

United States General Accounting Office

GAO

High-Risk Series

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# Department of Energy Contract Management







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United States  
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Comptroller General  
of the United States

December 1992

The President of the Senate  
The Speaker of the House of Representatives

In January 1990, in the aftermath of scandals at the Departments of Defense and Housing and Urban Development, the General Accounting Office began a special effort to review and report on federal government program areas that we considered "high risk."

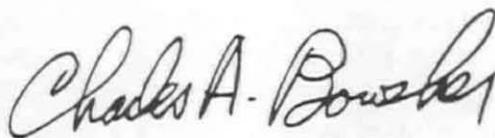
After consulting with congressional leaders, GAO sought, first, to identify areas that are especially vulnerable to waste, fraud, abuse, and mismanagement. We then began work to see whether we could find the fundamental causes of problems in these high-risk areas and recommend solutions to the Congress and executive branch administrators.

We identified 17 federal program areas as the focus of our project. These program areas were selected because they had weaknesses in internal controls (procedures necessary to guard against fraud and abuse) or in financial management systems (which are essential to promoting good management, preventing waste, and ensuring accountability). Correcting these problems is essential to safeguarding scarce resources and ensuring their efficient and effective use on behalf of the American taxpayer.

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This report is one of the high-risk series reports, which summarize our findings and recommendations. It describes our concerns over systemic contract management weaknesses in the Department of Energy. It focuses on the Department's failure to adequately oversee the contractors that it relies on to manage and operate the nuclear weapons complex and national laboratory network. The report delineates the consequences of an approach to contract management based on noninterference in contractors' activities. It also discusses GAO's suggestions to the Secretary of Energy for improving contract management and reducing risk.

Copies of this report are being sent to the President-elect, the Democratic and Republican leadership of the Congress, congressional committee and subcommittee chairs and ranking minority members, the Director-designate of the Office of Management and Budget, and the Secretary-designate of Energy.



Charles A. Bowsher

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# Overview

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Fundamental contract management weaknesses in the Department of Energy (DOE) have led to widespread mismanagement of federal property and funds. In response to calls from us and others for increased oversight, DOE has taken positive steps toward reforming its contract management. In particular, the Department's leadership has begun to instill a new organizational culture that acknowledges management shortcomings.

DOE's approach to contract management dates back to the Manhattan Project of World War II, when the federal government sought to obtain private industry's participation in dangerous and uncertain activities by giving contractors wide latitude in operating the government's weapons research and production facilities. Under the veil of national security, contractors operated largely without oversight or financial risk.

DOE recognizes that this lenient approach to contract management has placed at risk the government's multibillion-dollar annual investment in contractors' services. The Department's recent reforms are designed to give contractors more incentive to act responsibly and at the same time to increase

DOE's oversight of contractors' activities. Changing an approach to contract management that has led to so many problems will, however, take time and leadership.

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## The Problem

DOE is the largest civilian contracting agency in the federal government, providing employment to about 140,000 contractor personnel. About \$15.6 billion of DOE's \$19 billion procurement budget for fiscal year 1991 went to 35 contractors working under 52 contracts for management and operations. These contractors design, test, develop, and produce the nation's nuclear weapons; manage DOE's national laboratories; and conduct research in energy and science.

DOE's contracting approach has led to contracts that have virtually tied DOE's hands, requiring DOE to reimburse contractors for money and materials that the contractors' own employees have stolen and for fines that the contractors have incurred by violating environmental laws. We have identified substantial evidence of the systemic nature of DOE's contract management problems, finding, for example, that 10,000 secret documents were missing

from a nuclear weapons facility and that subcontracting costs for nuclear waste containers had tripled. Similarly, DOE's Inspector General (IG) found that requirements for congressional approval had been circumvented to obtain funding for an unauthorized construction project. In addition to these costs, the long-term effects of DOE's contract mismanagement and emphasis on production—the environmental, safety, and health problems at DOE's nuclear weapons complex—are now estimated to cost at least \$160 billion to restore and correct. Since DOE will have to rely heavily on contractors for the cleanup effort, the need for wholesale improvements in DOE's contract management remains urgent.

