U.S. Department of Energy
Office of Inspector General
Office of Audits and Inspections

Audit Report

Department of Energy's Management of Unneeded Real Estate

OAS-L-14-07

April 2014

Department of Energy
Washington, DC 20585

April 14, 2014

MEMORANDUM FOR THE DIRECTOR, OFFICE OF MANAGEMENT

FROM: Jack Rouch, Director
Central Audits Division
Office of Inspector General

SUBJECT: INFORMATION: Audit Report on the "Department of Energy's Management of Unneeded Real Estate"

BACKGROUND

The Department of Energy (Department) manages real property assets of approximately 118 million square feet. This portfolio includes 117 million square feet of Department-owned space and 1 million square feet of leased space. In June 2010, Presidential Memorandum *Disposing of Unneeded Real Estate* directed the heads of executive agencies to accelerate efforts to identify and eliminate excess properties to remove wasteful spending of taxpayer dollars, save energy and water, and reduce greenhouse gas pollution. Additionally, agencies were directed to make better use of remaining real property assets as measured by utilization and occupancy rates, annual operating costs, energy efficiency, and sustainability. The Presidential Memorandum set a target to achieve no less than $3 billion in cost savings Government-wide for Fiscal Years (FY) 2010 to 2012 from these efforts. In response to the Presidential Memorandum and the U.S. Office of Management and Budget's (OMB) implementation guidance, the Department established a Departmental target of $375 million in cost avoidance for this period, including cost avoidance resulting from disposal of facilities and from space management initiatives.

In order to manage its real property assets, the Department utilizes the Facilities Information Management System (FIMS). FIMS is the Department's corporate real property database as required by Department Order 430.1B, *Real Property Asset Management*. The Office of Acquisition and Project Management (OAPM), under the Department's Office of Management, has primary responsibility for the administration and maintenance of the FIMS database, which provides the Department with an inventory and management tool that assists with planning and managing all real property assets. Additionally, OAPM develops and maintains policies and procedures for real property asset management, including planning, maintenance, and performance goals and measures.

Due to the importance of the cost savings measures, we initiated this audit to determine whether the Department managed the disposition of Department-owned real estate properties effectively and in accordance with the Government-wide initiative to reduce the number of excess properties.

RESULTS OF AUDIT

Our review determined that the Department had a number of controls in place to manage the disposition of Department-owned real estate properties. Nothing came to our attention to indicate that the Department did not comply with the Presidential initiative to reduce the number of excess properties. We found that the Department had processes in place for identifying and disposing of excess properties, as well as processes for accumulating and reporting on the associated cost avoidance. Additionally, we noted the Department reported that it had exceeded the cost savings goal for FYs 2010 through 2012, through overall cost avoidance of $580 million. However, we found that opportunities for improving processes related to managing excess properties still exist.

Specifically, regarding the cost savings initiatives set forth in the Presidential Memorandum, we noted that only $168 million of the $580 million in cost avoidance reported by the Department, or 29 percent, had been achieved through the demolition or sale of excess facilities. The remaining $412 million in reported cost avoidance was associated with the cessation of activities at the Yucca Mountain Nuclear Waste Repository (Yucca Mountain). We believe the Yucca Mountain cost avoidance, while generally associated with OMB guidance, only provided a temporary savings to the Government as the requirement for the Department to safely dispose of nuclear waste material has not been suspended.

Additionally, we found minor variances in the data submitted by the sites to FIMS with data maintained in local management information systems separately maintained by the sites. We also identified differences in the methodology used to calculate certain data elements. Such variances existed because the sites maintained local systems that were used as the primary source of data for property management. As a result, Department leadership may not have the most accurate information to make fully informed decisions regarding excess properties. To its credit, OAPM executed a validation scorecard process for site monitoring, utilizing FIMS to ensure the adequacy and accuracy of reported real property data. This process included validation of FIMS data and corrective action plans when necessary.

The Department conveyed to us the challenges that it has continually faced limit its ability to dispose of unneeded facilities. Department officials noted that frequently, these challenges are outside their control and include factors such as funding constraints, historical preservation requirements, and a lengthy disposition/excess process.

