

GAO

Fact Sheet for the Chairman,
Subcommittee on Energy and Water
Development, Committee on
Appropriations, U.S. Senate

June 1994

ENERGY MANAGEMENT

Use of Uncosted Balances to Meet Budget Needs





Resources, Community, and
Economic Development Division

B-247904

June 6, 1994

The Honorable J. Bennett Johnston
Chairman, Subcommittee on
Energy and Water Development
Committee on Appropriations
United States Senate

Dear Mr. Chairman:

This fact sheet responds to your request for information on uncosted obligations held by the Department of Energy's (DOE) management and operating (M&O) contractors. Uncosted obligations are budget authority that DOE has obligated to its contractors for goods and services that have not yet been provided and for which costs have therefore not been incurred. At the end of fiscal year 1993, uncosted obligations totaled about \$9 billion for DOE-funded programs. DOE's M&O contractors held about \$5.7 billion of these uncosted obligations.

This review of DOE's uncosted obligations discusses the uncosted balances reported by contractors at nine DOE facilities.¹ The objective of our review was to identify uncosted balances related to ongoing programs that could be used to offset fiscal year 1995 budget needs. We focused our work on the funds in two DOE program areas-- Environmental Restoration and Waste Management and Defense Programs. We selected these program areas because they had the largest uncosted balances--totaling \$1.833 billion and \$2.034 billion, respectively--at the end of fiscal year 1993.

¹The nine facilities are the Hanford Facility in Washington, the Idaho National Engineering Laboratory in Idaho, the Lawrence Livermore National Laboratory in California, the Los Alamos National Laboratory in New Mexico, the Nevada Test Site in Nevada, the Oak Ridge Facility in Tennessee, the Rocky Flats Plant in Colorado, the Sandia National Laboratory in New Mexico, and the Savannah River Plant in South Carolina.

In summary, we found \$508 million of uncosted balances that were not needed for their identified purpose, were not tied to specific needs, or were excess to expected needs:

- At the end of fiscal year 1993, \$132 million in uncosted balances that were identified as "encumbered" or "approved work scope" should have been identified as "unencumbered"--that is, not tied to specific needs and therefore available for other needs in the budget.²
- Also, at the end of fiscal year 1993, \$254 million had already been identified by contractors as "prefinancing" (\$39 million) or unencumbered (\$215 million). As we discussed in a report last year, prefinancing funds are a contingency amount held to ensure the continuity of operations in the event that funds are not available at the beginning of a fiscal year; however, little support exists for DOE's current prefinancing policy.³ Prefinancing and unencumbered funds are not needed for specific programmatic activities and are therefore available for other needs.
- During fiscal year 1994, \$54 million became available because of closeouts of existing subcontracts, terminations of programs, or cost savings.
- For fiscal year 1995, \$67 million has been requested for certain activities that are not tied to specific needs in that fiscal year. Of this amount, \$60 million will already be available from uncosted obligations to conduct activities. Consequently, this amount of fiscal year 1995 funding--although it is likely to be needed to complete various projects--could be deferred until later

²DOE has four categories of uncosted obligations. These are (1) encumbrances--amounts needed for legally enforceable agreements, such as purchase orders or contracts; (2) approved work scope--funds for work that is clearly defined and specific in scope but that does not yet represent a legal commitment; (3) prefinancing--funds maintained to ensure that operations at the facilities continue if funding lapses at the beginning of a fiscal year; and (4) unencumbered--the remaining balance of uncosted obligations.

³DOE Management: Funds for Maintaining Contractors' Operations Could Be Reduced and Better Controlled (GAO/RCED-94-27, Oct. 25, 1993).

years. The remaining \$7 million will not be needed because of project suspensions or cancellations.

We recognize that DOE is itself seeking some reductions in its uncosted balances. As part of its reductions, DOE is planning to use \$240 million of uncosted balances from Environmental Restoration and Waste Management and nearly \$340 million from Defense Programs to fund fiscal year 1995 activities. On the basis of its assessment of accounting data and contractor-supplied documentation, DOE believes that these amounts could be made available without unduly constraining the progress of these programs.

