



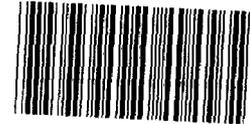
COMPTROLLER GENERAL OF THE UNITED STATES  
WASHINGTON D.C. 20548

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B-208247

August 20, 1982

The Honorable Joseph R. Wright, Jr.  
Deputy Director  
Office of Management and Budget



119369

Dear Mr. Wright:

Subject: Response to OMB Comments on GAO's August 2, 1982, report entitled "Analysis of Energy Reorganization Savings Estimates and Plans" (GAO/EMD-82-127)

In response to requests from several congressional committee chairmen, the General Accounting Office (GAO) has made several reviews concerning the administration's proposal to reorganize Federal energy functions. Our most recent report 1/ provided an analysis of the plans and documentation supporting the administration's energy reorganization savings estimates. Your August 3, 1982, letter to Congressman James T. Broyhill, Ranking Minority Member, House Energy and Commerce Committee, and your August 10, 1982, letter to Congressman Fran. Horton, Ranking Minority Member, House Government Operations Committee, both highly critical of our report, were entered in the Congressional Record for August 11, 1982, along with the introduction of the President's energy reorganization bill. 2/ Enclosure I is a detailed response to the specific points made in your letter to Congressman Horton.

Your criticisms center on the following three major "short-comings":

- GAO did not approach senior administration officials to obtain information on the reorganization and based its findings on outdated information rather than revised data that were available;
- GAO concentrates on secondary and incidental benefits, costs, and implementation plans, rather than focusing on the appropriate Federal energy role; and

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1/"Analysis of Energy Reorganization Savings Estimates and Plans," GAO/EMD-82-77, August 2, 1982.

2/Congressional Record, August 11, 1982, page H. 5749 to page H. 5753.

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--GAO attacks the lack of detailed implementation plans, ignoring the reality that useful detailed planning must await legislative action.

In regard to these criticisms, your letters fail to recognize the continuous and extensive discussions held between the GAO staff and senior administration officials responsible for estimating costs or savings associated with the proposed energy reorganization. Moreover, they do not accurately reflect the facts contained in the report or the evidence upon which the facts are based. I wish to take this opportunity to correct your understanding of these matters and to set the record straight.

COMPLETENESS OF INFORMATION  
OBTAINED

At the outset, it is important to note that we were not assessing the overall merit of reorganizing the Department of Energy. Our task, simply stated, was to verify, if possible, the administration's own figures on savings to be realized through the proposed reorganization. Our report was based on a review of the administration's available documentation dealing with the plans and cost estimates associated with the reorganization and on discussions with senior officials responsible for estimating costs or savings associated with the proposed reorganization. Because these officials knew the details behind the cost estimates, we considered them the most appropriate contacts for this review.

Our effort was continuous during the period February 1, 1982, to July 30, 1982. We obtained information from officials of the administration's Task Force on Energy Reorganization, the White House, and the Departments of Energy, Commerce, and the Interior. In developing and communicating our findings, we held 20 meetings and 18 telephone conversations with administration officials, as shown in enclosure II. Your letter to me of August 19, 1982, (enclosure VII) states that you have no record of GAO contacting your office requesting an interview. Our records show that we did contact your office at 12 noon on June 1, 1982, and were told that we should address our questions regarding energy reorganization costs and plans to the Project Manager of the Steering Group on Energy Reorganization. The Project Manager is the Associate Deputy Secretary of Commerce who is on detail to your office.

Between April 29, 1982, and July 30, 1982, we held four discussions with the Project Manager. Also, between April 30, 1982, and July 30, 1982, we held five discussions with the Commerce Department's Director of Organization and Management Systems, who prepared Commerce's reorganization cost estimates and who serves on the Reorganization Task Force. At the Energy Department, between March 1, 1982, and July 30, 1982, we held seven discussions with the Director, Office of Organization and Management Systems, and three discussions with the Deputy Assistant Secretary for Management and Administration. Each of these officials is a member of the Reorganization Task Force. The subject of these discussions was reorganization cost-savings, and each of these officials agreed with our findings that the reorganization cost estimates were poorly documented.

GAO did not, as you assert, "rest its case on the basis of outdated information and estimates which do not reflect the latest administration planning and analytic refinements that were available."

- Until early June 1982, we were told by senior level administration officials, including the Project Manager, that the administration's cost-savings goal was \$1 billion over a 3-year period. We requested all documentation on this cost-savings estimate and discussed it in detail with administration officials.
- On June 3, 1982, we were told by the Project Manager that a new estimate was being prepared. The Project Manager told us that GAO could not have access to the new estimate, or the documentation upon which it was based, until it was introduced in the June 24, 1982, hearings of the Senate Governmental Affairs Committee. We also attempted to obtain documentation on the estimate from the Commerce Department's Director of Organization and Management Systems on June 16, 1982. He informed us that the Project Manager had instructed him not to provide the information to GAO until the June 24, 1982, hearings.
- In the June 24, 1982, hearings of the Senate Committee, the Secretary of Commerce stated that the proposed reorganization would result in cost-savings of approximately \$250 million over a 3-year period.
- On June 25, 1982, we requested from Commerce officials the documentation supporting the new estimate. We were given two pages of documentation which showed that changes had been made to the previous estimate but the documentation provided no details. The Commerce official told us

that there was no official explanation available on how or why the changes were made and that the detailed support for the new savings estimate was the same as it was for the previous \$1 billion estimate--support already in our possession. As stated earlier, we had already reviewed that support and found it to be inadequate.

--On July 30, 1982, the Project Manager told us that no new cost estimates had been or were being prepared.

--On August 2, 1982, we issued our report.