Cost Savings – 2010 Presidential Memorandum

At the conclusion of the performance period, the Department reported that it had exceeded its goal in response to the June 2010 Presidential Memorandum. However, we noted that only $168 million of the $580 million reported cost avoidance, or 29 percent, had been achieved through the disposition, demolition, or sale of excess facilities. The remaining $412 million in reported cost avoidance realized were associated with the cessation of activities at Yucca Mountain. In March 2009, before the issuance of the Presidential Memorandum, the Secretary had announced plans to terminate the site and explore other alternatives. This decision was based on policy concerns related to the location of the repository rather than as a result of the Department's effort to identify and eliminate excess properties to remove wasteful spending of taxpayer dollars, save energy and water, and reduce greenhouse gas pollution as directed by the Presidential Memorandum. The Department indicated that based on OMB's guidance, it leveraged the cessation of the Yucca Mountain activities because these activities were "already underway or planned." The portion of the reported savings was generally calculated based on an assumed level-funding profile of $160 million for FYs 2011 and 2012, even though no appropriations had been requested for those years. The $412 million in costs savings reported included costs avoided for FYs 2010 through 2012 as shown in the following table:

Cost Avoidance	**FY 2010**	**FY 2011**	**FY 2012**	**Total**
Yucca Mountain Closure	$92,000,000	$160,000,000	$160,000,000	$412,000,000

The Department calculated the annual cost avoidance for Yucca Mountain using the site's FY 2009 budget request of $160 million as a baseline, based on an assumption the site would have ramped up to full operation for that year. For FY 2010, the Department recognized a cost avoidance of $92 million, which represented the difference between the $160 million budgeted for the year less the $68 million actually spent. Subsequently, for FYs 2011 and 2012, the Department assumed a level-funding profile and claimed cost avoidance of $160 million for each year as if operations at the site had begun and continued as initially planned in the FY 2009 budget request, despite the fact that no appropriations had been requested for FYs 2011 and 2012.

In its report *Federal Real Property: Improved Standards Needed to Ensure That Agencies' Reported Cost Savings Are Reliable and Transparent* (GAO-14-12, October 2013), the U.S. Government Accountability Office (GAO) reported that agencies it reviewed, including the Department, reported savings by identifying activities that were already underway or planned at the time the Presidential Memorandum was issued. Additionally, GAO reported that officials within the agencies reviewed told them that reporting savings from cost avoidance measures, those savings that resulted because a planned action did not take place, was necessary to meet their targets in the specified timeframe.

Our analysis of the Department's total reported costs savings found that, in conjunction with the $412 million realized from cessation of activities at Yucca Mountain, the Department reported that it had achieved an additional cost avoidance of $168 million. The remaining savings had been achieved through the demolition or sale of excess facilities. The cost savings included avoided operations and maintenance costs associated with the facilities dispositioned. Overall, in FY 2012 the Department reported 994 assets totaling 13.7 million gross square feet as excess. Also during this fiscal year, the Department demolished or dispositioned through other means, 190 assets, totaling over 2.1 million gross square feet. These figures represented an elimination of 13.5 percent of the total gross square feet identified as both excess and demolished during the fiscal year.

While the amount of excess facilities demolished or dispositioned is an impressive achievement, the continuing large inventory of excess facilities underscores the ongoing challenge faced by the Department. Management officials told us that many factors, which are generally outside of its control, limit the Department's ability to timely disposition its excess real property assets. These factors include budgeting and funding constraints, historical preservation requirements, and the lengthy nature of the disposition/excess process. Further exacerbating these problems, many excess properties require significant cleanup before disposal; thus, requiring significant funding and long-term efforts to accomplish disposal.

Facilities Information Management System/Best Business Practices

Our review identified minor variances in the data submitted by Department sites to FIMS with data the sites maintained in local systems, as well as the methodology used to calculate certain data elements. FIMS is the Department's real property asset inventory system that fulfills Federal regulations requiring each Agency to maintain a real property inventory system. The data included in FIMS is required to be maintained throughout the life cycle of real property assets and provides Department and contractor personnel with access to facilities information. Additionally, FIMS data is used to meet routine reporting requirements, such as the quarterly report to OMB, and to generate the Department's annual submission to the General Services Administration's Federal Real Property Report, which reports data on real property Government-wide.

For example, at one of the three sites selected for review, we found that deferred maintenance reported in FIMS was incomplete for 40 of our 60 sampled facilities. In addition, we noted that the same site's guidance was inconsistent with Departmental guidance for reporting annual actual maintenance, another data element within FIMS. Specifically, the site's methodology included allocating its total maintenance throughout the site instead of reporting the actual maintenance incurred by an individual asset. Site officials indicated that allocating actual maintenance by asset was not feasible at that time because processes and systems had never been initiated for this function. In addition, collecting costs by asset was not required per mission support contracts, therefore, negotiation and contract changes would have been required. Further, our review of the two remaining selected sites found minor discrepancies in deferred maintenance values, occupancy values, and status of the asset field. The variances, for the three sites previously noted, had also been reported by the Department's OAPM during its current and/or previous data validation process.