At the time of our review, DOE had not specifically determined which uncosted balances it would use to offset fiscal year 1995 activities. Nevertheless, our review could potentially be used to increase DOE's use of uncosted balances to offset fiscal year 1995 budget needs, for the following reasons:

- The scope of our review was limited to certain accounts at the nine selected facilities; other balances exist that we were not able to examine during our review. However, our review identified amounts close to DOE's targets--for example, we identified Defense Programs amounts totaling \$287 million. The possibility therefore exists that a detailed review of all accounts by DOE would identify other specific amounts that could be used to fund fiscal year 1995 activities without harming programs.
- DOE made its decision on the amount of uncosted balances to use as an offset to fiscal year 1995 funding needs before February 1994, when it released its budget request. DOE based its decision in part on the data submitted by the contractors; consequently, it would not have been aware of the additional \$132 million we identified that should have been listed as unencumbered.

Additionally, it is important to stress that our review of uncosted obligations was a "bottom up" look that examined in detail the contractors' documentation and justifications for retaining these balances. In contrast, DOE's assessment of an appropriate amount of reduction was conducted by a "top down" method of reviewing accounting data and contractors' submissions to determine the amounts that could be made available. Consequently, our results are based on specific and identifiable areas in which to make use of uncosted obligations with minimum impacts. Since DOE's approach is to set target levels for using

uncosted obligations and later seek ways to meet them, DOE cannot ensure that it is using the maximum amount of available uncosted balances or that it will be taking uncosted balances from the correct programs or facilities.

Appendix I to this fact sheet provides five tables that detail the funds that are in excess to identified needs. Table I.1 provides a summary of the data. Table I.2 presents the amounts of uncosted obligations that were not, but should have been, listed as unencumbered. Table I.3 lists prefinancing and unencumbered amounts that are available for use. Table I.4 identifies fiscal year 1994 appropriated funds that have become available during the fiscal year. Table I.5 presents funds requested for fiscal year 1995 that are in excess of identified needs.

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As requested, we did not obtain written comments from DOE on a draft of this fact sheet. We discussed the information presented with officials from DOE's Office of Chief Financial Officer. In general, the officials said that they planned to use the amounts identified by GAO as part of DOE's offsets to the Department's fiscal year 1995 budget. The officials added that they do not view the GAO-identified amounts as amounts that can be added to their planned offsets. However, as we discussed above, the potential still exists for increasing the use of uncosted balances because DOE cannot identify the specific programs, facilities, and activities that will absorb these offsets, nor can it provide detailed analysis supporting the appropriateness of its planned offsets. Furthermore, DOE officials said that some of the funds GAO identified could not be used as offsets to the fiscal year 1995 budget because the funds are needed for other activities. Although DOE may now have a specific use or need for these funds, at the time of our review these funds were not committed to specific activities and were available for use as budget offsets.

The work on this fact sheet was conducted from February 1994 through April 1994, in accordance with generally accepted government auditing standards. Appendix II provides a discussion of our objective, scope, and methodology.

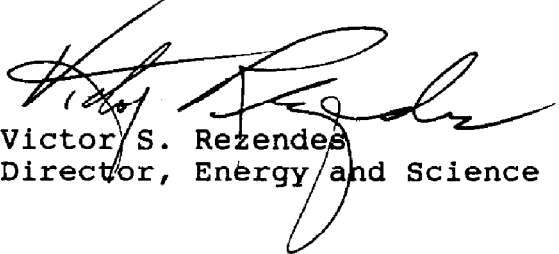
As agreed with your office, unless you publicly announce its contents earlier, we plan no further distribution of this fact sheet until 30 days from the date of this letter. At that time, we will send copies of this fact sheet to the

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appropriate congressional committees; the Secretary of Energy; and the Director, Office of Management and Budget. We will also make copies available to others upon request.

Please call me at (202) 512-3841 if you or your staff have any questions. Major contributors to this fact sheet are listed in appendix III.