I believe that the above information clearly indicates that GAO did not rest its case on outdated information. If any new data has been developed since our report was issued on August 2, 1982, we would be pleased to discuss the information with you and to review the documentation which supports the information.

#### CONCENTRATION ON COST ISSUE

A second point you make is that GAO's review was misdirected because the cost of reorganization is not a major issue. You stated that concern over cost diverts attention from more important issues; that our analysis is not very useful to the Congress or the administration in helping to assess the energy reorganization proposal; and that a more helpful focus would have been to examine the overall Federal energy role.

As stated in our report, costs have always been a concern in connection with Federal reorganizations. The five chairmen of the Senate and House committees (see enclosure III) who requested our review were very much concerned with the administration's cost-savings estimates. Indeed, the administration itself has stressed cost-savings in its efforts to win support for the reorganization proposal. The public record is replete with statements made by administration officials, including the President, the Counsellor to the President, the Secretaries of Energy and Commerce, and yourself, claiming cost-savings through reorganization (see enclosure IV for a partial listing of such statements).

Much of your criticism of our report is based on your belief that a more helpful focus would have been the major question of the appropriate Federal versus non-Federal roles in the Nation's energy affairs. GAO did address that subject in a report issued earlier this year. 1/ The report discusses energy trends and problems, the evolution of Federal energy-related agencies, the

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1/"Analysis of Federal Energy Roles and Structures," EMD-82-21, January 20, 1982.

extent to which the Federal Government should be involved in various aspects of energy policy and programs, and the Federal Government's organizational structure for dealing with the energy problem. The report provides a framework for energy organizational considerations, includes the key factors, and discusses the options available. It does not take a position on the reorganization proposal because value and political judgments must be weighed along with other factors in deciding upon an organizational structure. I believe that this contribution to the energy reorganization issue is consistent with your suggestion and is entirely in keeping with GAO's independent, fact-finding mandate.

#### IMPLEMENTATION PLANNING

Finally, you assert that we ignored the fact that useful, detailed planning must necessarily await some legislative planning. You are critical of the report for not giving more recognition to the efforts that the administration has made with regard to planning and implementation.

The details needed to effectively implement a reorganization and the timing for developing details are, admittedly, subject to differences in perspective and opinion. We recognize that some details will have to await enactment of the legislation. That does not mean, however, that nothing more can be done at this time. For example, efforts are clearly called for in:

- diagnosing potential organizational problems. This involves identifying specific problems to be corrected, the causes of these problems, the forces that are likely to work for and against change, and the potential costs and savings.
- planning for change. This includes setting specific objectives or goals and defining an implementation plan for effecting the changes within appropriate and realistic milestones.

Our report makes clear that the administration established a high-level interagency task force on the reorganization and, in fact, the report commends the administration for taking this step which is in keeping with our views on essential characteristics of effective, efficient reorganization planning.

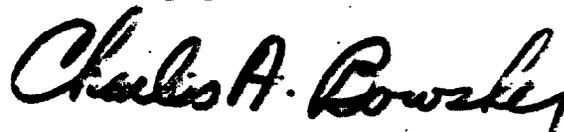
Copies of this letter are being sent to Congressmen Broyhill and Horton, since my letter is in response to your correspondence to them (see enclosures V and VI); each of the committee chairmen who requested our report; the Director, Office of Management and Budget; and the Secretaries of Commerce, Energy, and the Interior.

B-208247

I appreciated the time you and Martha Hesse took on August 19, 1982, to meet and discuss this subject. I considered your most recent comments in finalizing this letter. Despite our differences on this issue, I look forward to a continuing constructive relationship.

My staff would be pleased to discuss our detailed comments with you or your staff at your convenience.

Sincerely yours,

A handwritten signature in black ink that reads "Charles A. Bowsher". The signature is written in a cursive style with a large, prominent initial "C".

Comptroller General  
of the United States

Enclosures - 7

ADDITIONAL GAO COMMENTS ON OMB LETTER  
TO CONGRESSMAN HORTON, DATED AUGUST 10, 1982

The following comments relate to the more specific criticisms included in OMB's letter to Congressman Horton in the areas of (1) the energy budget, reorganization costs, and savings, and (2) the basis for reorganization savings.

ENERGY BUDGET, REORGANIZATION  
COSTS, AND SAVINGS

The letter expresses the following views:

- (1) GAO should not have asserted that there is insufficient support for the administration's budget estimate of energy program reduction and reorganization cost-savings of \$1.3 billion in the fiscal year 1983 budget.
- (2) GAO's work in this area should have been more thorough in reviewing the "Departmental Administration" account.
- (3) The administration's savings estimate can be validated by describing OMB's staffing assumptions underlying the budget for DOE's "Departmental Administration" account.

As noted in the report (p. 4), our review of the \$1.3 billion budget reduction was performed to determine the portion of the reduction that was attributable to energy program changes and the amount that was attributable to the proposed energy reorganization. We concluded (p. 5) that the potential costs or savings of the energy reorganization were not assessed during the budget development process, they were not reflected in the budget submission, and we were unable to link the budget proposal directly with the reorganization plan.

To make this determination, we reviewed the formulation of the "Departmental Administration" account since a reorganization plan would be reflected primarily in this account. We reviewed the account from its initial development through its final White House review. We also discussed budget reductions with both DOE and OMB officials. We found that in preparing the energy budget request, DOE and OMB concentrated on reducing the overall size of the request through program and employment reductions and that no specific analysis or explanation of savings from reorganization was prepared. Consequently, we were unable to identify the portion of the \$1.3 billion budget reduction that could be attributed to energy reorganization. The OMB letter does not contradict this statement, as evidenced by the following comment:

"At the time the FY 1983 budget was prepared, it would have been quite impossible to make sharp distinctions between budget reductions attributable purely to policy and program changes and those attributable purely to reorganization."

