United States General Accounting Office

GAO

Report to the Subcommittee on Energy and Water Development, Committee on Appropriations, House of Representatives

April 1999

DOE MANAGEMENT

Opportunities for Saving Millions in Contractor Travel Costs

GAO/RCED-99-107

GAO

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

Resources, Community, and
Economic Development Division

B-282146

April 1, 1999

The Honorable Ron Packard
Chairman
The Honorable Peter J. Visclosky
Ranking Minority Member
Subcommittee on Energy and
Water Development
Committee on Appropriations
House of Representatives

The Department of Energy (DOE) incurs hundreds of millions of dollars in travel costs each year. About 80 percent of these costs are incurred by the contractors managing and/or operating the Department's various facilities. DOE has been concerned about travel costs and in 1995 implemented a 5-year, $175 million travel cost-reduction initiative to reduce travel costs by $35 million per year, of which $30 million would come from contractors. Because of your concern about the Department's contractor travel costs, you requested that we examine certain issues related to these costs and DOE's cost-reduction efforts. As discussed with your office, we agreed to (1) provide information on the travel costs incurred by DOE contractors and their primary destinations during fiscal years 1996 through 1998, (2) identify the purpose of this travel, and (3) assess the success that DOE has had in reducing contractor travel costs and identify additional actions available to reduce these costs further. In addition, we agreed to examine the travel and other costs associated with contractor employees on assignment to Washington, D.C.

Results in Brief

Travel costs incurred by DOE contractors were reduced from $261 million in fiscal year 1995 to $223 million in fiscal year 1996. Since then, travel costs have increased—to $249 million by fiscal year 1998—even though funding to the contractors during this period had been decreasing. About 96 percent of the contractors' travel was to domestic locations, the most frequent of these being Washington, D.C. and the sites of DOE's major laboratories and test facilities: Albuquerque, New Mexico; Oakland/San Francisco, California; Las Vegas, Nevada; and Los Alamos, New Mexico. The most frequent foreign destinations were Russia, the United Kingdom, Germany, France, and Japan.

The purpose of most travel—about 70 percent—was reported as being for business reasons, that is, travel for purposes related to the mission of the facilities. This category included trips to attend meetings or perform research. In a few instances, we identified trips that were miscategorized or were of questionable value to DOE. For example, business trips included travel to obtain advanced degrees. The second most frequently cited travel purpose was for attending conferences. According to DOE's Inspector General, the large number of conference attendees is a concern. For example, the Inspector General identified hundreds of DOE contractor staff attending a 1997 conference in Vancouver, British Columbia, resulting in travel costs of about $1 million.

DOE's success in reducing contractor travel costs has been limited. Although contractor travel costs have increased since fiscal year 1996, they have remained below the fiscal year 1995 level—the level that DOE established as a baseline for calculating contractor travel cost savings. However, only in fiscal year 1996 did DOE attain the expected $30 million savings in contractor travel by achieving a $38 million reduction in that year. Contractors did not continue to achieve such savings because DOE did not enforce its cost reduction targets and some contractors did not have an overall strategy or plan to achieve lower travel costs. Greater emphasis on travel management—controlling the amount of travel—and travel cost control—minimizing airfare costs and other travel costs—could result in additional travel cost savings.

DOE spends millions of dollars on travel and other costs for contractor employees on temporary or permanent assignment to Washington, D.C. A 1997 DOE Inspector General report identified over 800 contractor employees from field locations working in Washington and costing DOE over $76 million annually, which includes significant living allowances. DOE has recognized problems with controlling this practice. The Department has reduced the number of contractor employees in Washington and is planning on further reductions. However, concerns exist over the additional compensation that contractors are providing for employees on long-term temporary assignments to cover the tax liabilities on their living allowances.

We are making recommendations to the Secretary of Energy designed to reduce contractor travel costs and to clarify DOE's policy on allowable travel costs.