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## The Causes

Because DOE's management and operating contracts provide few incentives for contractors to operate cost-effectively, DOE needs to control costs carefully. However, weak oversight remains one of the Department's fundamental contracting problems. DOE has not provided the staff and other resources needed to monitor contractors' operations, and it does not have the management and financial information necessary for effective oversight. For

decades, the secrecy surrounding contracted activities has discouraged oversight. Furthermore, until recently, the international competition for weapons supremacy led DOE to emphasize production over environmental, safety, and health considerations.

Compounding DOE's contract management problems are contracts that limit the Department's control over contractors' operations. Nearly 70 percent of DOE's management and operating contracts do not contain standard clauses that other federal agencies commonly use to protect the government's interests. DOE's contracts give contractors excessive latitude, increase the government's financial risk, and restrict the Department's ability to control costs. In addition, DOE does not provide objective criteria for the award or management fees that it pays contractors, leaving open the possibility of abuse in fee determinations.

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GAO's  
Suggestions for  
Improvement

DOE has made significant changes to strengthen contract management. New contract provisions will require contractors to perform work only when specifically authorized and will make contractors liable for improper performance and accountable

for improper behavior. DOE is also using award fees to motivate improvements in contractors' environmental, safety, and health performance.

Although DOE's progress is noteworthy, new reforms will require DOE to substantially upgrade its oversight capabilities. Existing staff must be given the right skills to administer new provisions, and information systems must be developed and implemented to provide the kinds of data needed for the more intensive oversight brought about by reforms. Changing a contract management approach that has developed over half a century is certainly not easy. Implementing reforms such as those DOE has begun will take years and will require commitment from DOE's managers, employees, and contractors.

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## DOE Contracting

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During World War II, the Manhattan Engineer District of the U.S. Army Corps of Engineers—a predecessor to DOE—was responsible for developing and producing the first atomic bomb. More commonly known as the Manhattan Project, the enterprise was based on contractual arrangements among the War Department, industry, and academic organizations and created an unprecedented approach to contract management in response to the exigencies of war.

After the war, the newly created Atomic Energy Commission decided that special incentives were needed to retain the participation of its management and operating contractors. Under a “philosophy of least interference,” the Commission gave its contractors virtual independence in managing and operating the sprawling 12-state network of weapons facilities. External oversight of the contractors’ activities was limited by national security concerns. The Commission’s lack of involvement in the operations of its own facilities was reflected in contract clauses that relieved the contractors of virtually all financial risk and exempted them from most federal and state environmental laws. DOE

carried over this contract management approach intact.

Today, DOE is the only cabinet-level office to contract out its major missions. Providing employment to about 140,000 contractor and 20,000 federal personnel, DOE is also the largest civilian contracting agency in the federal government. In fiscal year 1991, about \$15.6 billion of DOE's \$19 billion procurement budget went to management and operating contractors who not only design, test, develop, and produce the nation's nuclear arsenal but also manage the country's national laboratories and conduct basic research in science and energy.

To manage and operate its facilities, DOE has entered into 52 fully cost-reimbursable contracts with 35 contractors. These include multinational firms and academic organizations, such as Westinghouse, General Electric, AT&T, and the University of California. The University of California and AT&T have operated some of DOE's facilities continuously since 1943 and 1949, respectively.

DOE's contracts are generally cost reimbursable because of the difficulties in estimating production and research work

loads and costs in advance. DOE uses primarily two types of contracts—cost-plus-award-fee and cost-plus-management-fee. The majority of DOE's contracts—28 out of 52—are held by profit-making firms and are cost-plus-award-fee contracts. Fiscal year 1991 award fees ranged from \$673,000 to \$18 million. A cost-plus-award-fee contract compensates a firm for costs incurred and provides an additional fee on the basis of DOE's evaluation of the company's performance. Most of the remaining 24 contracts are with nonprofit organizations and are cost-plus-management-fee contracts that, in addition to reimbursing all costs, provide a supplemental fee agreed upon during contract negotiations.