With regard to the second point, our analysis of the "Departmental Administration" account was adequate. On May 7, 1982, we asked OMB for any insight that could be provided regarding the development of the final budget request. These officials stated that they could provide no information other than that being given to us by DOE officials.

Further, during March 1982, on three occasions, we interviewed DOE officials responsible for development of the "Departmental Administration" budget account. These officials told us that they were unable to explain how all the components of the final budget request for this account were developed and that some of the amounts used in the account were provided by OMB. They also stated that they could not identify the financial impact of the proposed reorganization, or provide a specific reorganization analysis or plan that formed the basis for the budget request amounts.

We also attempted to determine the effect of reorganization on DOE's headquarters "Support Services" portion of the "Departmental Administration" budget request. This account includes the amounts budgeted for items such as office space, telecommunications, building operations, and ADP support, all of which would be directly affected by the proposed reorganization. The budget request for the account was about \$50.9 million for fiscal year 1983--\$41.5 million less than the \$92.4 million DOE reported in fiscal year 1982. DOE officials told us they could not provide any details on how the \$50.9 million would be spent, regardless of whether the proposed reorganization was approved. This information was confirmed by DOE correspondence of February 17, 1982, 1/ and DOE's congressional testimony of March 17, 1982. 2/

The next point in the OMB letter is intended to prove that a reorganization savings estimate was included in the fiscal year 1983 budget. In this regard, the letter notes that, in developing the energy budget, OMB staff reduced overhead costs for energy programs to reflect the absorption of some of these costs by those agencies receiving functions from DOE. On March 11, 1982, we discussed this point with the Controller of the Commerce Department,

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1/Letter of Robert G. Rabben, Assistant General Counsel for Legislation, DOE, to the Honorable John D. Dingell, Chairman, Subcommittee on Oversight and Investigations, Committee on Energy and Commerce, February 17, 1982.

2/Testimony of William S. Heffelfinger, Assistant Secretary for Management and Administration, DOE, before the Subcommittee on Energy and Water Development, House Committee on Appropriations, March 17, 1982.

the Federal agency that would have to absorb most of the overhead costs in question. The Controller told us that the budget submitted to the Congress did not assume that Commerce would be expected to cover the costs of the proposed functions it would receive after energy reorganization. We welcome the opportunity to review any information OMB has in its possession that would resolve any continuing controversy concerning the facts on this issue.

Further, the information provided in the OMB letter on personnel reductions does not shed any light on the extent of the savings envisioned in this area. For example, the letter does not include a specific estimate of the number of employees that would be eliminated by the proposed reorganization. Nor does the letter differentiate between the employment reductions based on program reductions and those based on energy reorganization.

#### BASIS FOR REORGANIZATION SAVINGS

The OMB letter states that GAO's report "dwells on early, preliminary savings estimates, which were out of date when the report was published." In support of this statement, OMB offers several examples.

The OMB letter's first point is that the administration's \$200 million estimate of savings through integration of ADP purchases was an error, corrected in subsequent analysis to \$20 million well before the GAO report was issued. We are well aware that the estimate was revised. However, administration officials refused our request for information on the revision until June 25, 1982, the day following the congressional hearings on the reorganization proposal. At that time, we were provided with two pages of documentation and told that it represented all of the support for the revised estimate.

To ensure that we had the latest information on the administration's cost estimates prior to issuing our report, we talked with the Project Manager on July 30, 1982, two days before our report was issued. She told us no new estimates were being developed.

Based on the documentation that was available for the \$20 million estimate, we were unable to identify the specific systems which would be integrated to achieve these savings. Also, as noted in our report (see p. 8), the redesign and consolidation of automated management and administrative systems are areas of potential expense, particularly during the start-up period that would immediately follow the proposed reorganization. Without any evidence to the contrary, we concluded that the potential for savings in these areas is undocumented and uncertain as to timing and amount.

Another point in this section of the OMB letter is that GAO made inadequate reference to the fact that the administration,

in its most recent estimate, eliminated its projection that \$20 million could be saved by combining complementary activities. In discussing the \$20 million estimate, our report stated (p. 7) that neither the available documentation nor the statements of Commerce officials provided insight into the specific DOE and Commerce complementary activities that would be consolidated to save \$20 million.

In our report, we also noted the Secretary of Commerce's estimate that the proposed reorganization would result in cost-savings of \$250 million over a 3-year period. In discussing this estimate, we stated that numerous items, including complementary activities, were eliminated as areas of cost-savings in making the revised estimate. (See p. 12.) Given these facts, we do not see any purpose that would have been served by elaborating further on an area which the administration has decided to exclude from its estimated cost-savings.

Another area the OMB letter criticizes concerns offsetting expenses. The letter states that (1) these expenses cannot be identified with sufficient precision at this time and will be identified after enactment of reorganization legislation, and (2) GAO's report is highly speculative in discussing potential costs and offers no estimates.

Although we recognize that it requires dedicated effort to estimate expenses, just as it does to estimate savings, we believe both types of estimates are essential to meaningful cost/benefit analyses, which are a time-tested, accepted tool in making major Federal changes. Such changes should be able to stand on their own merit and be judged either as being cost-effective, or as being an expense that is reasonable considering the benefits that would be derived from the changes. The quality or precision of such analyses is largely dependent upon the extent of the effort applied to develop meaningful information.