Background

To carry out its missions, DOE relies on contractors for the management, operation, maintenance, and support of its facilities. DOE headquarters and its field offices oversee 34 major contractors at DOE sites throughout the country. The activities that these contractors conduct serve a variety of DOE missions, such as managing environmental cleanup, including the safe treatment, storage, and final disposal of radioactive wastes; developing energy technologies for transportation systems, efficient building systems, and utilities; and maintaining the safety, security, and reliability of the U.S. nuclear weapons stockpile.

In support of these activities, contractors' staff travel domestically and internationally to collaborate with officials in DOE programs, other federal programs, industry, academia, and foreign countries. All of these trips add up to hundreds of millions of dollars spent on airfare, hotels, meals, and other direct travel expenses. DOE contracts spell out the allowable costs that contractors can charge for travel expenses. Although these contracts vary, the five contractors that we reviewed are generally allowed to provide for employees the actual and reasonable costs for lodging and transportation and a maximum daily amount for meals. Air travel is to be via coach or the lowest discount fare available. However, airfare discounts available to federal government employees are generally not available to contractors.

Concerned with the cost of travel in its programs, DOE included travel cost reductions in its 1995 Strategic Alignment and Downsizing Initiative. This initiative aimed to reduce Department-wide funding by $1.7 billion over a 5-year period beginning in fiscal year 1996. The initiative targeted a $175-million cost saving for travel over the same period. This saving would be achieved by maintaining travel costs at a level $35 million below the fiscal year 1995 level. DOE's fiscal year 1995 travel cost was $307 million, of which $261 million was for contractor travel and $46 million was for federal travel.[1] DOE anticipated a $30 million saving each year from contractor travel and a $5 million annual saving from federal travel. According to DOE officials in the Office of the Chief Financial Officer, these reduction levels represented amounts that the Department believed to be reasonable and achievable savings goals.

Contractor Travel Costs Are Increasing

Travel costs incurred by DOE contractors were reduced in fiscal year 1996, but since then these costs have been increasing. Thirty-four DOE contractors reported that during the fiscal year 1996-98 period, they spent over $700 million on direct travel costs. Annual contractor travel costs

[1]The original fiscal year 1995 baseline totaled $324 million, of which $54 million was federal travel and $270 million was contractor travel. However, DOE has created a new baseline for fiscal year 1995 travel costs to improve consistency with travel costs reported in later years.

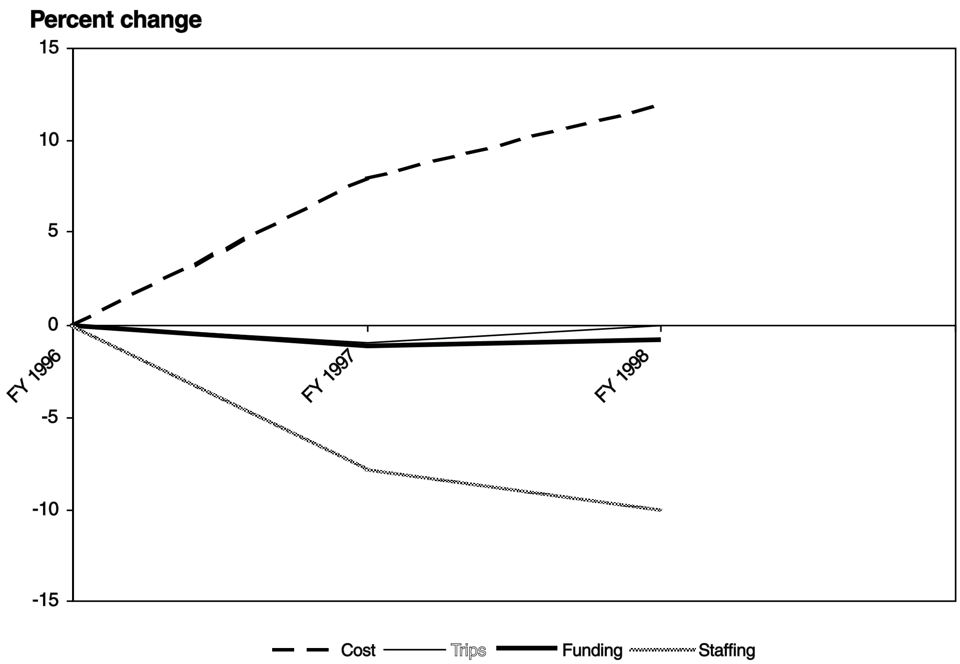
were reduced to about $223 million in fiscal year 1996 but increased to about $241 million in fiscal year 1997 and to about $249 million in fiscal year 1998. More than half of the reported travel was incurred by five contractors at DOE's Oak Ridge, Sandia, Los Alamos, and Livermore facilities.[2] The details on the cost of travel and the number of trips reported by each of the 34 contractors are contained in appendix I.

