



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

Resources, Community, and  
Economic Development Division

B-272000

May 31, 1996

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

Dear Mr. Chairman:

From fiscal year 1990 through fiscal year 1994, the Department of Energy (DOE) expanded its use of support service contracts by 81 percent, increasing its obligations (hereafter referred to as costs) from \$538 million to \$976 million. Support service contracts may be used to acquire technical expertise and other services that are not available through the federal work force. Some support services can also be obtained more cost-effectively through contractors than through the federal work force.

In May 1995, the Department implemented its Strategic Alignment and Downsizing Initiative to, among other things, reduce its support service costs. Under this Initiative, DOE imposed a cap on its annual costs for support service contracts for a 5-year period starting in fiscal year 1996. Later, in October 1995, the Conference Report for the Fiscal Year 1996 Energy and Water Development Appropriations directed DOE to reduce its costs for support service contracts. Specifically, the report called for reductions of (1) 50 percent for contracts other than those that are documented to reflect the cost benefits of contracting for a service and those that provide specific technical expertise tied to a schedule and a deliverable<sup>1</sup> and (2) 15 percent for all other categories of support service contracts.

After preparing a rough calculation of its support service costs under the conference report's approach, DOE concluded that using its own approach—placing a cap on support service costs—would be both less expensive and less

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<sup>1</sup>Most of the remaining support service contracts in the 50 percent category are for administrative and management services.

administratively burdensome than implementing the conference report's approach—classifying contracts by the types of support services provided. DOE therefore decided not to use the conference report's approach to reduce its costs. Your office requested that we (1) compare DOE's estimated costs for support service contracts under the conference report's approach and under the Initiative and (2) determine whether implementing the Initiative will reduce the costs for administrative and management support service contracts by 50 percent.

In summary, DOE estimated its costs for support service contracts for the two approaches at about the same level—\$602 million under the conference report's approach and \$600 million under the Initiative—resulting in a cut of about \$180 million in these costs.<sup>2</sup> However, DOE did not perform the detailed analysis of its 500 support service contracts needed to accurately assess its costs under the conference report's approach. Furthermore, in calculating its costs under the Initiative, DOE excluded \$57 million in costs that it included in calculating its costs under the conference report's approach. When these costs are included, the total costs under the Initiative rise to \$657 million, or \$55 million more than under the conference report's approach. In addition, implementing the Initiative will not necessarily reduce DOE's costs for administrative and management support service contracts by 50 percent because the Initiative is designed to achieve an overall reduction, not the higher percentage reductions in administrative and management services specified in the conference report.

#### BACKGROUND

Under the Initiative, DOE used its fiscal year 1994 costs as a base to arrive at a ceiling for its support service contracts. From this base, it excluded the costs for three types of support service contracts: (1) contracts with nonprofit organizations, (2) management and operating contracts that were incorrectly classified as support service contracts, and (3) contracts for maintenance and operations (janitorial/custodial and guard) services. DOE excluded the contracts for nonprofit organizations because they generally are not expected to provide administrative and management assistance. It excluded the maintenance contracts because the types of services they provide are usually contracted out on a least-cost basis. DOE then rounded down the resulting amount to a baseline of \$700 million, from which it determined that it could save \$90 million annually. Finally, DOE allocated the resulting annual ceiling of

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<sup>2</sup>This cut was derived from DOE's fiscal year 1995 adjusted baseline of \$783 million (see table 1).

B-272000

\$610 million among its program and field offices, leaving the specific reductions up to the managers in each of these offices. For fiscal year 1996, DOE estimated that its total costs for support service contracts under the Initiative would come in below the ceiling at about \$600 million.

COST COMPARISON IS UNCERTAIN

In contrast to the cap on costs that DOE established for the Initiative, the total cost under the conference report's approach is uncertain. Therefore, we cannot determine with certainty which approach would be less costly. Our analysis shows, however, that DOE excluded the costs for some contracts from its calculations for the Initiative while including these costs in its estimate for the conference report's approach. When these costs are included, the total costs under the Initiative rise to \$657 million, or \$55 million more than under the conference report's approach.

