addition to the Congress, reports have gone to state and local

⁷Other energy sources include oil shale, tar sands, geothermal, and coal liquefaction and gasification.

⁸The number of copies printed and distributed for the 1977 FRS report is not included in this average because the information is not available.

governments, federal agencies, private industry, academia, and the media.

In addition to the statistical data presented in the FRS reports, the narrative texts provide analyses of the data contained in the tables, graphs, and figures. The texts also provide information explaining current-year statistics and the percentage changes in the statistics from prior years.

The FRS reports also have included data that EIA obtained from non-FRS data sources. For example, in the 1982 FRS report, these data sources included those of EIA, eight other federal agencies, and nine private organizations. EIA uses these data sources to supplement the FRS company data in the text, figures, tables, and appendixes of the reports.

In addition to providing information for the FRS reports, FRS data have been used by EIA to prepare economic analyses of the energy industry for DOE internal use and for public dissemination. For example, in early 1984, EIA performed a special internal analysis for the Secretary of Energy on the proposed mergers between Texaco and Getty Oil, Mobil and Superior Oil, and Standard Oil of California and Gulf Corporation. FRS and non-FRS data sources were used to derive pre-merger and post-merger financial and production data, and EIA prepared three information memorandums to the Secretary of Energy which presented the estimated effects of the proposed mergers.

FRS data on exploration, development, and production of crude oil were also used to prepare a section of EIA's publication entitled An Analysis of the Crude Oil Windfall Profit Tax. This publication provides a general overview of the crude oil windfall profit tax and uses FRS data to analyze the impact on investment activity of the domestic petroleum industry in 1980.

EIA has no plans for expanding the FRS data collection beyond the companies now reporting to FRS.⁹ However, the FRS team leader told us that EIA is continuing to study the feasibility of expanding the use of supplementary data sources in FRS reports.

⁹For the 1984 FRS data collection, which is scheduled to be completed in May 1985, EIA will collect data from 25 rather than 26 FRS companies because 2 of the FRS companies have recently merged. A report on these data is scheduled to be published in December 1985.

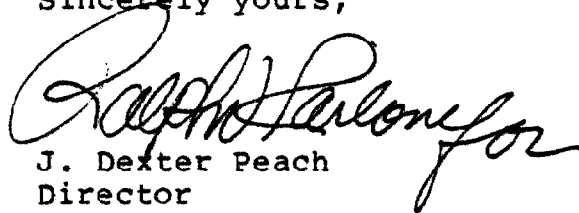
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For example, in January 1985, EIA plans to start analyzing supplementary data sources¹⁰ to determine the financial performance of natural gas distributors.

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As arranged with your office, unless you publicly announce its contents earlier, we plan no further distribution of this report until 14 days from the date of the report. At that time we will send copies to interested parties and make copies available to others upon request.

Sincerely yours,

A handwritten signature in cursive script, appearing to read "J. Dexter Peach".

J. Dexter Peach
Director

Enclosures - 2

¹⁰Supplementary data sources include company annual reports and data collections of the Securities and Exchange Commission, the Federal Energy Regulatory Commission, and the American Gas Association.



Department of Energy
Washington, D.C. 20585

DEC 24 1984

Mr. F. Kevin Boland
Senior Associate Director
U.S. General Accounting Office
Washington, D.C. 20548


Dear Mr. Boland:

Thank you for the opportunity to review your proposed report entitled Information on the Energy Information Administration's Financial Reporting System.

We find the report to be useful and factually correct with one exception. On page 5, in the last paragraph under the section regarding the Energy Information Administration's original plans for developing the Financial Reporting System (FRS), it was stated that it might be possible to substitute certain Federal Energy Regulatory Commission (FERC) data for FRS data, but that the effort involved in converting reporting formats made this substitution impractical. We believe that this statement should be qualified to make clear that the referenced FERC data could only have substituted for a small number of FRS data elements.

We hope our review will be helpful to you and look forward to working with you in the future.

Sincerely,


Albert H. Linden, Jr.
Deputy Administrator
Energy Information Administration

GAO NOTE: Page reference has been changed to correspond to the final report.

FINANCIAL REPORTING SYSTEM REPORTS

<u>Title</u>	<u>Issue date</u>
Performance Profiles of Major Energy Producers 1977	January 1980
Performance Profiles of Major Energy Producers 1978	December 1980
Performance Profiles of Major Energy Producers 1979	July 1981
Performance Profiles of Major Energy Producers 1980	December 1981
Energy Company Development Patterns in the Postembargo Era, Volumes 1 and 2	October 1982
Performance Profiles of Major Energy Producers 1981	June 1983
Performance Profiles of Major Energy Producers 1982	July 1984