The increase in DOE contractor travel costs since fiscal year 1996 is more dramatic when contrasted with other variables, such as the contractors' overall funding and staffing. For example, at the same time that travel costs were increasing, funding for contractors was decreasing. Specifically, travel costs increased 12 percent from fiscal year 1996 to fiscal year 1998, while overall funding to contractors decreased by about 1 percent. As a result, travel costs took a larger portion of the contractors' funding. For each $1,000 of contractor funding, the average amount needed for travel rose from $16.24 in fiscal year 1996 to $18.32 in fiscal year 1998.[3] Similarly, while the number of trips taken remained fairly stable for this period, the number of contractor staff at the facilities decreased about 10 percent, increasing the average number of trips per person. Figure 1 illustrates the trends in travel costs, funding, staffing, and the number of trips over the past 3 fiscal years.

[2]Lockheed Martin Corporation has two subsidiaries at Oak Ridge—Lockheed Martin Energy Systems, Inc., which manages activities at DOE's Y-12 Plant, and Lockheed Martin Energy Research Corporation, which manages the Oak Ridge National Laboratory.

[3]Some contractors spent as little as $1.87 for travel per $1,000 of funding, while others spent as much as $33.73 per $1,000 of funding. (See app. II.)

Figure 1: Percent Change in Trips, Costs, Funding, and Staffing Levels for DOE Contractors From Fiscal Year 1996 to Fiscal 1998



Legend

FY = fiscal

The primary domestic and foreign destinations of DOE contractors were Washington, D.C., and Russia, respectively. Most of the travel conducted by contractors—96 percent—was to domestic locations. Trips to Washington, D.C., accounted for about 11 percent of all domestic trips. For fiscal year 1998 alone, 34 DOE contractor sites reported making over 20,000 trips to Washington, D.C., costing at least $20 million.[4] More than percent of these trips were taken by five contractors. For example, Sandia National Laboratory reported taking over 4,500 trips to Washington, D.C., in fiscal year 1998 or the equivalent of about 87 trips each week. Albuquerque, New Mexico, which is the destination for such sites as Sandia and the DOE Albuquerque Operations Office, was the second most frequent domestic destination, accounting for 8 percent of the domestic

[4]Total costs for travel to Washington, D.C., are understated, since not all contractors reported costs by location, and two—Sandia National Laboratories and Lawrence Berkeley National Laboratory—were able to identify only airfare costs.

trips taken. The remaining top destinations were Oakland/San Francisco, California; Las Vegas, Nevada; and Los Alamos, New Mexico.

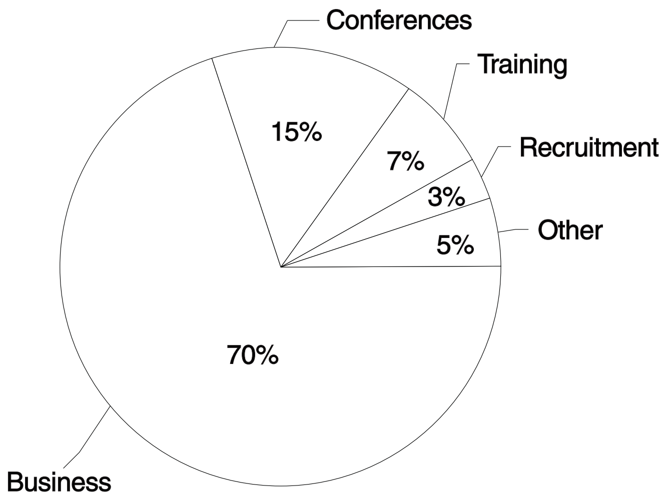
For foreign travel—accounting for 4 percent of the travel—contractors most frequently listed Russia as the top destination. For fiscal year 1996 to fiscal year 1998, DOE contractors took 3,829 trips to Russia, or about 15 percent of all foreign trips. The second most frequent foreign destination was the United Kingdom, which accounted for 6 percent of all foreign trips. The remaining top foreign destinations were Germany, France, and Japan.