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# DOE's Oversight of Contractors Is Weak

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Fundamental weaknesses in DOE's contract management include insufficient oversight of contractors and their subcontractors and lack of essential management and financial information. Although cost-reimbursable contracts require extensive monitoring and DOE relies heavily on them, DOE has not provided the necessary oversight to hold contractors accountable and protect taxpayers' funds. Furthermore, because DOE does not have essential management and financial information, it does not have the complete picture of its contractors' activities required for adequate oversight. Over time, these weaknesses have contributed in no small measure to the deterioration of the weapons complex as well as to the more insidious environmental, safety, and health problems brought on by working for half a century with the radioactive elements used to produce nuclear weapons.

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## Controls Over Contractors' Operations and Activities Are Weak

Much of DOE's vulnerability to waste, fraud, abuse, and mismanagement stems from long-standing inadequacies in the Department's oversight of contractors' operations and activities. Although DOE's "least interference" management approach may have been appropriate at the end of World War II, it has led over time to

negligible DOE control and limited contractor accountability. The following examples demonstrate the systemic nature of the problem.

Although DOE's contracting approach was established partly in the interests of national security, DOE's limited oversight has not produced that security. For example, the management and operating contractor at Lawrence Livermore National Laboratory could not account for 10,000 of 600,000 secret documents concerning nuclear weapons and laser technology. DOE's reviews of the contractor's controls were inadequate to identify this breach of security.

DOE's weak oversight has also led to inefficient nuclear production decisions. According to an August 1991 DOE IG report,<sup>1</sup> reports of on-hand quantities of nuclear materials from DOE's nuclear weapons laboratories contained inaccuracies ranging from 52 percent to 88 percent. The management and operating contractor for Sandia National Laboratory, for instance, had requested about \$500,000 worth of uranium for its research needs when, in fact, the uranium was already in inventory and had been declared excess. However, DOE's

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<sup>1</sup>Departmentwide Audit of the Visibility Over the Status of Nuclear Materials (DOE/IG-0296, Aug. 30, 1991).

field offices had delegated the preparation of inventory assessments to the management and operating contractors with little or no guidance, involvement, or oversight and had generally accepted the reports without question.

The subcontracting area provides further evidence of the systemic nature of DOE's contract management problem. DOE has inadequately overseen its prime contractors' subcontracting activities, which represented an expenditure of about \$5.7 billion in fiscal year 1991. DOE's failure to oversee a subcontractor's quality control procedures and fabrication methods cost taxpayers millions of dollars. Instead of monitoring the subcontractor's operations from the start, DOE remained uninvolved while the subcontractor designed, tested, and produced containers for transporting nuclear waste. Consequently, DOE did not detect problems that led the Nuclear Regulatory Commission to reject 24 of the containers after the prime contractor had paid the subcontractor more than \$8 million to develop and produce them. Ultimately, DOE paid the prime contractor about \$14 million for 15 containers that met the Commission's design criteria—or about the same amount that the prime contractor had

originally agreed to pay the subcontractor for 52 containers. This tripling of per-unit costs could have been avoided if DOE had monitored the subcontractor's activities from the start.

Furthermore, DOE's internal program for examining prime contractors' subcontracting practices has identified numerous weaknesses, including insufficient competition for subcontracts and circumvention of DOE's approval of subcontracts. More than half of the reviews have identified questionable sole-source procurement problems. Yet lack of competition in obtaining subcontracts can limit the government's ability to obtain the best terms. For example, at one management and operating contractor, about 19 percent of the purchases that DOE reviewed did not contain adequate justification for sole-source procurement. These subcontracts totaled about \$445,000. Similarly, at DOE's Waste Isolation Pilot Plant, all but one support service subcontract that DOE examined were sole source. Each subcontract started as an agreement to purchase goods or services at a relatively small dollar value for a limited period and then grew into a long-term subcontract with a high dollar value. Thus,

none of these contracts was put out to bid to obtain the best price for the government.

