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Report to the Chairman, Subcommittee on Energy and Power, Committee on Commerce, House of Representatives

May 1996

ENERGY DOWNSIZING

While DOE Is Achieving Budget Cuts, It Is Too Soon to Gauge Effects

GAO/RCED-96-154

GAO

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

Resources, Community, and
Economic Development Division

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May 13, 1996

The Honorable Dan Schaefer
Chairman, Subcommittee on Energy
and Power
Committee on Commerce
House of Representatives

Dear Mr. Chairman:

Recognizing the need for a smaller, less costly government, in May 1995 the Department of Energy (DOE) unveiled its Strategic Alignment and Downsizing Initiative, which is intended to save $1.7 billion over 5 years. In a letter dated January 24, 1996, and in subsequent discussions with your office, you requested that we review DOE's progress in implementing this Initiative. Specifically, you asked us to (1) determine whether savings projected to date under the Initiative have been met and if additional savings will likely be achieved and (2) identify any additional opportunities for DOE to reduce its current and future expenditures. Finally, as agreed with your office, we identified options that DOE decided to exclude from its Initiative. While we did not evaluate these options to determine their cost-saving potential, we did identify the reasons they were excluded. (See app. II.)

Results in Brief

DOE's planned budget savings are on target. By amending its fiscal year 1996 budget request and selling excess assets during this fiscal year, DOE will save the $221 million that it had planned to achieve this year under the Initiative. During the rest of the Initiative's 5-year period, DOE plans to maintain and expand upon the first year's savings through future budget reductions to achieve the Initiative's goal to save a total of $1.7 billion. Among DOE's efforts to achieve this year's and future targeted savings are the following six strategies: reduce federal staffing levels, travel budgets, and support service contracts as well as sell assets, improve information management, and streamline its National Environmental Policy Act process. In addition, DOE is depending on process improvements and reengineering efforts to enable it to fulfill its missions under the reduced budgets called for by the Initiative. Because some activities are in their early stages and many milestones have yet to come due, it is not yet clear if DOE will reduce costs in certain areas to the extent anticipated in its budget reduction plans. Furthermore, some overly optimistic initial reports of cost savings illustrate the need for DOE management to be

diligent in validating claims of cost savings. Otherwise, managers might believe that savings were occurring in specific activities when the reductions were actually being absorbed elsewhere.

Discussions with DOE officials revealed several opportunities to achieve additional cost savings by more broadly applying some aspects of the Initiative's plans and strategies. One way would be to encourage its contractors to sell more of DOE's excess assets by providing incentives and policies for the contractors to identify and sell them. A second way would be to include DOE's management and operating contractors in the strategy to improve information management. A third way would be to expand DOE's planned action to consolidate its transportation and packaging functions to the site level. Fulfilling the potential of each of these three opportunities, however, will require further actions by DOE.

Background

DOE's May 1995 Strategic Alignment and Downsizing Initiative is part of a broader set of efforts by the Department to reduce its budget. In December 1994, the Secretary of Energy identified the following major efforts to save $14.1 billion between fiscal years 1996 and 2000: (1) implementing a strategic alignment and downsizing initiative; (2) selling four of DOE's Power Marketing Administrations, one of its Naval Petroleum Reserves, and stores of highly enriched uranium; (3) improving cleanup techniques and contracting approaches at its weapons sites; and (4) implementing recommendations from two commissions to improve its defense laboratories and applied research programs. These efforts are occurring while DOE's missions and roles are being questioned by many, including us.[1]

After announcing the Initiative's specific cost-savings targets in May 1995, DOE allocated federal staffing reductions and budget targets to individual offices. DOE senior managers next instructed offices to develop workforce plans to absorb their assigned cuts and established teams led by senior-level "champions" to prepare plans to implement DOE's strategies to live within its staff and budget reductions. Both sets of plans include reengineering and process improvement efforts. Table 1 shows DOE's targeted cost savings over the next 5 years for each of the Initiative's six key strategies.

[1]Department of Energy: A Framework for Restructuring DOE and Its Missions (Aug. 21, 1995, GAO/RCED-95-197).