With regard to the statement that the GAO report is highly speculative in discussing potential costs, we would like to point out that the potential expenses discussed in the report (see p. 8) are those which are typical, based upon our past reviews in the reorganization area. We offered no estimates of the potential costs involved simply because it was not in our scope of work to do so and because the development of cost estimates is clearly the administration's responsibility.

Finally, the OMB letter notes that the administration now has a firm \$80 million annual savings goal over a 3-year period and that backup material is available to GAO. However, on August 12, 1982, when we discussed the current status of the administration's cost estimates with the Project Manager, we were told that little additional work had been done to develop a detailed plan or cost estimate. If in fact additional relevant information on this issue exists, we request that it be made available to us.

OFFICIALS CONTACTED

<u>Date</u>	<u>Subject</u>	
<u>Commerce Department</u>		
Ms. Katherine M. Bulow, <u>a/</u> Special Assistant to Assistant Secretary for Administration	February 1, 1982	Unemployment compensation for RIFed personnel and DOE owned equipment and furnishings.
Mr. David S. Nathan, <u>a/ b/</u> Controller	March 11, 1982	Transition costs con- tained in Commerce FY 83 budget and Commerce reorganization plan.
Ms. Martha O. Hesse, <u>b/</u> Associate Deputy Secretary and Project Manager of Reorganization Steering Group	April 29, 1982	General conference on GAO review.
Mr. Hugh L. Brennan, <u>b/</u> Director of Organiza- tion and Management Systems	April 30, 1982	Details on Commerce cost- savings estimate of March 16, 1982, of \$1 billion over 3 years.
Mr. Steve Browning, Management Analyst		
Messrs. Hugh L. Brennan Steve Browning	May 4, 1982	"
Mr. Alan Bulutis, <u>a/</u> Management Analyst	May 5, 1982	"
Mr. Phillip B. Ladd, Director, Office of Information Manage- ment	May 7, 1982	Detailed support for ADP portion of savings esti- mate of March 16, 1982.
Ms. Donna Bauer, Executive Assistant to Associate Deputy Secretary	May 25, 1982	Support for the admini- stration's cost-savings estimate.

a/Telephone Conversation

b/Energy Reorganization Task Force Member

<u>Official(s) contacted</u>	<u>Date</u>	<u>Subject</u>
<u>Commerce(continued)</u>		
Mr. Hugh L. Brennan	May 27, 1982	Discussion of GAO findings on the \$1 billion estimate.
Ms. Martha O. Hesse <u>a/</u>	June 3, 1982	Support for the \$1 billion estimate of March 16, 1982; and details of the new estimate being prepared.
Ms. Martha O. Hesse <u>a/</u>	June 7, 1982	General conference on GAO findings; and details of new estimate.
Mr. Hugh L. Brennan	June 25, 1982	Detailed support for new cost savings estimate of June 24, 1982, \$250 million over 3 years.
Mr. Hugh L. Brennan <u>a/</u>	July 30, 1982	Details on future OMB cost estimate.
Ms. Martha O. Hesse <u>a/</u>	July 30, 1982	"
<u>Energy Department</u>		
Mr. Harry Peebles, <u>a/</u> <u>b/</u> Deputy Assistant Secretary for Management and Administration	February 25, 1982	General discussion on savings from DOE reorganization.
Mr. Harry L. Peebles	March 1, 1982	Opening conference on savings from DOE reorganization.
Mr. K. Dean Helms, <u>b/</u> Director, Office of Organization and Management Systems		
Mr. P. Marshall Ryan, <u>b/</u> Controller		
Mr. Joseph F. Olivo, Jr., Director, Office of Financial Policy and Accounting		
<u>a/Telephone Conversation</u>		
<u>b/Energy Reorganization Task Force Member</u>		

<u>Official(s) contacted</u>	<u>Date</u>	<u>Subject</u>
<u>Energy (continued)</u>		
Ms. Elizabeth Smedley, Acting Director, Office of Budget	March 5, 1982	Support for detailed cost information in DOE's response to the request of the Chairman, Subcommittee on Oversight and Investigations, House Committee on Energy and Commerce for a detailed cost estimate on energy reorganization, and other matters.
Mr. Barry C. Uhlig, Chief, Program Manage- ment and Supply Branch		
Mr. Terry Ouverson, Program Analyst		
Mr. Stephen J. Garvey, Management Analyst		
Messrs. Barry C. Uhlig and Frank Newman, Budget Analyst	March 8, 1982	"
Ms. Sally Proctor, Budget Analyst		
Mr. Tony C. Upchurch, Deputy Director, Office of Administrative Services	March 8, 1982	Documentation on DOE's initial organization costs and methodology.
Mr. E. James Vajda, Director of Engineering and Facilities		
Mr. Louis A. D'Angelo III, Acting Chief of Engineering and Space Management		
Mr. Bobby R. Huey, Chief of Supply		
Mr. George T. Kranich, Communications Manager		
Mr. Stephen J. Garvey		
Mr. Louis A. D'Angelo III	March 10, 1982	Detailed support for DOE's initial organization per- sonnel costs and metho- dology.