Sincerely yours,



Victor S. Rezendes
Director, Energy and Science Issues

DOE'S EXCESS UNCOSTED OBLIGATIONSTable I.1: Summary of DOE Funds That Are Excess to Identified Needs

Dollars in millions

	<u>Total amount</u>	<u>Defense programs</u>	<u>EM^a</u>
Fiscal year 1993			
Carryover funds that should be unencumbered (table I.2)	\$132.4	\$ 98.2	\$ 34.2
Unencumbered funds (table I.3)	215.5	113.9	101.6
Prefinancing funds (table I.3)	38.8	32.5	6.3
Fiscal year 1994			
Funds that have become available (table I.4)	54.1	11.3	42.8
Fiscal year 1995			
Funds in DOE budget request that are in excess of identified needs (table I.5)	<u>67.2</u>	<u>31.4</u>	<u>35.8</u>
Total	<u>\$508.0</u>	<u>\$287.3</u>	<u>\$220.7</u>

Note: We have identified other funds that may be available. These include \$4.2 million for closeouts of miscellaneous contracts at Rocky Flats, up to \$19 million in funds tied to completed contracts at Oak Ridge, and Environmental Restoration contingency funds at Oak Ridge totaling \$34 million for fiscal year 1994 and \$56 million for fiscal year 1995.

^aEnvironmental Restoration and Waste Management.

Table I.2: Fiscal Year 1993 Encumbered and Approved Work Scope Amounts That Should Be Unencumbered

Dollars in millions

	<u>Encumbered</u>	<u>Approved work scope</u>	<u>Total</u>
Defense Programs			
Livermore	\$.3	\$.7	\$ 1.0
Los Alamos	20.3	.7	21.0
Nevada Test Site	7.7	.3	8.0
Rocky Flats	-	2.5	2.5
Sandia	-	14.6	14.6
Savannah River Plant	<u>-</u>	<u>51.1</u>	<u>51.1</u>
Subtotal	<u>\$28.3</u>	<u>\$69.9</u>	<u>\$ 98.2</u>
Environmental Restoration and Waste Management			
Livermore	\$.1	\$ 6.6	\$ 6.7
Los Alamos	-	12.4	12.4
Oak Ridge	2.9	2.6	5.5
Rocky Flats	1.3	5.6	6.9
Savannah River Plant	<u>-</u>	<u>2.7</u>	<u>2.7</u>
Subtotal	<u>\$ 4.3</u>	<u>\$29.9</u>	<u>\$ 34.2</u>
Total	<u>\$32.6</u>	<u>\$99.8</u>	<u>\$132.4</u>

Table I.3: Fiscal Year 1993 Unencumbered and Prefinancing Amounts

Dollars in millions

	<u>Amount</u>
Unencumbered	
Defense Programs	\$113.9
Environmental Restoration and Waste Management	<u>101.6</u>
Subtotal	<u>\$215.5</u>
Prefinancing ^a	
Defense Programs	\$ 32.5 ^b
Environmental Restoration and Waste Management	<u>6.3^c</u>
Subtotal	<u>\$ 38.8</u>
Total	<u>\$254.3</u>

^aPrefinancing funds are a contingency to ensure continued operations at the beginning of a fiscal year in the event appropriations are not passed.

^bThis amount includes prefinancing amounts at Sandia and Oak Ridge that were not identified as prefinancing in DOE's uncosted obligations reporting system.

^cThis amount includes prefinancing amounts at Oak Ridge that were not identified as prefinancing in DOE's uncosted obligations reporting system.

Table I.4: Fiscal Year 1994 Funds That Have Become Available During Fiscal Year

Dollars in millions

	<u>Amount</u>	<u>Reason for availability</u>
Defense Programs		
Rocky Flats	\$ 1.3	Closeout of existing subcontracts
Oak Ridge	10.0	Termination of production plating shop project (#88D122170)
Subtotal	<u>\$11.3</u>	
Environmental Restoration and Waste Management		
Rocky Flats	\$.8	Closeouts of existing subcontracts
Savannah River	42.0	Funds available from productivity adjustments and dollar savings
Subtotal	<u>\$42.8</u>	
Total	<u>\$54.1</u>	

Table I.5: Fiscal Year 1995 Funds in DOE's Budget Request That Are in Excess of Identified Needs