Costs are increasing for both domestic and foreign travel, but the greatest percent increase is occurring in foreign travel. Although foreign travel represents only 4 percent of the trips, it represents 11 percent of the travel cost. From fiscal year 1996 to fiscal year 1998, foreign travel costs increased by about 53 percent. More frequent trips to Russia have significantly contributed to this increase. The number of trips to Russia increased 107 percent from fiscal year 1996 to fiscal year 1998, and the cost of these trips has more than tripled. Costs increased from about $2.2 million in fiscal year 1996 to about $6.7 million in fiscal year 1998. According to contractor officials, one reason for the increase in foreign travel, particularly to Russia, was that there is a greater emphasis on nuclear nonproliferation work abroad.

Most Travel Is Related to Facilities' Missions

DOE contractors reported that most travel to domestic and foreign locations was for business purposes, that is, travel for purposes related to the mission of the facilities. This category accounted for about 70 percent of all travel for fiscal years 1996 through 1998. The next most frequent travel category was for attending conferences. The remaining trips were for training, recruitment, and other purposes. Figure 2 provides information on the major travel categories reported by DOE contractor sites.

Figure 2: Major Purposes for DOE Contractor Travel, Fiscal Years 1996-98



The largest category—business—covered a wide variety of activities. Our review of travel documentation showed that employees take trips to meet with DOE officials, perform field tests, conduct various reviews and inspections related to warhead components, or perform other activities directly related to accomplishing the contractor's mission. Some trips categorized as business had dual purposes, such as to attend a conference and to conduct meetings with industry.

Although it was generally difficult to determine the reasonableness of such trips, we identified some business trips that were not directly related to or needed for accomplishing the facility's mission. For example, Los Alamos National Laboratory funded a number of trips for its employees to obtain a master of business administration degree, many of which were categorized as business trips. In fiscal year 1998, 24 laboratory employees were enrolled in courses held at the University of New Mexico's main campus in Albuquerque—about 100 miles from Los Alamos. These employees made at least 380 trips to attend class. Various expenses were incurred, including the cost of overnight hotel stays, rental cars, and meals. For example, one laboratory employee made 38 trips to Albuquerque in fiscal year 1998, spending about $5,321. We brought this practice to the attention of DOE officials, who subsequently determined that the cost of travel and per diem while attending these classes is not justified. These officials have determined that in the future, such costs for travel and per diem will not be allowable under the contract.

Attending conferences accounts for the second most frequent travel category. For the 3-year period from fiscal year 1996 through fiscal year 1998, DOE contractors reported making 56,205 trips to conferences—about 15 percent of the categorized trips—costing about $59 million. However, this figure may be understated, since we found that for at least one contractor, some conference trips were categorized as business trips. The DOE Inspector General has raised concerns about the large number of attendees at individual conferences. In a December 1998 report, the DOE Inspector General concluded that some conferences were attended by many DOE contractor participants.[5] The report cited a May 1997 particle accelerator conference in Vancouver, British Columbia, that was attended by 520 DOE contractor employees (as well as 5 DOE employees), resulting in travel costs of about $1 million. In another case, 176 DOE and DOE contractor participants attended a January 1996 human genome conference in Santa Fe, New Mexico. The Inspector General also reported that, contrary to government policy, DOE had no internal procedures to minimize the number of conference attendees. In response to the Inspector General's report, DOE issued requirements and responsibilities for conference management on March 22, 1999. Among other things, the requirements are intended to better ensure that the number of DOE and contractor employees attending conferences is minimized.