<u>Official(s) contacted</u>	<u>Date</u>	<u>Subject</u>
<u>(Energy continued)</u>		
Mr. Terry Ouerson	March 10, 1982	DOE RIF formula and severance pay figures used in DOE's response to the Chairman, Subcommittee on Oversight and Investigations, House Committee on Energy and Commerce (see March 5, 1982, meeting).
Mr. Thomas W. DeHanas, Director of Budget Operations	March 12, 1982	DOE FY 83 budget process for the departmental administration account and interface with OMB.
Mr. Barry C. Uhlig		
Mr. Brad Cambell, Budget Analyst		
Ms. Sally Proctor		
Mr. K. Dean Helms <u>a/</u>	March 23, 1982	Overtime costs for DOE's initial organization and proposed reorganization.
Mr. Joseph F. Olivo, Jr. <u>a/</u>	March 23, 1982	Estimate of overtime costs for DOE's initial organization.
Mr. Gordon M. Takeshita, <u>a/</u> Director, Office of Washington Financial Services	March 23, 1982	"
Messrs. K. Dean Helms P. Marshall Ryan	March 31, 1982	General conference on GAO findings.
Mr. P. Marshall Ryan <u>a/</u>	April 1, 1982	President's authority to "zero-out" programs in budget proposals.
Mr. K. Dean Helms	May 6, 1982	DOE support for and comments on the \$1 billion reorganization savings estimate of March 16, 1982.
Mr. Harry L. Peebles	May 6, 1982	"

a/Telephone conversation.

<u>Official(s) contacted</u>	<u>Date</u>	<u>Subject</u>
Mr. K. Dean Helms <u>a/</u>	May 10, 1982	Support for DOE offsetting expenses on DOE reorganization.
Mr. Ronald S. Schwartz, <u>a/</u> Director, Office of ADP Management	May 27, 1982	ADP costs of DOE.
Mr. K. Dean Helms <u>a/</u>	May 27, 1982	Information on S. 2562.
Mr. K. Dean Helms	July 30, 1982	Details on future OMB cost estimate.
<u>White House</u>		
Mr. Dave Swanson, <u>a/</u> , <u>b/</u> Congressional Liaison for Reorganization Task Force	June 1, 1982	Support for the administration's cost-savings estimate.
<u>Office of Management and Budget</u>		
Mr. Roy Niemala, <u>a/</u> Chief of Energy Conserva- tion and Regulation Branch	May 6, 1982	OMB's input into energy reor- ganization and FY 83 budget data.
Mr. Bill Palmer, Budget Examiner		"
Mr. Bill Palmer <u>a/</u>	May 7, 1982	Support for cost figures in DOE's FY 83 Budget and other matters.
<u>Interior Department</u>		
Mr. William D. Bettenburg, <u>b/</u> Deputy Assistant Secretary, Policy, Budget and Administration	March 9, 1982	Impact of DOE reorganization on the Interior Department's FY 83 budget.
Mr. Oscar W. Mueller, Jr., Deputy Director, Office of Information Resources Management		
Mr. John Shrum, Budget Analyst	March 9, 1982	"
<u>a/Telephone Conversation</u>		
<u>b/Energy Reorganization Task Force Member</u>		

CHAIRMEN OF CONGRESSIONAL COMMITTEES  
WHO REQUESTED OUR REPORT

- Chairman, Senate Committee on Governmental Affairs.
- Chairman, Subcommittee on Energy, Nuclear Proliferation and Government Processes, Senate Committee on Governmental Affairs.
- Chairman, Subcommittee on Fossil and Synthetic Fuels, House Committee on Energy and Commerce.
- Chairman, Subcommittee on Energy Conservation and Power, House Committee on Energy and Commerce.
- Chairman, Subcommittee on Oversight and Investigations, House Committee on Energy and Commerce.

PARTIAL LIST OF STATEMENTS MADE BY  
THE PRESIDENT AND ADMINISTRATION OFFICIALS  
REGARDING ENERGY REORGANIZATION COST-SAVINGS

- On December 17, 1981, the President said that dismantling the Department of Energy "will fulfill my campaign promise to make government more efficient and reduce the cost of government to the taxpayers."
- In submitting the administration's budget for fiscal year 1983, the Office of Management and Budget in February 1982 identified that the energy reorganization would save \$1.3 billion with employment reductions of 3,800 workyears in fiscal year 1983.
- On March 1, 1982, the Secretary of Energy said that the energy reorganization would save \$1.3 billion with employment reductions of 3,800 workyears in fiscal year 1983.
- On April 26, 1982, the Deputy Director, Office of Management and Budget (formerly Deputy Secretary of Commerce), stated that the reorganization would achieve savings of \$1 billion over a 3-year period.
- On May 24, 1982, the Counsellor to the President stated that the reorganization would (1) save \$1 billion the first year, (2) save another \$1 billion in the following 3 years, and (3) would eliminate 3,000 Federal jobs.
- On June 24, 1982, the Secretary of Commerce estimated that the reorganization would result in cost-savings of \$250 million over a 3-year period.



EXECUTIVE OFFICE OF THE PRESIDENT  
OFFICE OF MANAGEMENT AND BUDGET

WASHINGTON, D.C. 20503

August 3, 1982

Honorable James T. Broyhill  
Ranking Minority Member  
Committee on Energy and Commerce  
U.S. House of Representatives  
Washington, D.C. 20515

Dear Mr. Broyhill:

On August 2, 1982, the General Accounting Office released a report entitled "Analysis of Energy Reorganization Savings Estimates and Plans." The GAO criticized the Administration for failing to develop reliable information on key aspects of the proposed reorganization and for failing to develop adequate implementation plans.

As the report notes on page iv, "GAO did not seek comments on this report" from the relevant agencies of the Executive Branch. Although GAO claims to have discussed the contents of the report with "Administration officials responsible for energy reorganization matters," no senior policy officials of the Administration were afforded an opportunity to contribute information to the GAO for use in its report. I appreciate this opportunity to comment on the GAO findings.

Because GAO so narrowly circumscribed the sources of information it used in the preparation of its evaluation, the report fails to recognize the extensive, high-level, and on-going effort of the Administration to plan effectively for the termination of the Department of Energy. We are fully cognizant of the need to learn from previous reorganization efforts; that is one reason we have always assumed a substantial transition period between enactment of the dismantlement legislation and its effective date.