Dollars in millions

	<u>Amount</u>	<u>Reason funds in excess of needs</u>
Defense Programs		
Oak Ridge	\$ 4.8	Project #88D122170 being terminated; DOE plans to request reprogramming
Nevada Test Site	2.7	Funds not yet needed for project #92D102060
Savannah River	21.0	Funds not yet needed for project #90D149
Livermore	1.5	Funds not yet needed for project #88D106110
Los Alamos	1.4	Funds available from completed projects
Subtotal	<u>\$31.4</u>	
Environmental Restoration and Waste Management		
Hanford	\$14.0	Funds not yet needed for projects #93D18200, #93D18300, and #89D17300
Idaho	16.7	Funds not yet needed for projects #90D17700, #93E90000, and #GDP17100
Livermore	3.6	Funds not yet needed for project #86D103003
Oak Ridge	1.0	Funds not yet needed for project #92E601
Savannah River	<u>.5</u>	Project #89D175 suspended
Subtotal	<u>\$35.8</u>	
Total	<u>\$67.2</u>	

OBJECTIVE, SCOPE, AND METHODOLOGY

Our objective in this review was to identify uncosted balances related to ongoing programs that could be used to offset fiscal year 1995 budget needs. To do this, we assessed whether (1) uncosted obligations were being presented accurately in the Department of Energy's (DOE) uncosted obligations report and (2) funds being requested for fiscal year 1995 were fully needed on the basis of projected uncosted obligations balances.

To assess the overall status of uncosted obligations, we obtained and reviewed December 1993 reports provided by DOE's Office of Departmental Accounting and Financial Systems that detailed the uncosted obligations that existed at the end of fiscal year 1993. Using these reports, we selected for review uncosted balances held by management and operating (M&O) contractors at the following DOE facilities: the Hanford Facility, Richland, Washington; the Idaho National Engineering Laboratory, Idaho Falls, Idaho; the Lawrence Livermore National Laboratory, Livermore, California; the Los Alamos National Laboratory, Los Alamos, New Mexico; the Nevada Test Site, Mercury, Nevada; the Oak Ridge Facility, Oak Ridge, Tennessee; the Rocky Flats Plant, Golden, Colorado; the Sandia National Laboratory, Albuquerque, New Mexico; and the Savannah River Plant, Aiken, South Carolina. These facilities were selected because they had the majority of DOE's uncosted obligations. Furthermore, we selected for review at these facilities the uncosted balances relating to DOE's Environmental Restoration and Waste Management and Defense Programs areas. These two program areas account for more than 55 percent of the uncosted obligations held by the contractors.

To determine the accuracy of the information in the uncosted obligations reports, we compared a judgmental sample of the amounts reported as "encumbrances" and "approved work scope" to supporting documentation to determine if evidence existed to support the amount reported by contractors and the reason why the amount was not listed as "unencumbered." For those programs selected at a facility, we traced the amounts reported as encumbrances to the contractors' information systems or summary listings. We then selected the largest transactions--such as a purchase order--from those listings and traced the transactions to the actual documentation. We used a similar process to examine the work authorization and milestone data for amounts reported as approved work scope.

To determine the amounts of funds being requested for fiscal year 1995 that may not be needed, we identified projects at each facility for which fiscal year 1995 funds are being requested. We examined the status of uncosted obligations relating to each

project. We discussed with DOE and contractor officials the need for the amounts that DOE had not authorized the contractor to spend, amounts for projects that had been delayed, and amounts for projects that had been downscoped or canceled. We compared these amounts to each project's fiscal year 1995 requested funding to determine the amounts that could be used to offset fiscal year 1995 budget needs. Additionally, as we conducted our work, we identified funds that became available during fiscal year 1994 as a result of program redirections, reductions, or other actions taken by DOE or contractor management that reduced funding needs.

MAJOR CONTRIBUTORS TO THIS FACT SHEETRESOURCES, COMMUNITY, AND ECONOMIC DEVELOPMENT DIVISION,
WASHINGTON, D.C

Jim Wells, Associate Director
James Noël, Assistant Director
Irene P. Chu
Christine M. Fishkin
Mark E. Gaffigan
Anne M. McCaffrey
John R. Schulze
Joanne E. Weaver

OFFICE OF GENERAL COUNSEL

Susan W. Irwin

ATLANTA REGIONAL OFFICE

John P Hunt, Jr. Assistant Director
Gene M. Barnes
Johnnie Barnes
Sherrill Caldwell
Johnny M. Clark