Success in Reducing Travel Costs Limited

DOE is aware of the high costs being incurred for travel and has developed cost-reduction goals to help limit these costs. A substantial amount of these reductions was projected to be obtained from the contractors. However, DOE has had limited success. Although DOE surpassed its goal in fiscal year 1996, it did not reach its annual goals in subsequent years because it did not achieve the travel cost savings that it anticipated from its contractors. To increase cost reductions in contractor travel, DOE and the contractors will have to take additional actions. These could include reducing the number of trips taken by contractor employees, obtaining lower airfares for contractors, and adopting best contractor practices for other allowable costs.

[5] Inspection of the Department of Energy's Conference Policies and Practices, DOE/IG-0433 (Dec. 1998).

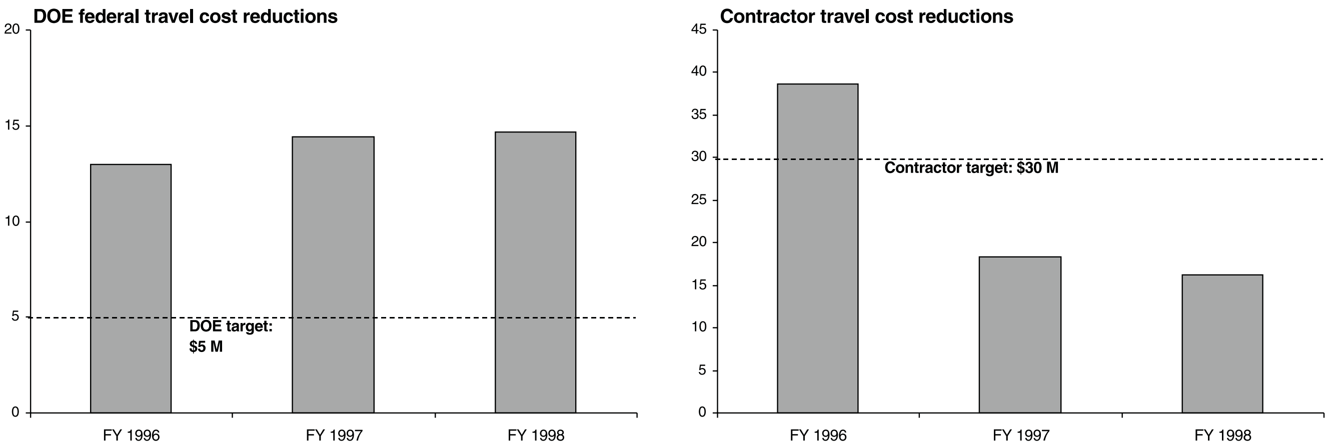
Cost-Reduction Efforts for Contractor Travel Not Fully Successful

DOE and the contractors have taken actions to reduce travel costs. In implementing its travel cost-savings initiative, DOE first set an overall cost-savings target and then allowed its contractors to establish their own cost-savings measures. According to DOE officials, the Department basically established an overall target—a reduction of about $35 million below the travel costs for fiscal year 1995—and conveyed to each contractors specific targets necessary to achieve the total reduction. However, DOE did not establish measures to enforce these targets, nor was it prescriptive as to how these cost reductions were to be achieved.

DOE contractors reported to us that they initiated a number of efforts to reduce travel costs. These activities included greater use of videoconferencing to reduce the number of trips and efforts to reduce the costs of airline tickets. For example, some contractors made block purchases of discount airline tickets, increased the use of Saturday night stays for travelers when feasible, and negotiated discounts on airfares. Furthermore, the contractors consolidated travel services and negotiated discounts on hotel rooms. However, while all five contractors that we visited were undertaking some efforts to reduce travel costs, none could provide us with an overall strategy or plan to achieve the initiative's travel cost-savings targets. Instead, the level and type of effort taken varied by contractor. For example, one contractor reported that as travel costs neared the target, contractor officials directed programs to limit their travel so that their target would not be exceeded. Officials for another contractor told us that they basically do not follow the targets.