Table 1: Strategies to Achieve Targeted Cost Savings, Fiscal Years 1996-2000

Dollars in millions

	Targeted cost savings					
Strategy	**1996**	**1997**	**1998**	**1999**	**2000**	**Total**
Reduce federal staffing.	$45	$128	$187	$215	$235	**$810**
Reduce travel budgets.	35	35	35	35	35	**175**
Reduce budget for support service contracts.	90	90	90	90	90	**450**
Sell assets.	15	15	15	15	15	**75**
Improve information management.	30	31	61	65	58	**245**
Streamline NEPA process.	6	5	5	5	5	**26**
Total	**$221[a]**	**$304**	**$393**	**$425**	**$438**	**$1,781**

Legend

NEPA = National Environmental Policy Act

Note: All dollars in this table are nominal dollars; the cost savings reflect the value of the dollar amounts in the years they are projected to occur.

[a]This total is larger than the amount DOE cut from its fiscal year 1996 budget request ($208 million) because the proceeds from selling assets will be returned directly to the Treasury.

Source: The Department of Energy's Strategic Alignment Implementation Group.

Budget Savings Are on Schedule, but It Is Too Soon to Gauge Success of Cost-Saving Strategies

By amending its fiscal year 1996 budget request to reflect planned savings, DOE has already achieved the savings projected for the first year of its Initiative. It plans to achieve future savings under the Initiative through additional reductions in its budgets. DOE's strategies for cutting costs to absorb the fiscal year 1996 budget reductions are on track. However, many planned actions, such as process improvements and reengineering efforts that are important to achieve the cost savings needed to fulfill DOE's missions within future budget reductions, are just starting.

DOE's Targeted Savings Are on Schedule

DOE has met most of its fiscal year 1996 targeted savings. In June 1995, DOE amended its fiscal year 1996 budget request to reflect savings of $208 million from implementing the Initiative. DOE also anticipates an additional savings of $15 million from asset sales during fiscal year 1996.

DOE has made the cuts needed to meet the specific cost-savings targets reflected in its fiscal year 1996 budget request. As of March 31, 1996, DOE had cut 1,467 positions from its fiscal year 1995 allocation of 14,057 full-time positions; this reduction surpasses its goal of eliminating 1,380 positions by the end of this fiscal year.[2]

Other plans to achieve cost savings for fiscal year 1996 also appear to be on track. For example, obligations for support service contracts are currently lower than planned. In fact, DOE projects that its cost savings from these contracts, as well as its strategies for travel and information resources management, will be greater than planned. Savings from selling assets and streamlining the National Environmental Policy Act (NEPA) process are also on track to reach DOE's fiscal year 1996 targeted cost savings.

DOE plans to use future budget reductions to achieve the Initiative's remaining savings. For some strategies, DOE need only maintain the cost savings it achieved in fiscal year 1996 to achieve its targeted cost savings for the remaining years in the Initiative. For example, DOE's strategies relating to the budgets for travel and support service contracts require only that DOE maintain fiscal year 1996 cost savings each year through the year 2000. For other strategies, DOE must take additional actions to achieve the necessary cost savings. The targeted cost savings from reducing the workforce require eliminating an additional 2,408 positions between fiscal years 1997 and 2000. Similarly, achieving the targeted cost savings from improving information management, selling assets, and streamlining the NEPA process will require additional actions each year over the Initiative's 5-year period. For example, DOE's strategy to sell assets will require that it continue to identify excess assets in its inventory and sell them.

Critical Milestones, Process Improvements, and Reengineering Efforts to Achieve Additional Cost Savings Are in Their Early Stages

While DOE plans to improve many of its processes and operations and take other actions to fulfill its missions within the reduced budgets planned under the Initiative, the cost-savings potential of its efforts is uncertain because most of them are just beginning and some are not scheduled to be completed for several years. For example, of DOE's 45 implementation plans, 22 have milestones that delineate future actions—to be met after May 1996—and 5 milestones will not come due until the year 2000. Furthermore, many of the workforce plans identified process improvements and reengineering efforts that were just beginning. Because

[2]This base level excludes the five Power Marketing Administrations and the Federal Energy Regulatory Commission.

these actions are in their early stages, it is not yet clear if they will reduce costs to the extent DOE envisioned. According to DOE's Associate Deputy Secretary for Field Management, who is chairing the Initiative's implementation team, if process improvements and reengineering efforts do not keep pace with budget cuts, operational problems could result. This situation would likely either force the improvements to occur or curtail the associated function. Finally, he stated that if a function could absorb major cuts while not changing its processes, it may indicate that the function was overfunded or is not critical to DOE's operations.