DENVER REGIONAL OFFICE

David O. Bourne
Mark A. McClarie
Christopher M. Pacheco
Cynthia S. Rasmussen

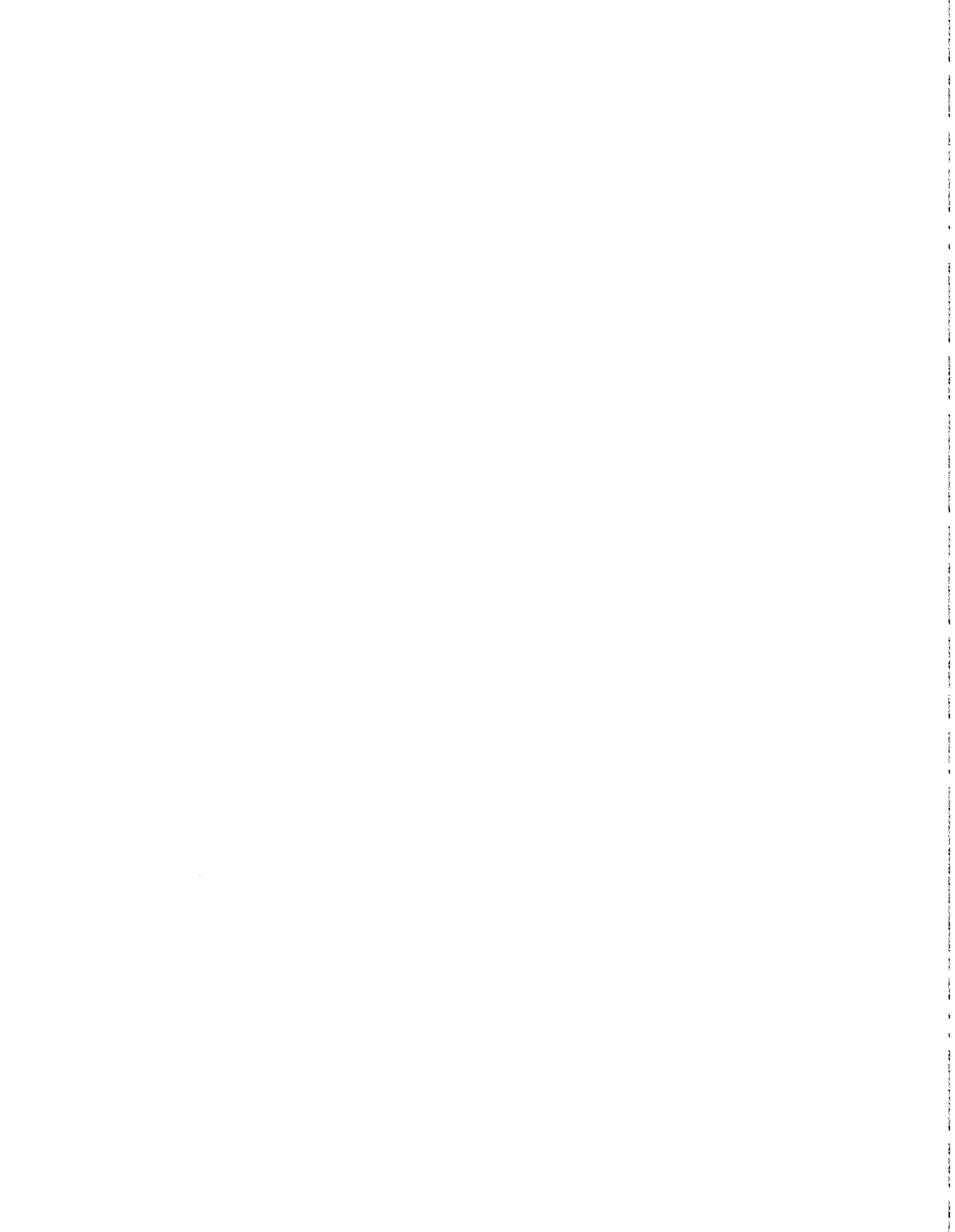
SEATTLE REGIONAL OFFICE

John E. Cass
Drummond E. Kahn
Thomas C. Perry
Elizabeth L. Reid

SAN FRANCISCO REGIONAL OFFICE

Brad C. Dobbins
James L. Ohl

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