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DOE Has Not  
Provided Needed  
Contract  
Administration

Because DOE's contracts are primarily cost reimbursable, extensive government oversight is required to preclude unnecessary contract costs. However, DOE historically has not provided the needed oversight under its "philosophy of least interference" in contractors' activities.

DOE now acknowledges the limited oversight it has provided in the past and the effects of its inattention. The Secretary of Energy's 1991 Federal Managers' Financial Integrity Act report cites inadequate staffing resources as a material weakness, demonstrating DOE's belief that its mission is being significantly affected by the shortages. At the DOE Albuquerque field office, only four staff members are responsible for financial management oversight of seven management and operating contractors that received about \$4.1 billion in fiscal year 1991 obligations. These same staff members are also responsible for providing limited oversight of several other contractors. DOE has recognized the inadequacy and has begun hiring additional staff to improve its contract oversight.

Furthermore, as the DOE IG reported in 1990,<sup>2</sup> staffing problems—including vacant positions, turnover, and recruiting difficulties—have limited the ability of DOE's San Francisco field office to oversee key management and operating contracts for national laboratory operations. However, the IG itself cannot ensure that contractors' costs are accurate, allowable, and reasonable. Staffing and resource limitations have prevented the IG from completing the audits required under the 5-year cyclical audit plan that the IG considers necessary to evaluate contractors' costs.

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DOE Lacks  
Essential  
Information to  
Make Decisions

Another fundamental weakness in DOE's contracting is lack of management information. DOE spends about \$1.6 billion annually to provide its executives, managers, and staff with information to help them accomplish DOE's mission. Yet DOE's managers still do not have management and financial information essential for contract management. The following cases illustrate this weakness.

Our ongoing work has found problems in DOE's financial reporting systems. At the time that DOE's financial systems were designed,

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<sup>2</sup>General Management Inspection of the San Francisco Operations Office (DOE/IG-0290, Sept. 20, 1990).

program managers were focusing primarily on producing weapons rather than on overseeing contractors. Now that DOE is attempting to strengthen oversight, these systems cannot reliably produce the information needed in such areas as functional and overhead costs. Thus, DOE lacks the information systems to gauge either the status or the costs of its contractors' activities.

DOE's failure to systematically monitor contractors' financial reporting practices has created an atmosphere conducive to financial irregularities. For example, as the DOE IG reported in March 1991,<sup>3</sup> the operating contractors at DOE's Savannah River production facility improperly charged a construction account (1) \$13 million to fund a warehouse complex, directly circumventing congressional funding authorization, (2) \$33 million to purchase unauthorized capital equipment, and (3) \$13 million to cover a shortfall in operating funds. According to the IG, these practices enabled the facility to avoid reporting potential funding problems. At the time of the IG's audit, a Savannah River plant contractor was conducting a wall-to-wall inventory of the capital equipment acquired

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<sup>3</sup>DOE IG Report on "Construction Carrying Account at the Savannah River Site" (ER-B-91-14, Mar. 15, 1991).

through these improper procedures. Contractor officials estimated that as much as 25 percent of this equipment might be missing.

DOE also lacks adequate systems to budget for certain types of financial commitments to contractors, called "uncosted obligations." These are obligations that DOE has made to contractors for goods and services that have not yet been provided and for which no costs have been incurred. Although DOE ended fiscal year 1991 with approximately \$9.7 billion in uncosted obligations, it had not established a system for ensuring the analysis of these obligations during its budget preparation. Without adequate information on uncosted obligations and systematic reviews of its financial commitments, DOE cannot guarantee that its budget requests represent the minimum amount needed for annual operations.

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Improving  
Contract  
Management Is  
Critical for  
Future  
Environmental  
Cleanup

DOE's fundamental contracting weaknesses have contributed to significant environmental, safety, and health problems at DOE's nuclear weapons plants. Because contractors will have a significant role in correcting these problems, improvements in DOE's contract management will be critical.