DOE's Estimate for the Conference Report's Approach Is Uncertain

In estimating its costs under the conference report's approach, DOE did not review its 500 support service contracts individually to determine whether they would be subject to 50- or 15-percent reductions. Instead, to avoid this administrative burden, it prepared only a rough calculation, judgmentally reducing its costs by (1) 50 percent for some of the contracts designated in its automated tracking system as contracts for administrative and management services and (2) 15 percent for the remaining contracts, as shown in table 1. For fiscal year 1996, DOE estimated that its total costs for support service contracts under the conference report's approach would be \$602 million. The Director of DOE's Office of Management Review and Analysis, who developed this estimate, told us that it represents an optimistic minimum amount that would likely increase as individual contracts were reviewed.

Table 1: Costs for Support Service Contracts Under the Conference Report's Approach, Estimated by DOE for Fiscal Year 1996

Dollars in millions

<b>Costs for support service contracts</b>	<b>DOE's estimate</b>
Fiscal year 1995 costs	\$835
Less costs for two contracts that should not have been classified as support service contracts	52
Baseline subject to reduction for fiscal year 1996	783
Less 50-percent reduction in costs for contracts providing administrative and management services	(90)
Less 15-percent reduction in costs for remaining contracts	(91)
<b>Total estimated costs</b>	<b>\$602</b>

DOE Did Not Include the Same Contracts in Both of Its Estimates

DOE maintains that it will achieve greater reductions through its Initiative than through the conference report's approach. However, our analysis shows that DOE treated some support service contracts differently in estimating its costs under the two approaches. The estimate for the conference report's approach, like the estimate for the Initiative, excludes the costs for two contracts that should not have been classified as support service contracts. However, the estimate for the conference report's approach includes the costs for (1) the support service contracts with nonprofit organizations and (2) the contracts for maintenance and operations services that the estimate for the Initiative excludes. As shown in table 2, the costs for these two types of contracts total \$57 million. Had the estimate for the Initiative included these additional costs, it would have increased to \$657 million, or about \$55 million more than the estimate for the conference report's approach.

Table 2: Impact of Additional Costs Excluded Under the Initiative but Included Under the Conference Report's Approach for Fiscal Year 1996

Dollars in millions

<b>Costs for support service contracts</b>	<b>Estimate</b>
Estimated costs under the Initiative for fiscal year 1996	\$600
Plus costs included in DOE's calculation under the conference report's approach	57
<b>Total adjusted costs</b>	<b>\$657</b>

INITIATIVE IS NOT DESIGNED  
TO ACHIEVE HIGHER REDUCTIONS IN  
ADMINISTRATIVE AND MANAGEMENT SERVICES

DOE did not design the Initiative to achieve the higher percentage reductions specified in the conference report for administrative and management services. Furthermore, DOE is not tracking its field and program offices' costs to see whether these reductions may be occurring. As noted, DOE's Initiative preceded the conference report, and DOE did not try to reduce some types of costs more than others when it developed the Department-wide ceiling for the Initiative. Furthermore, because selective cutting would require a detailed review of about 500 contracts, DOE has not instructed its managers to consider the conference report's approach when implementing the reductions in costs needed to arrive at the portion of the ceiling allocated to each program and field office under the Initiative.

AGENCY COMMENTS

We transmitted a draft of this report to DOE for its review and comment. DOE's written comments appear in enclosure I. DOE agreed that our report set out the differences between the approaches under the Initiative and under the conference report. DOE noted that the Secretary specifically excluded support services that are related to security and health issues, which the Department believes should not be subject to arbitrary reductions. DOE's comments expanded on our report's description of the administrative burden that DOE believes is involved in determining which contracts would be subject to the 50- and the 15-percent reductions under the conference report's approach. DOE

B-272000

also made some other clarifying comments that have been incorporated into our report.

#### SCOPE AND METHODOLOGY

To assess whether implementing the Initiative would result in lower costs than using the conference report's approach, we reviewed DOE's rough estimate under the conference report's approach and compared it with the cap set under the Initiative. We discussed both approaches with DOE headquarters procurement officials and reviewed DOE's policies, procedures, and process for reducing costs for support service contracts under the Initiative. In addition, to determine whether implementing the Initiative would reduce DOE's costs for administrative and management support service contracts by 50 percent, we reviewed DOE's approach under the Initiative and compared it with the conference report's approach. We also discussed this issue with the DOE program office responsible for overseeing the reductions in costs for support service contracts under the Initiative.