The contractors have not done their part to meet the target of a $30 million annual reduction in their travel costs. They met the first year's reduction—achieving a $39 million, or 15-percent, reduction. Since then, however, contractor travel costs have risen each year, and by fiscal year 1998, travel costs were only $16 million—6 percent—below the levels for fiscal year 1995. However, DOE is on track to meet its overall cost-savings goals only because DOE's federal travel costs have been reduced significantly beyond the expected $5 million annually. Federal travel costs have been reduced each year, and for fiscal year 1998 represent a $15 million, or 32-percent, reduction from the level for fiscal year 1995. Figure 3 shows the amount of travel cost savings in both DOE federal and contractor travel, as compared with the expected savings targets.

Figure 3: DOE Contractor and Federal Travel Cost Savings in Fiscal Years 1996-98



Dollars in millions

Legend

FY = fiscal year

Additional Actions Could Further Reduce Travel Costs

DOE contractors need to contribute a larger share of travel cost savings in order for DOE to meet its overall travel cost-reduction targets over the next 2 years. Cost savings opportunities could result from improvements in travel management—the overall management of travel and trips taken—and travel cost control—the reduction of costs incurred when on travel. Although some cost-reduction actions are occurring by contractors in these areas, additional efforts are needed to reduce the number of trips and expand best practices for controlling travel costs.

Reduce the Number of Contractor Trips

The quickest and potentially easiest way to reduce travel costs is to reduce the number of trips taken. During fiscal years 1996-98, even though the number of contractor staff has dropped and some contractors reported that they increased the use of video and teleconferencing, the number of trips taken by DOE contractors had not been reduced. The number of trips was approximately the same for each of the 3 years—about 200,000—according to the data that we obtained from contractors that were able to provide the number of trips for that period. Furthermore, some individuals take many trips. Some contractor employees have taken up to 52 trips in a single year, have been on travel status for over 200 days in a year, and incurred travel costs as high as $96,000.

To reduce the number of trips requires effective overall travel management. Yet, there are few contractor management controls over the number of trips taken, which may be reflected in the contractors' overall lack of success in reducing the number of trips. None of the facilities that we visited had established managerial controls over the extent of travel or set cost targets. In most instances, travel expenses were absorbed into a large program budget, limited only by each specific program's availability of funds. Although some managers whom we talked with said that they do review proposed travel to ensure that it has a programmatic purpose or limit attendance at conferences, they generally rely on their staffs to take trips only when necessary. In fact, the program managers responsible for approving travel told us that they were unaware of DOE's cost-reduction targets and therefore did not make specific efforts to reduce travel to meet them.

Despite the contractors' reliance on their employees to limit the number of trips they take, individual travelers stated that they have little control over their travel. They said that much of their travel is dictated by the needs of the organizations providing the funding for their programs. Many staff whom we talked with stated that they had to take trips, particularly to Washington, D.C., that they felt were unnecessary. For example, one senior official from Lawrence Livermore told us that despite alternative options available, such as videoconferencing, he felt compelled to travel to Washington, D.C., 15 times in the past year to attend program meetings or risk a reduction in program funding. Another frequent traveler said that DOE officials ask him to travel to attend meetings, in the event that technical questions might be asked, and if no such questions are asked, he returns home without accomplishing much. In most cases, travelers felt that they had to attend these meetings because they view DOE as their customer and the sponsoring program in Washington wanted their attendance. Contractor staff added that DOE often requires them to travel so that DOE staff do not have to travel, thus reducing DOE's travel costs while at the same time increasing contractors' travel costs.

Reduce Airfare Costs

In the area of cost control, the biggest single element of travel costs is airfare. For example, about one-half of the travel cost incurred by the contractor at Oak Ridge was for the purchase of airline tickets. In contrast, airfare cost for DOE federal employee travel is much lower—about 35 percent of travel costs. A major reason for this difference is the airfare discounts that the federal government obtains for federal employees. The General Services Administration negotiates and contracts for discount airfares with airlines and generally obtains discounted, unrestricted fares. These discounts, however, are not available to federal contractors, and the cost difference can be substantial. For example, a typical coach-fare flight from San Francisco to Washington, D.C. in September 1998 cost about $200 for a federal employee but about $1,300, on average, for a Lawrence Livermore employee.