As DOE itself has admitted, its contractors have released radioactive contaminants at many, if not all, of its weapons production sites. In addition, years of neglect have made the complex obsolete and unsafe. We identified the effects of such behavior years ago and began projecting a more than \$100 billion price tag for the cleanup.

Resolving safety issues at DOE facilities continues to be a significant problem for DOE. Safety concerns led to DOE's closing much of the complex and are an important reason why many key facilities remain closed. On the environmental side, DOE's efforts to clean up the legacy of weapons production have been hampered by technological, compliance, and management problems that have led, in turn, to missed milestones and escalating budgets. In the quest for weapons supremacy, DOE and its contractors placed an overriding emphasis on weapons production and relegated environmental, safety, and health issues to a minor role.

Over the years, contractors' concerns with meeting production quotas and DOE's inattention to oversight compounded DOE's environmental problems. Today, it is estimated that it will cost as much as

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\$160 billion to clean up the nuclear weapons complex and restore it to a safe condition. Given that contractors will be receiving much of this money, correcting DOE's contract management problems remains urgent.

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## Contract Provisions Weaken DOE's Control

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The systemic weakness in DOE's contract management is also exhibited in the contracts themselves. About 70 percent of DOE's management and operating contracts do not employ standard contract clauses typically used by other federal agencies. Thus, from the outset, DOE is contractually precluded from exercising any authority it may have had to control contractors' activities. In addition, DOE does not provide adequate criteria or justification for the award and management fees that it pays contractors. Deviations in contract clauses expose the government to greater financial risk, and inadequate criteria or support for fees paid does not ensure that contractors are objectively compensated.

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### Nonstandard Contract Clauses Increase Costs

DOE's extensive use of nonstandard contract clauses has restricted the agency's ability to control costs. This fundamental weakness dates back to the use by DOE's predecessor agencies of special incentives that they believed were necessary to attract and retain contractors. Since then, DOE's contractors have been reluctant to negotiate contracts with more stringent clauses. Consequently, DOE's contracts with the University of California for operating three national laboratories did not include the standard

procurement clause that would require the contractor to obtain DOE's approval of vehicle leases. Thus, the Lawrence Livermore Laboratory was able to lease 58 vehicles from the university at commercial rates without obtaining DOE's approval. Under the university's rates, DOE paid about \$600,000 more for the vehicles than it would have paid under government rates. When DOE directed the laboratory to terminate some commercial leases to reduce its fleet size, the laboratory did not comply, citing a contract clause requiring that DOE and the university mutually agree on property management issues. Thus, the contract that DOE had negotiated with the university prevented DOE from correcting this waste of funds.

Nonstandard indemnification clauses in some of DOE's contracts have grown out of DOE's historical practice of indemnifying, or reimbursing, almost all contractors' costs to compensate for the unique risks inherent in producing weapons. These clauses could require DOE to reimburse contractors for all costs, even those that it considered unreasonable, unless DOE could demonstrate that the costs had been incurred through the willful misconduct or bad faith of corporate management. Consequently, as we reported

in October 1989, a contract clause required DOE to reimburse a contractor for \$420,000 in money and materials that a contractor's employee had stolen. Such payments reflect an irresponsible use of government funds.

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DOE's  
Administration of  
Award and  
Management Fees  
Is Problematic

Another weakness in DOE's overall contract management is that DOE cannot always support the millions of dollars in award or management fees that it pays to contractors. Thus, contractors are sometimes rewarded for questionable performance. This is because DOE's performance evaluations of contractors are poor and, in some cases, DOE has no criteria for determining its fees. In 1989, we pointed out problems in DOE's award fee process and recommended that DOE restructure the process to reduce the level of discretion exercised in making a final award determination. The same problems we identified still exist.

We found that the DOE Albuquerque field office did not tell its contractors specifically what was expected of them or what significance would be attached to specific accomplishments or failures. Without specific criteria, DOE had no sound basis for assessing performance and determining the contractors' award fees.

