



Highlights of [GAO-05-897](#), a report to the Subcommittee on Energy and Water Development, Committee on Appropriations, House of Representatives

DEPARTMENT OF ENERGY

Additional Opportunities Exist for Reducing Laboratory Contractors' Support Costs

Why GAO Did This Study

In fiscal year 2004, about two-thirds of the Department of Energy's (DOE) \$26.9 billion in spending went to 28 major facilities—laboratories, production and test facilities, and nuclear waste cleanup and storage facilities. DOE spent about \$2.9 billion in fiscal year 2004 to support the mission of its five largest laboratories (see table). GAO was asked to examine (1) recent trends in indirect and functional support cost rates for these five laboratories, noting key differences in how contractors classify costs, and (2) the efforts of DOE and its contractors to reduce indirect and other support costs and identify additional opportunities for savings.

What GAO Recommends

GAO is recommending that DOE take several actions to improve the comparability of functional support cost data among laboratories and reduce support costs by assessing the overall effectiveness of initiatives and ensuring that DOE laboratories adopt important cost-saving initiatives.

In commenting on the draft report, DOE generally concurred with GAO's recommendations.

What GAO Found

For fiscal years 2000 through 2004, laboratory-reported rates for indirect costs—those not charged directly to a specific program—increased at two laboratories and decreased at three. However, indirect cost rates cannot be compared across laboratories because contractors classify different portions of support costs as indirect. To facilitate analysis, DOE requires the laboratories to report what it called “functional support costs,” or costs that support missions, regardless of whether they are classified as direct or indirect costs. Using this measure, three laboratories' rates—that is, functional support costs divided by total costs—increased and two laboratories' rates decreased over the 5-year period. While functional support cost rates improved comparability, several DOE and contractor officials said that the definitions for some categories of support costs, such as “facilities management,” are unclear, leading to confusion and inconsistent reporting.

DOE and its contractors have initiated several steps to reduce indirect and other support costs but can take additional actions to improve their implementation. First, DOE's laboratory contracts have increasingly included incentives to encourage cost reductions. In fiscal year 2004, for example, the National Nuclear Security Administration began an “award-term” pilot program that allows a contractor to earn extra contract years based on performance and cost-saving achievements. However, DOE is expanding use of this incentive without evaluating it. Second, DOE requires its contractors to benchmark employee benefits and to reduce benefits if they exceed the benchmark, but DOE did not promptly enforce these requirements at one laboratory and exempted two others. Third, DOE has begun to address a \$1.9 billion backlog of deferred maintenance to reduce long-term costs. However, without a more rigorous approach, the backlog will persist well into future decades. Lastly, while some laboratories have used process improvement programs to streamline business processes and reduce costs, others do not have such programs, nor are they required to have them.

Functional Support Costs for Five DOE Laboratories Reviewed, Fiscal Year 2004

Dollars in millions		
National laboratory	Contractor	Functional support costs
Idaho	Battelle Energy Alliance	\$377.5
Lawrence Livermore	University of California	573.2
Los Alamos	University of California	889.1
Oak Ridge	UT-Battelle, LLC	292.9
Sandia	Lockheed Martin Corporation	718.0

Source: DOE.

www.gao.gov/cgi-bin/getrpt?GAO-05-897.

To view the full product, including the scope and methodology, click on the link above. For more information, contact Jim Wells at (202) 512-3841 or wellsj@gao.gov.