Based on our understanding of the variances identified during our review, we concluded that the majority were the result of sites utilizing FIMS as a secondary system and not consistently entering updated FIMS data as it became available. Further, sites were only adhering to the minimal FIMS requirement of validating data annually and/or on an as-requested basis by the Department throughout the Fiscal Year, a practice that did not result in timely identification of discrepancies or variances. To its credit, one of the sites visited used FIMS to its maximum extent, on a real-time basis, to perform daily portfolio management including facility planning, long-range planning and project management. Ensuring the accuracy of FIMS data would assist senior Department leadership in making timely decisions regarding planning, programming, and budgeting of real property assets.

OTHER MATTERS

During the course of our review, we noted a number of National Nuclear Security Administration facilities in poor condition that were categorized as excess or in shutdown mode without definitive plans for Deactivation and Decommissioning activities. The degradation within these facilities ranged from failures in critical structural components to high levels of contamination. Additionally, several of these facilities posed significant health and safety risks to Department employees and/or the public. We plan to conduct additional work related to this issue and will report on the results of this work in a separate report.

PATH FORWARD

We are aware of the challenges that the Department has faced regarding its ability to effectively manage real estate activities, specifically, in the disposition of unneeded facilities. These challenges include factors such as budgeting and funding constraints, historical preservation requirements, and a lengthy excess process.

Given the ongoing review and validation process related to FIMS data, we are not making a recommendation. However, in light of the importance of realizing planned cost savings and the magnitude of the Department's real property assets, the Office of Management should remain vigilant to ensure the accuracy of real property data in its FIMS system to allow for periodic use by outside sources throughout the year.

Attachment

cc: Deputy Secretary
Acting Administrator, National Nuclear Security Administration
Deputy Under Secretary for Science and Energy
Chief of Staff

OBJECTIVE, SCOPE AND METHODOLOGY

OBJECTIVE

The objective of the audit was to determine whether the Department of Energy (Department) managed the disposition of Department-owned real estate properties effectively and in accordance with the Government-wide initiative to reduce the number of excess properties.

SCOPE

This audit was performed between March 2013 and April 2014**.** We conducted the audit at Department Headquarters in Washington, DC, Hanford Site and Richland Operations Office in Richland, Washington, Los Alamos National Laboratory in Los Alamos, New Mexico, and Y-12 National Security Complex in Oak Ridge, Tennessee. The audit was conducted under Office of Inspector General Project Number A13PT023.

METHODOLOGY

To accomplish the audit objective, we:

- Obtained and reviewed relevant laws, regulations and guidance pertaining to the Department's Asset Management Plan and the *American Recovery and Reinvestment Act of 2009* (Recovery Act).

- Obtained and reviewed the Department's July 2010 Real Property Cost Savings and Innovation Plan and its addendum dated August 2011.

- Held discussions with officials responsible for the management of the Department's real property to determine their roles and responsibilities.

- Reviewed and analyzed the Department's reported cost savings as directed by the June 2010 Presidential Memorandum *Disposing of Unneeded Real Estate*.

- Selected sites to visit based on the number of Department-owned facilities (active and archived) identified within Facilities Information Management System (FIMS) for Fiscal Years (FYs) 2011 and 2012. We utilized Audit Command Language to data mine the information for over 17,000 facility records. We selected building statuses where formal excess was imminent, such as Deactivation and Decommissioning (D&D) in progress, deactivation, shutdown pending D&D, shutdown pending disposal, and shutdown pending transfer. Based on our analysis, we determined that the Department's Office of Environmental Management, National Nuclear Security Administration, and the Office of Science held the largest footprints. We selected site offices based on our criteria that included sites where real property crossed multiple program offices. Specifically, we selected the Hanford Site, Los Alamos National Laboratory, and the Y-12 National Security Complex. For sites included in our sample, we selected a statistical sample of

60 buildings for each site reviewed from FY 2012 data, and performed visual verification of facility status and physical walkthroughs of selected excess facilities within our sample.

- Verified FIMS data through interviews and source documentation.
- Verified logged assets contributing to the Department's reported cost avoidance per the Real Property Cost Savings and Innovation plan.
- Reviewed site disposition plans resulting from funding received during the Recovery Act.

We conducted this performance audit in accordance with generally accepted Government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective. Accordingly, we assessed significant internal controls and compliance with laws and regulations to the extent necessary to satisfy the audit objective. In particular, we assessed the Department's implementation of the *GPRA Modernization Act of 2010* and determined that it had established performance measures for the management of the Department's real estate properties. Because our review was limited, it would not necessarily have disclosed all internal control deficiencies that may have existed at the time of our audit. Finally, we conducted an assessment of computer-processed data relevant to our audit objective and found it to be reliable.

Management officials waived an exit conference.

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