We also found that a fee of nearly \$2 million was awarded to the Rocky Flats management and operating contractor even though a DOE review board's initial rating of the contractor's performance had recommended no award at all on the basis of established evaluation criteria. The review board raised 30 significant deficiencies, chief of which was the contractor's poor environmental, safety, and health performance. However, a subsequent management review discounted the review board's recommendation and significantly increased the rating score to award a fee of \$1.7 million. In addition, the final determination did not explain what weight had been assigned to environmental criteria, on which at least 51 percent of the award fee should have been based. These examples demonstrate that DOE still exercises considerable discretion in making final award fee determinations even when specific criteria exist.

Management fees paid to nonprofit organizations reflect similar problems. As the DOE IG reported in September 1990,<sup>4</sup> DOE lacks written criteria for establishing management fees. According to the report, DOE and the University of California

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<sup>4</sup>General Management Inspection of the San Francisco Operations Office (DOE/IG-0290, Sept. 20, 1990).

negotiated a management fee of \$12 million for the university to operate three weapons laboratories. This fee was to be increased automatically each year by \$250,000 for fiscal years 1987 through 1992. Although DOE did not provide detailed justifications for these increases, DOE's contracts indicated that \$8 million of the management fee was in lieu of reimbursing the university for indirect costs. The university was required to spend "a significant portion" of the remaining fee (which was about \$4.75 million in fiscal year 1991) on "complementary and beneficial activities." DOE was unable to identify these "activities," yet it paid the \$4.75 million fee. Because DOE has no guidelines for these fees, it is virtually impossible to evaluate their reasonableness.

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# DOE's Contracting Changes Will Take Time and Commitment

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DOE acknowledges its contract management problems and has undertaken wholesale changes in its relationship with its contractors. These changes include a new management approach toward contractors and efforts to negotiate contract terms and conditions that are more consistent with the government's interests. We believe that DOE's actions are a step in the right direction but that it will take years to effect a cultural change in a 50-year-old business philosophy.

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## Change in DOE's Culture Acknowledges Fundamental Problems

One of the major changes is the Secretary of Energy's overall objective to instill a new culture within DOE. This cultural change acknowledges the systemic nature of DOE's contract management problems and institutes reforms in oversight and contractor liability.

According to the Secretary, the new culture embraces the development of (1) compatibility between DOE's mission to produce materials for nuclear weapons and to protect the environment—intended to replace almost 50 years of production at environmental expense, (2) a workplace culture that demands excellence and personal accountability—intended to replace DOE's ambiguous lines of authority, and

(3) an atmosphere that welcomes openness and constructive criticism—intended to replace DOE's practice of making decisions under extreme secrecy.

Furthermore, DOE identified contract management as a material weakness in its three most recent Federal Managers' Financial Integrity Act reports to the President and the Congress on internal control weaknesses. Thus, DOE has acknowledged that its contract management significantly impairs the fulfillment of its mission. In fiscal year 1992, DOE increased its staff, including staff for contract oversight. DOE believes that these changes will help address weaknesses in its contract oversight.

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Initiatives Are  
Designed to  
Increase  
Contractor  
Oversight and  
Accountability

To direct contractors' activities more effectively and gain more control over costs, DOE is attempting to change contract terms and conditions and create new types of contracts. First, DOE is incorporating a new accountability rule into its contracts with profit-making organizations. Under this rule, DOE will (1) hold contractors liable for costs that could have been avoided by proper contract performance and (2) increase contractors' potential award fees to offset the increase in their financial risk. Second,

DOE is attempting to delete as many nonstandard contract clauses as possible, such as the mutuality clause with the University of California. Finally, DOE is introducing "task order contracting," a practice that will require specific DOE authorization for each task before money can be obligated or work can begin.