Efforts to get lower airfare rates have met with limited success. In the past, DOE contacted airlines and requested that they extend their federal discounts to DOE contractors. However, only one airline responded to DOE's request, and its proposal proved unfeasible. Currently, the General Services Administration is considering plans in 2000 to solicit proposals from airline carriers for airfare rates for government contractors. However, General Services Administration officials are not optimistic that, if a solicitation for contractor airfares is made, the airlines will respond favorably to it. We noted that contractors have had some success in this area. They are negotiating discounts directly with the airlines and have been successful in getting reductions from full-fare rates.

Nevertheless, contractors could take additional actions to reduce the airfare costs they are incurring. The most significant action is obtaining nonrefundable tickets. A nonrefundable ticket is a ticket for which the purchase price will not be returned if the trip is canceled. However, the ticket can be exchanged for another for a small additional charge. Nonrefundable tickets are generally less expensive and although the savings will depend on the individual circumstances—such as destination, ticket availability, ticket class, and the number of days the ticket is purchased in advance—they can be substantial. An internal audit report at Pacific Northwest National Laboratory found that the savings on nonrefundable tickets were typically around 50 percent. Specific examples that we identified had also shown significant savings. For example, at Livermore one employee purchased a $1,602 refundable airline ticket to attend a conference while another employee purchased a $414 nonrefundable ticket the next day to the same conference. In another instance, an employee purchased a $473 refundable ticket, also to attend a conference, while another employee purchased a nonrefundable ticket a week later to go to the conference for $255.

However, the usage of nonrefundable tickets varied greatly among contractors. For example, Livermore's travel data showed that about

75 percent of the tickets purchased by travelers were nonrefundable and Sandia estimated that about 65 percent of its tickets were purchased on a nonrefundable basis. However, the percentage for Los Alamos was significantly lower. Los Alamos estimated that its nonrefundable ticket usage at less than 5 percent. The contractors' travel management staff said that contractor employees are responsible for selecting the flights and tickets that they want to use and that the contractor encourages, but does not require, the use of nonrefundable tickets. They added that employees often do not like to use nonrefundable tickets because their travel plans frequently change or are canceled.

Reduce Other Allowable Costs

Controlling other allowable travel costs that contractor employees incur could further reduce travel expenses. Consistent with its contract with DOE, each contractor has its own allowable rates or criteria for costs that its employees incur for hotels, meals, rental cars, and other incidental expenses. However, in certain instances, costs allowed by some contractors are more generous than those allowed by others, as illustrated below:

- The contractors at Oak Ridge and Pacific Northwest National Laboratory use federal per diem rates as a general standard for allowable hotel costs. However, Lawrence Livermore and Los Alamos do not and, instead, allow hotel rates that are deemed reasonable. These allowable rates can be significantly higher than the federal lodging rates. We found instances where Lawrence Livermore allowed hotel costs in Washington, D.C., that were $284 per night; in Orlando, Florida, that were $218 per night; in Monterey, California, that were $303 per night; and in Las Vegas, Nevada, that were $176 per night. In each instance, the federal hotel rate, which other contractors follow, would have been over 50 percent less.
- Both Lawrence Livermore and Los Alamos allow actual daily meal costs of up to $46 on any domestic trip. In contrast, the meal costs allowed by other contractors were up to the rate under federal travel regulations ($30 to $42 per day, depending on location) or, in the case of Oak Ridge, up to $35 per day. Although not all Livermore and Los Alamos employees use the full $46 allowance, we did note instances where the full $46 meal allowance was charged every day.
- One contractor established a policy that allows employees to stay in higher-priced hotels when attending conferences but does not then allow the travelers rental cars. However, we saw instances where other contractors allowed their employees to stay in higher-priced hotels for conferences and to obtain rental cars. We noted one instance in which two employees from one contractor both went to the same conference in

Atlanta, stayed in a hotel costing up to $158 per night, and obtained rental cars.