Some Initial Claims of Cost Savings Were Overly Optimistic

While DOE's Initiative has achieved some overall savings through planned budget cuts, we identified several examples of initial reports of cost savings that were overstated and thus do not reliably depict the progress that DOE has been making toward operating within its reduced budget. According to DOE headquarters officials responsible for monitoring the Initiative, these initial reports had not yet been validated. For example, an initial DOE report on the information management strategy included an annual savings of $9.9 million for fiscal year 1996 by providing electronic versions of DOE directives departmentwide through a system called Explorer. This annual savings was based on using the Internet to eliminate hard-copy distributions of DOE directives at 85 sites. However, these officials believe that this system has been implemented at only one site to date and will result in savings of about $115,000. Moreover, these officials were uncertain if the system would be implemented at all the remaining sites in time to achieve the full cost savings the initial report had claimed.

The same DOE report on the information management strategy also overstated the savings from implementing DOE's Automated Transportation Management System at the Hanford site. According to the headquarters transportation management official responsible for implementing this system, the projected savings claimed by the Hanford site should have been about $550,000 rather than $3 million, which represented the projected savings for implementing this system departmentwide.

Both of these initial claims illustrate the importance of DOE's validating claims of cost savings. If DOE managers were to depend on these reports containing overstated cost savings, they might think that planned actions intended to absorb budget reductions had occurred, when in fact they had not. Officials in DOE's Office of Information Management told us that they have begun to develop a process and guidance to validate cost savings claimed under the information management strategy.

Additional Opportunities Exist for DOE to Reduce Current and Future Expenditures

Discussions with DOE officials revealed opportunities to achieve additional cost savings by more broadly applying some aspects of the Initiative's plans and strategies. However, fulfilling the potential of these opportunities will require further actions by DOE.

For example, according to DOE headquarters officials, the Department lacks an adequate inventory system to identify excess assets to sell. These officials added that because of the vast supply of assets DOE owns, it could potentially realize significantly more income than the $75 million projected from selling them under the Initiative. However, DOE's contractors have no incentives to inventory and sell those excess assets they manage. DOE is developing policies to provide incentives for identifying and selling excess assets and to transfer proceeds from their sale to the Treasury. However, until these policies are implemented, DOE believes the strategy to sell excess assets will not achieve its full potential.

DOE could also achieve greater savings if it included its management and operating contractors in its strategy to improve information management. According to the Department's Office of Information Management, although DOE based its goals to achieve cost savings through improving information management on budgetary data for all of its offices and sites, it does not plan to include all of DOE's contractors in implementing this improvement. This Office does not believe that DOE has the authority to compel contractors to identify their site information resources or implement improvements. However, including these contractors could produce substantial additional savings because they annually spend over 90 percent of DOE's funds for information technology, which will equate to an estimated $1.45 billion out of $1.6 billion for fiscal year 1997.

Moreover, according to DOE officials, substantially greater savings could be achieved under the Initiative's planned action to consolidate its transportation and packaging functions. While only $6.4 million in estimated savings was included from consolidating these functions at the headquarters level as part of the Initiative's total cost savings of $1.7 billion, DOE officials told us that expanding this planned action to the site level could achieve an estimated cost savings of about $432.5 million during the Initiative's 5-year period. Achieving this additional savings will depend on DOE's ability to restructure its field transportation activities and establish interfaces between site and headquarters transportation management systems. According to DOE officials, however, the Department may not be able to accomplish these two tasks because of staffing and funding reductions.

Observations

Although DOE plans to meet its savings goals for the Initiative through budget cuts, many of its planned actions to maintain operations under the Initiative's budget and staffing reductions are just beginning. As a result, DOE management will need to continue to focus attention on implementing the planned actions to enable the Department to continue fulfilling its missions. Some overly optimistic initial reports of cost savings illustrate the need for DOE management to be diligent in validating claims of cost savings, lest managers believe those savings are occurring in specific activities, when in fact, targeted reductions are being absorbed elsewhere. As DOE continues to implement its Strategic Alignment and Downsizing Initiative, it also needs to be alert for and consider additional opportunities for savings.

Agency Comments and Our Evaluation

We transmitted a draft of this report to the Department of Energy for review and comment. DOE's written comments appear in appendix I. DOE agreed with our conclusions that (1) the Initiative's budget savings were on schedule, (2) the Initiative is still in the early stages of implementing its reengineering effort, (3) the Department needs to continue to validate savings, and (4) it needs to continue to explore additional opportunities for cost savings. Furthermore, DOE noted it will ensure that future budget submissions will reflect its commitment to save a projected $1.7 billion and also indicated that the Initiative may actually achieve some savings that exceed DOE's commitments.