To increase contractors' compliance with environmental, safety, and health standards, DOE now requires that at least 51 percent of the award fee be based on these important measures of performance. Furthermore, DOE will deny the entire award fee if performance in any of these areas is unacceptable. DOE has also proposed a new contracting approach for cleaning up contamination at the nation's nuclear weapons sites. This new approach would transfer cleanup responsibilities at each DOE facility from an existing management and operating contractor to an environmental restoration management contractor. Goals include improving contractors' performance, lowering costs, achieving more timely restoration, and increasing accountability. DOE intends to pilot test this approach for at least 5 years at DOE's Fernald, Ohio, and Hanford, Washington, sites beginning in late 1992 and early 1993.

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## Initiatives Raise New Challenges

We believe that DOE's efforts to address these contract management problems are significant positive actions. However, the systemic nature of these weaknesses—insufficient oversight, lack of essential information, nonstandard contracts, and questionable fees—requires wholesale changes within DOE, including commitment not only from DOE but also from its contractors, and will take years to implement. Meanwhile, several problems whose solutions are crucial to achieving improved accountability and performance are not being fully addressed.

DOE's new rule to make contractors more accountable, for example, requires that DOE (1) incorporate accountability provisions into all existing cost-plus-award-fee contracts, (2) develop operational procedures to identify all avoidable costs, and (3) train staff to implement the rule in a timely manner. Until DOE completes all of these actions, however, the management and operating contractors may receive increased award fees without incurring any additional liability.

Although DOE now requires that 51 percent of a contractor's award fee be based on environmental, safety, and health

performance, the fee determination process is still largely subjective—as we found at Rocky Flats. DOE needs to show and document clearly the relationship between a contractor's performance and the amount of the award fee. The more DOE reduces the level of discretion in the award fee ratings, the more DOE will ensure that contractors are compensated objectively.

To improve oversight, task order contracting requires increased resources for administering contracts and estimating costs. Although DOE is increasing its staff, it is still unknown whether DOE will allocate sufficient resources to this area. In addition, neither DOE nor its contractors have developed adequate cost-estimating systems. Furthermore, DOE has not yet developed its own cost estimates for task orders and will therefore need to rely on estimates developed by contractors to negotiate cost, schedule, and performance milestones.

The environmental restoration management contractor approach carries over many problems from existing management and operating contracts. For example, the new contractor proposals state that site labor costs will not change. That is primarily because the new contractors will be required

to hire as many of the existing management and operating contractors' staff as they can effectively employ, at their present salary and benefit levels. Moreover, proposals do not specify how responsibility will be divided between DOE and the new contractors or how it will be shared with the existing management and operating contractors. Overseeing new contractors will also require more and better trained staff. Thus far, DOE has largely ignored training because it has focused on selecting the new contractors.

Given these concerns and the systemic nature of DOE's contract management problems, we plan to continue monitoring DOE's contracting through a variety of assignments over the next several years. We will (1) assess the adequacy of DOE's corrective actions in addressing specific problems as well as DOE's overall contract management approach and (2) identify additional actions that may be needed to correct these and other deficiencies in DOE's contracting practices.

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## Conclusions and Action Needed

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DOE's contract management philosophy has put at risk billions of dollars in yearly contractors' services. Spurred by strong congressional oversight and recommendations from GAO, the DOE IG, and others, DOE has begun to make wholesale contract management reforms. Increased audit oversight, new award fee criteria, task order contracting, and strengthened contract clauses are steps in the right direction.

These reforms are directed at giving contractors more incentive to act responsibly while at the same time increasing DOE's oversight of contractors' activities. Changing a contract management approach that has become so ingrained, however, will not be easy. It will take a significant leadership effort, as well as years to implement.

As we change leadership, the new administration has an opportunity to build on the positive directions of the previous administration. Specifically, the new administration needs to continue the increased accountability required of contractors. Also, improved information management systems and technical staff will be necessary to ensure such accountability. Finally, the new administration should

recognize that changes of this magnitude will take long-term commitment and, therefore, sustained leadership to realize. These changes will also require the concerted efforts of DOE's managers, employees, and contractors, as well as continued congressional oversight.

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## Related GAO Products

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Federal Contracting: Cost-Effective Contract Management Requires Sustained Commitment (GAO/T-RCED-93-2, Dec. 3, 1992).