To criticize the Administration for failing to document precisely the cost-savings attributable to its reorganization plan verges on hypocritical in light of the GAO report's observation that "the transfer of energy functions would result in numerous expenses -- both quantifiable and unquantifiable -- which would be involved in trying to reassign and coordinate the activities of a Cabinet-level department." (p. 11). Savings estimates, prepared in advance of actual implementation plans -- which in turn must necessarily await final action by Congress on the precise specification of the reorganization -- can never meet the auditing standards one would apply to program budget requests.

Administration witnesses testifying on this matter before the Senate Committee on Governmental Affairs were very careful to note that our estimates of savings from the reorganization were tentative and that a fully detailed estimate would have to await the completion of work that is still in progress.

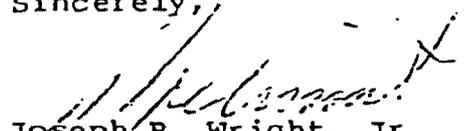
In the context of a Federal budget of over \$700 billion, the administrative cost savings from reorganizing energy activities are relatively minor, even if the most optimistic projections are realized. To focus on this aspect of the President's proposal is to lose sight of his basic policy objective: to create an organizational structure that reflects this Administration's approach to energy issues.

Creation of the Department of Energy was accompanied by a vast panoply of regulatory and subsidy programs aimed at planning and managing every aspect of energy consumption and production in the American economy. After just five years, it is evident that the assumptions behind this comprehensive energy program were almost totally false. The American economy is capable of responding quickly and with innovation and foresight to the challenges imposed by the post-1973 world energy situation. Detailed government regulation and targetting of development subsidies only distorted and delayed the process.

Having a separate Cabinet department devoted to energy reflects the mistaken belief that energy issues should be dealt with in isolation from economic questions. Yet the real significance of energy is of course its effect on the productive output of our economy. By transferring responsibility for energy to the Department of Commerce, the President's plan will ensure integration of energy policy with policies toward other segments of the economy. I would note further that of the top three free world economic powers, only the United States has isolated energy responsibilities in a separate document. Both West Germany and Japan place energy functions in the agency that is the counterpart to our Department of Commerce.

In short, the Administration does not believe that any of the criticism presented in the GAO report justifies altering our commitment to dismantling the Department of Energy. Prior to receiving the report, we had independently begun work on the detailed planning recommended by the Comptroller General. We would of course welcome any specific suggestions from the GAO concerning lessons that have been learned in prior reorganizations.

Sincerely,

  
Joseph R. Wright, Jr.  
Deputy Director



EXECUTIVE OFFICE OF THE PRESIDENT  
OFFICE OF MANAGEMENT AND BUDGET  
WASHINGTON, D.C. 20503

AUG 10 1982

Honorable Frank Horton  
Ranking Minority Member  
Committee on Government Operations  
U.S. House of Representatives  
Washington, D.C. 20515

Dear Mr. Horton:

In response to your request, we are pleased to have this opportunity to provide the Administration's comments on the General Accounting Office (GAO) report entitled "Analysis of Energy Reorganization Savings Estimates and Plans." As you know, the report concludes that the Administration has not developed adequate, precise information about the proposed reorganization and has failed to devise detailed implementation plans.

We believe that the GAO report is seriously flawed in three major ways, is misleading and diverts attention from the important issues. Consequently, the analysis is not very useful either to the Congress or to the Administration in helping assess the energy reorganization proposal.

First, the GAO report concentrates on secondary and incidental benefits, costs, and implementation plans of the proposed energy reorganization. A more helpful focus could have been the major question of the appropriate Federal versus non-Federal roles in the Nation's energy affairs. And then it might have been appropriate to present an assessment of the overall organizational and management requirements to assure that the appropriate Federal role is carried out well. This has been the primary focus of our discussions with the Congress so far, leaving the myriad, precise details of implementation to evolve as a result of the agreements reached on the Hill.

Second, the GAO report rests its case on the basis of outdated information and estimates which do not reflect the latest Administration planning and analytic refinements that were available. Only the most cryptic reference is made to the important testimony and supporting estimates presented before the Senate Governmental Affairs Committee by three Cabinet officers and me on June 24--almost 40 days before the publication date of the report. And it was most unfortunate that the GAO was constrained not to approach senior Administration officials and, contrary to GAO's time-tested practice, not to invite Administration comments to verify facts before publishing its report. Had the GAO followed its traditional practice, we believe it could have avoided the serious shortcomings of the report and provided a useful aid to evaluation of the reorganization proposal.

And third, the GAO report deplores the lack of early, detailed implementation plans, and the precise cost estimates that could be derived from such plans, while ignoring the fact that useful, detailed planning must necessarily await some legislative action if we are not to waste scarce staff resources. Although superficially mentioned in passing, the GAO also does not make clear that the Administration has had in operation from the earliest stages of the reorganization initiative, an extensive planning and implementation effort. More about this later.

Having identified the major shortcomings of the GAO report, we would now like to discuss some of the more specific criticisms in the report along with our rejoinders:

#### ENERGY BUDGET, REORGANIZATION COSTS, AND SAVINGS

The GAO asserts that there is insufficient support for the Administration's \$1.3 billion budget estimate of cost savings in FY 1983 accruing from energy program reductions and energy reorganization. We are surprised at this statement since the \$1.3 billion is simply the difference between the total \$10.2 billion budget authority proposed by the President for the Department of Energy (DOE) in FY 1983 (including \$2 billion in off-budget oil purchases for the strategic petroleum reserve) and the then-current comparable estimate of \$11.5 billion for FY 1982. The arithmetic may be verified by examining the first line of the table at the top of page 250 in the OMB publication "Major Themes and Additional Budget Details, Fiscal Year 1983," which accompanied the President's budget. The totals for FY 1982 and FY 1983 are substantiated by the entire budget requests for those years and supported in considerable detail by voluminous budget justification material submitted to the Congress by DOE.