Scope and Methodology

To determine whether the projected savings under DOE's Initiative have been met so far, we initially reviewed the areas designated for savings under the Initiative and DOE's amended fiscal year 1996 budget request, dated June 1995. We checked the status of each of the 45 implementation plans, including the six key strategies for achieving cost savings. We analyzed the plans' savings calculations to determine if they were appropriately documented. We also interviewed DOE officials knowledgeable about these plans.

After our initial review, we further analyzed the Initiative's documents and savings calculations and again interviewed those officials to determine if the additional savings that had been projected under the Initiative will likely be achieved after March 31, 1996. We also analyzed DOE's 5-year budget projections to determine how the Initiative's savings will be reflected in future budgets. Finally, we discussed procedures for claiming and reporting savings with officials at the Offices of the Chief Financial

Officer and the Chief Information Officer. While reviewing the status of the 45 implementation plans, we found that some preliminary reports of claimed savings were overly optimistic. However, we did not perform a detailed review of these reports.

We used two approaches to identify additional opportunities for DOE to reduce its current and future expenditures. First, we listed opportunities we found as we reviewed the Initiative's documents and interviewed officials. Next, we identified the options DOE considered but did not include in the final Initiative. (See app. II.) Although we did not evaluate the excluded options to determine their potential to save costs, we did identify the reasons they were excluded. We performed our review from January 1996 through May 1996 in accordance with generally accepted government auditing standards.

As agreed with your office, unless you publicly announce its contents earlier, we plan no further distribution of this report for 30 days from the date of the letter. At that time, we will send copies to other congressional committees; the Secretary of Energy; and the Director, Office of Management and Budget. We will also make copies available to others on request. Please call me at (202) 512-3841 if you or your staff have any questions. Major contributors to this report are listed in appendix III.

Sincerely yours,

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

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Abbreviations

DOE	Department of Energy
GAO	General Accounting Office
NEPA	National Environmental Policy Act

Comments From the Department of Energy

Department of Energy
Washington, DC 20585

May 6, 1996

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

Dear Mr. Rezendes:

The Department of Energy (DOE) appreciates the opportunity to review and comment on the General Accounting Office (GAO) draft report entitled Energy Downsizing: While DOE Is Achieving Budget Cuts, It Is Too Soon To Gauge Effects (GAO/RCED-96-154).

The Department agrees with GAO's conclusions that: (1) DOE's Strategic Alignment Initiative budget savings are on schedule and that we may actually exceed some savings commitments; (2) DOE is still in the early stages of implementing this five-year re-engineering effort; (3) the Department needs to continue to assure that reported cost savings are validated; and (4) there are additional opportunities for costs savings that should be explored.

While progress will be made throughout the five years of this effort, we are proud of the accomplishments DOE staff have made during the first six months. As of mid year the Department had achieved 100% of its end-of-year planned staffing reduction, closed 8 field offices and 4 headquarters locations, halved the number of internal Departmental directives, and consolidated a number of headquarters offices and functions. Based on actions taken to-date, DOE will certainly achieve its savings goal for FY 1996 and in some cases, such as travel and support service contracting, the Department will exceed its commitments.

Since its inception, the Strategic Alignment Initiative has been focused on accomplishing the critical missions of the Department at lower cost to the American taxpayer. We are firmly committed to the $1.7 billion in savings and we will continue to ensure that our budget submissions reflect this commitment. We will also address additional opportunities for cost savings, including those cited in your report. As we continue to progress, we stand to benefit from the experience and recommendations of many people, including your dedicated staff.

Sincerely,

Donald W. Pearman, Jr.
Associate Deputy Secretary
for Field Management

Options Excluded From DOE's Strategic Initiative

Although the Department of Energy (DOE) fully or partially adopted many of the cost-saving options that were generated while developing its Strategic Initiative, as DOE management reviewed these options, other new ideas were added and some options were dropped. The following table briefly describes those options that were excluded and why. We have not analyzed their potential for cost savings.

Table II.1: Cost-Saving Options DOE Excluded From Its Strategic Initiative

Option	DOE's reason for exclusion
Eliminate (or privatize) isotope production.	Production of isotopes is an inherently governmental function.
Eliminate the Office of Hearings and Appeals.	The Office continues to collect funds for return to the states and the Treasury.
Eliminate the weatherization program (within the Energy Conservation Program).	The Congress directed DOE to conduct this program.
Eliminate the fusion program.	Eliminating this program is a policy decision outside the bounds of the Initiative.
Create administrative services centers.	Establishing these centers was unacceptable to most program offices.

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