Department of Energy: Better Information Resources Management Needed to Accomplish Mission (GAO/IMTEC-92-53, Sept. 29, 1992).

DOE Management: Impediments to Environmental Restoration Management Contracting (GAO/RCED-92-244, Aug. 14, 1992).

Nuclear Health and Safety: More Can Be Done to Better Control Environmental Restoration Costs (GAO/RCED-92-71, Apr. 20, 1992).

Energy Management: Vulnerability of DOE's Contracting to Waste, Fraud, Abuse, and Mismanagement (GAO/RCED-92-101, Apr. 10, 1992).

Nuclear Health and Safety: Increased Rating Results in Award Fee to Rocky Flats Contractor (GAO/RCED-92-162, Mar. 24, 1992).

Energy Management: Systematic Analysis of DOE's Uncosted Obligations Is Needed (GAO/T-RCED-92-41, Mar. 24, 1992).

Nuclear Weapons Complex: Major Safety, Environmental, and Reconfiguration Issues Facing DOE (GAO/T-RCED-92-31, Feb. 25, 1992).

Nuclear Waste: Weak DOE Contract Management Invited TRUPACT-II Setbacks (GAO/RCED-92-26, Jan. 14, 1992).

Energy Management: DOE Has an Opportunity to Improve Its University of California Contracts (GAO/RCED-92-75, Dec. 26, 1991).

Energy Management: Tightening Fee Process and Contractor Accountability Will Challenge DOE (GAO/RCED-92-9, Oct. 30, 1991).

Energy Management: Contract Audit Problems Create the Potential for Fraud, Waste, and Abuse (GAO/RCED-92-41, Oct. 11, 1991).

Energy Management: DOE Actions to Improve Oversight of Contractors' Subcontracting Practices (GAO/RCED-92-28, Oct. 7, 1991).

DOE Management: Improvements Needed in Oversight of Procurement and Property Management Practices at the Lawrence Livermore National Laboratory (GAO/T-RCED-91-88, Aug. 20, 1991).

DOE Management: DOE Needs to Improve Oversight of Subcontracting Practices of Management and Operating Contractors (GAO/T-RCED-91-79, Aug. 1, 1991).

DOE Management: Management Problems at the Three DOE Laboratories Operated by the University of California (GAO/T-RCED-91-86, July 31, 1991).

Nuclear Security: Property Control Problems at DOE's Livermore Laboratory Continue (GAO/RCED-91-141, May 16, 1991).

Nuclear Nonproliferation: DOE Needs Better Controls to Identify Contractors Having Foreign Interests (GAO/RCED-91-83, Mar. 25, 1991).

Nuclear Security: Accountability for Livermore's Secret Classified Documents Is Inadequate (GAO/RCED-91-65, Feb. 8, 1991).

Nuclear Security: DOE Oversight of Livermore's Property Management System Is Inadequate (GAO/RCED-90-122, Apr. 18, 1990).

Hazardous Waste: Contractors Should Be Accountable for Environmental Performance (GAO/RCED-90-23, Oct. 30, 1989).

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# High-Risk Series

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## Lending and Insuring Issues

Farmers Home Administration's Farm Loan Programs (GAO/HR-93-1).

Guaranteed Student Loans (GAO/HR-93-2).

Bank Insurance Fund (GAO/HR-93-3).

Resolution Trust Corporation (GAO/HR-93-4).

Pension Benefit Guaranty Corporation  
(GAO/HR-93-5).

Medicare Claims (GAO/HR-93-6).

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## Contracting Issues

Defense Weapons Systems Acquisition  
(GAO/HR-93-7).

Defense Contract Pricing (GAO/HR-93-8).

Department of Energy Contract Management  
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Superfund Program Management  
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NASA Contract Management (GAO/HR-93-11).

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Accountability  
Issues

Defense Inventory Management  
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Management of Overseas Real Property  
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Federal Transit Administration Grant  
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Asset Forfeiture Programs (GAO/HR-93-17).

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