At the time the FY 1983 budget was prepared, it would have been quite impossible to make sharp distinctions between budget reductions attributable purely to policy and program changes and those attributable purely to reorganization. Our staff reviewed the energy budget and made their recommendations for program reductions mindful that many of the reductions could be realized only because of changes which included the prospective reorganization of DOE.

To understand the administrative or overhead savings included in the budget, GAO could have probed more deeply into the DOE "Departmental Administration" account and how it was derived. In the FY 1983 budget this department-wide administrative support activity was shown distributed among the receiving agencies such as the Departments of Commerce, Interior, and Justice. These pieces, amounting to some \$225 million in FY 1982, were reduced to about \$162 million in FY 1983. OMB staff were motivated to achieve this reduction by two basic factors. They keyed the reductions first to the direct energy program reductions, and then pushed the overhead reductions further to reflect absorption of some overhead by the agencies receiving functions from DOE.

To prove the point that savings estimates from reorganization were included in the FY 1983 budget, we'd like to describe the staffing assumptions underlying that budget for DOE's "Departmental Administration." Among the sub-accounts of this major overhead account, some of the largest are "Administration," "Controller," and field "Operations Offices." The FY 1983 budget reduced staffing in these illustrative sub-accounts more than proportionally to the reductions in department-wide activity in order to reflect the expected absorption of overhead by receiving agencies. "Administration" was reduced from 668 staff-years in 1982 to 324 in 1983, or from 3.6 percent down to 2.2 percent of total DOE staffing. "Controller" was reduced from 294 staff-years in 1982 to 132 in 1983, or from .06 staff-years per million dollars of DOE non-defense spending down to .03. And the "Operations Offices" were reduced from 2,040 staff-years in 1982 to 1,317 in 1983, or from .43 staff-years per million dollars in DOE non-defense spending down to .31.

DOE staffing reductions were predicated, in part, on the assumption that the reorganization of DOE would be effective 1 October 1982. Given the delay of this reorganization, OMB is now considering giving DOE some relief in 1983 staffing ceilings thus bringing the staffing ratios specified above nearer to those of 1982, which were not predicated on reorganization. Surely, if OMB is contemplating easing DOE's employment ceiling because reorganization will not occur by 1 October 1982, then you may rest assured that the FY 1983 budget does indeed reflect savings from reorganization.

Turning to the costs of reorganization, it is true that not all such expenses have been reflected in the FY 1983 budget. These are the types of costs that can be determined only after detailed implementation plans evolve, and such plans, of course, must await legislative action. Suffice it to say, that we expect costs of reorganization to be small in relation to overall cost savings. For example, we expect major physical moves to be minimal. Most energy activities will stay where they are. Relatively few people will likely move to Interior and Justice Department office space. Therefore, we do not believe that these presently unquantifiable but limited costs omitted from the energy budget distort the current basis for decisionmaking.

#### BASIS FOR REORGANIZATION SAVINGS

The GAO report dwells on early, preliminary savings estimates, which were out of date before the report was published, and on the lack of information which is most efficiently and effectively

developed only after Congress enacts the reorganization legislation. Here are several examples of the GAO criticisms, with our comments:

- o The savings of \$200 million through integration of ADP purchases is not supported by identification of types or specific automated systems that will be merged. The initial savings estimate was an error corrected in subsequent analysis to \$20 million well before the GAO report was issued. DOC and DOE combined have in place 5,294 computers worth \$894 million, plan to spend \$600 million more for additional computer capacity, and have an annual ADP budget of more than \$600 million. Within these totals our \$20 million savings claim is most probably too low.
- o The projected \$50 million in Government-owned, contractor-operated (GOCO) audit savings is speculative and not related to reorganization. Our on-going review and planning effort subsequently concluded that GOCO's were already adequately audited, and this savings figure was dropped. Only passing reference to this is included on page 12 of the GAO report.
- o The specific DOE and DOC complementary activities to be merged in saving \$20 million are not identified. A joint DOC/DOE study identified specific complementary activities, with staffing and funding levels for each, that totaled \$387 million. Although we continue to believe that saving at least \$20 million of this total is a reasonable estimate, that figure was dropped from our refined, 3-year goal. Inadequate reference is made to this on page 12 of GAO's report.
- o Offsetting expenses are not considered in the savings estimates. These costs cannot be identified with sufficient precision at this time. The detailed planning after enactment of reorganization legislation will identify those one-time costs. The GAO report is highly speculative in discussing potential costs and offers no estimates.

The current Administration cost saving goal for energy reorganization is a firm \$80 million per year over 3 years, with a reasonable probability that as much as \$750 million more could be saved in the longer term. These estimates will, of course, undergo even further refinement once the Congress legislates the reorganization plan and detailed implementation planning follows. Our current goals and backup material is available to GAO.

An important point to understand about all these cost estimates is that the Administration has never claimed that they were anything but goals that demonstrated the potential for budget savings. At this stage of executive and legislative decision-making, we feel that there is no need for greater precision.

TRANSITIONAL PLANNING

We have no quarrel with the GAO report's admonition that detailed, implementation planning is needed in order to identify more precisely reorganization costs and savings, and to minimize disruption and costs. But we believe most emphatically that the report is illogical with respect to timing. The level of planning detail depends on the status of the project, and our reorganization proposal was continually changing as we held our consultations with the Congress--over 100 separate meetings in total! But GAO has failed to report clearly on the extensive Administration mechanism that was put in place that has and will bring forth the necessary implementation plans and firm estimates on an efficiently time-phased basis.