However, we did not verify the accuracy of DOE's database for support service contracts, and we did not determine whether any of the reductions in support service contracts were the result of changing from one type of contract to another. We performed our review from September 1995 through April 1996 in accordance with generally excepted government auditing standards.

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We are sending copies of this report to the Secretary of Energy; the Director, Office of Management and Budget; and other interested parties. We will also make copies available to others upon request.

B-272000

Please call me at (202) 512-3841 if you or your staff have any questions. Major contributors to this report include Jeffrey E. Heil, Assistant Director; Carrie M. Stevens; William Swick; John Cass; Annette Wright; and Elizabeth Eisenstadt.

Sincerely yours,

A handwritten signature in black ink, appearing to read "Victor S. Rezendes". The signature is fluid and cursive, with a large initial "V" and "R".

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

COMMENTS FROM THE DEPARTMENT OF ENERGY**Department of Energy**

Washington, DC 20585

May 28, 1996

Mr. Victor S. Rezendes  
Director, Energy, Resources and Science Issues  
United States General Accounting Office  
Washington, DC 20548

Dear Mr. Rezendes:

Reference is made to the proposed General Accounting Office Report GAO/RCED-96-174 R entitled, Energy's Support Service Contracts.

The Department of Energy's Strategic Alignment Initiative - 37, Reducing Support Service Contracting, was undertaken at the direction of Secretary of Energy O'Leary, and, beginning in August 1995, the Department has taken dramatic action to lessen its reliance on support service contractors in performing the Department's missions. As stated in your report GAO/RCED-96-157: DOE Is Achieving Budget Cuts. It Is Too Soon to Gauge Effects, the Department has established goals and measurements for reducing support services and is achieving these reductions.

Concerning the instant proposed report, your office emphasizes in a number of places that the Department did not include housekeeping services in its reductions, whereas the Congressional report language did include such services, and thus the proposed report intimates that the Department could have reduced its spending on support services even more than under the Strategic Alignment Initiative had it followed the Congressional language. Secretary O'Leary, in approving the Strategic Alignment Initiative, specifically excluded these services from reductions. Most of these services involve security and health issues which the Department believes should not be subject to arbitrary reductions. However, prudent reductions will be considered in these areas when it can be determined that workers' health and security will not be jeopardized.

Secondly, we would point out that the Congressional report language does not specifically state that, as set out in your proposed report, there should be a 50% reduction to all administrative and management support service contracts. Rather, the Congressional report states that there should be a 50% reduction to other than "those support service contracts which are documented to reflect the cost benefits of contracting for the service, and those contracts which provide specific technical expertise tied to a schedule and deliverable. All other categories of support service contracts should be reduced by 15% in accordance with the Department's Strategic Alignment Initiative." The proposed GAO report should be modified to accurately reflect the Congressional language, which we believe is more uncertain than the definitions in your proposed report.

Thirdly, although the proposed report speaks to the administrative burden involved in following the Congressional language, we believe that the report does not reflect the magnitude of such a

burden. That is, under the Congressional language, over 500 contracts would have to be individually analyzed, and negotiations held with twenty-six Headquarters and field offices to determine whether the contract would be subject to a 50 percent or a 15 percent cut. Honest differences of opinion would surely exist, and we believe that extensive discussions, supported by a myriad of reports and analyses, would have had to occur, and that the resulting reductions would most likely not be of any greater degree than those achieved under the straightforward, measurable approach of the Strategic Alignment Initiative.

In summary, the proposed report does set out the differences between the approaches of the Strategic Alignment Initiative and the Congressional Report. However, as you stated in your previous report, the Department is achieving its support service reductions, using defined goals and measures. We are confident that the Department will meet its support service reduction goal.

Sincerely,



Archer L. Durham  
Assistant Secretary for  
Human Resources and Administration

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