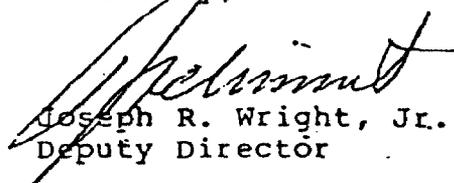
Late last year the Administration developed a comprehensive structure and process for energy reorganization as follows:

- o White House Policy Team -- appointed by the President to oversee energy reorganization. It provides overall policy guidance, assigns responsibilities, and approves major initiatives and deadlines. The team is chaired by Presidential Counselor Meese and includes the Secretaries of Energy, Commerce, Defense, and Interior as well as the head of the White House Office of Policy Development (OPD).
- o Steering Group -- coordinates and directs the activities of multiple working groups; reviews, approves, or assures executive approval of their products; advises White House and OMB; and relates to Congressional interests on overall reorganization matters. This group is chaired by the OMB Deputy Director and includes some 13 participants at the Deputy Secretary, Under Secretary, and Assistant Secretary levels from interested agencies and the Executive Office. The chairman provides staff to support the Steering Group as well as to coordinate Working Group efforts.
- o Working Groups -- six crosscutting working groups (Resources, Congressional Liaison, Public Affairs, Legislation/Legal, and Policy) provided liaison with external groups, provided data necessary for organization integration activities and advised the Steering Group. An organization integration working group developed organization and management concepts and plans for receiving agencies. In all, more than 50 people from 10 agencies participated in the working group effort, focusing on organization planning down to the program and office level.
- o OMB and OPD -- serve on the Steering Group and participate selectively on various working groups. These offices also review and approve for the Administration the final products of the working groups that are accepted by the Steering Group.

As you can see, the Administration has amply provided top executive and staff support for the energy reorganization effort, whereas the GAO report attempts to imply neglect.

In sum, for all the reasons we have discussed above, the Administration believes that the cited GAO report is not of as much use as it could have been in assessing the proposal for energy reorganization. We are sure that you and your colleagues will recognize that in the energy situation both the Congress and the President have at this time a rare opportunity to continue the reorganization effort of the past decade to improve energy and business policy activities, programs, organizations, and management to strengthen these activities by combining the assets of two cabinet departments while reducing the size of Government--a most worthwhile goal. Let us not let this opportunity slip by through misplaced contention over the precise degree of incidental cost savings from the far greater benefits of good Government--a goal shared by us all.

Sincerely,



Joseph R. Wright, Jr.  
Deputy Director



EXECUTIVE OFFICE OF THE PRESIDENT  
OFFICE OF MANAGEMENT AND BUDGET  
WASHINGTON, D.C. 20503

August 19, 1982

Honorable Charles Bowsher  
Comptroller General of the U.S.  
General Accounting Office  
441 G Street, N.W.  
Washington, D. C. 20548

Dear Mr. Bowsher:

This letter is a followup to our telephone call of last week when we discussed the level of communication between GAO and the Administration during the preparations of your recent report entitled "Analysis of Energy Reorganization Savings Estimates and Plans."

I stated, in a letter to Congressman Horton dated August 10, 1982:

"And it was most unfortunate that the GAO was constrained not to approach senior Administration officials and, contrary to GAO's time-tested practice, not to invite Administration comments to verify facts before publishing its report. Had the GAO followed its traditional practice, we believe it could have avoided the serious shortcomings of the report and provided a useful aid to evaluation of the reorganization proposal."

We have reviewed the information you gave me over the phone regarding telephone calls/contacts between GAO and the Administration and have come up with the following conclusions:

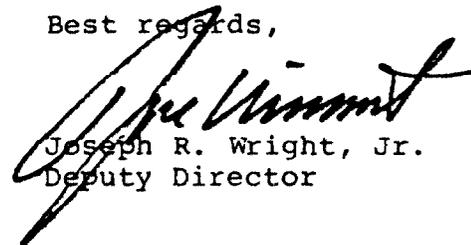
- . The DOE transition structure was clearly identified as shown in the enclosed January 7, 1982, memo from Ed Meese. As far as we can tell, there were no contacts between GAO and any of the members of the Policy Team -- or the Steering Group, with the exception of Martha Hesse, in the conduct of the study. This is unfortunate, because these are the "Senior Administration Officials" I referred to in my letter to Congressman Horton who were responsible for directing the reorganization effort.
- . For example, we have no record of anybody from GAO contacting my office requesting an interview -- I do not turn down requests of this type from GAO.

- . Martha Hesse, who managed the day-to-day activities of the Working Groups, was contacted twice on June 3 and June 7 by Mr. F. Bowers who asked very general questions that Ms. Hesse does not believe could possibly have resulted in any specific findings. She does not show any contacts on April 29 or July 30 as you suggested.
- . Contacts were made at the working group staff levels as you stated and we do not question the accuracy of your dates of contact.

The problem appears to be the lack of communication between GAO and the senior levels of the transition structure. You should understand that we spent the better part of the first half of 1982 consulting over 100 Congressmen in coming up with the proposed reorganization and the result was a continually changing plan and organization. A better and more accurate appreciation of the entire project could have been obtained if GAO would have spent a little time with those members of the transition team who were involved with the Congressional discussions and were directing the project.

I hope this helps to clear up this particular concern that we had with the report. I can assure you that I will work in whatever way I can to avoid these problems in the future.

Best regards,



Joseph R. Wright, Jr.  
Deputy Director

Enclosure

- \* By the way, the letter to Congressman Horton went out prior to our telephone conversation.