While some of these cost savings, when taken individually, may not be substantial, they could add up to considerable savings when taken together. For example, a reduction of just $100 on the average trip to Washington, D.C., would amount to total yearly savings of over $2 million.

Other, more fundamental changes in allowable costs could result in greater travel savings. At least one contractor has established a policy for other allowable costs that resulted in lower rates than the federal per diem. The contractor at Pacific Northwest National Laboratory charged DOE the lower of the actual travel costs incurred by its employees or the federal per diem rate and shared with DOE any cost savings that the contractor obtained below federal per diem rates. During fiscal year 1998, the contractor continued to follow this policy even though this savings incentive program was not included in its contract with DOE. However, according to contractor officials, the fiscal year 1999 contract with DOE again does not provide for this program and it is therefore not being continued.

Millions Spent Annually for Contractor Employees on Assignment to Washington, D.C.

DOE spends millions of dollars on the costs associated with management and operating contractor employees assigned temporarily or permanently to Washington, D.C. In fiscal year 1997, over 800 contractor employees were assigned to Washington, costing $76 million for the employees' salary, living allowance, relocation cost, and other related expenses. DOE's Office of Inspector General raised concerns about the Department's awareness of, and control over, these assignments, and DOE has taken actions to reduce the number of employees on assignments and plans to reduce it further. However, a concern remains about the payments that contractors are making to employees on long-term temporary assignments for their increased tax-related costs.

Contractor employees are often assigned to Washington on a temporary—either short-term or long-term (more than 1 year)—or permanent basis to provide technical expertise associated with the stated mission of the employee's home facility. DOE requires that contractor staff assignments to Washington are not to be for providing administrative or management support, or performing functions reserved for federal employees. Currently, some contractor employees have been in

Washington for over 5 years, and at least 14 contractor employees have been there for over 10 years.

The costs of employees on assignments are paid by specific DOE programs or, in some cases, are a general administrative expense paid by DOE under the various contracts. The costs to DOE for a contractor employee assigned to work in Washington can be significant, ranging from $5,000 per month to $29,000 per month (or as much as $348,000 per year). The costs for assignments include not only the employee's salary and benefits and applicable contractor charges but also expenses for moving the employee to Washington and various living allowances provided for the employee while on assignment. The living allowances are provided for employees to offset the expenses that they incur during an assignment. Each contractor has its own formula or methodology for determining this compensation, but it is generally tied to per-diem rates for the Washington area. Under these formulas, the compensation can total $50,000 annually or more. Appendix III provides details on the additional compensation provided for employees on assignment for the five contractors we visited.

Concerns about the cost and number of employees on assignment to Washington have been raised by DOE's Office of Inspector General. In December 1997, the Inspector General reported that DOE was spending at least $76 million annually for field contractor support in Washington, D.C.[6] Furthermore, although the Department was required to maintain an inventory of these employees, it was unaware of the magnitude of contractor personnel in Washington. The Inspector General identified over 800 field contractor employees in Washington—almost twice the number listed in the DOE inventory. Moreover, the Inspector General determined that, contrary to DOE requirements, many contractor employees were providing support and administrative services.

DOE has since taken actions to reduce the number of, and improve its controls over, contractor personnel assigned to Washington. The Department has established a policy limiting the use of field contractor employees in Washington and has reduced the number of contractor employees on assignment there. According to a January 1999 DOE report to the House Committee on Appropriations,[7] the Department reduced the number of employees on assignment to Washington by 235 as of

[6]Audit of the Department of Energy's Management of Field Contractor Employees Assigned to Headquarters and Other Federal Agencies, DOE/IG-0414 (Dec. 1997).

[7]Department of Energy: Use of Management & Operating Contractor Employees Supporting DOE in Washington D.C., Use of Support Services Contractors (Jan. 1999).

January 1998 through attrition, reductions, and reassignments, and by an additional 59 as of January 1999. According to DOE, this brings the level of contractor assignments down to 379.[8] DOE expects to reduce the number of contractor employees assigned to Washington by another 10 percent by the end of fiscal year 1999. DOE is also drafting an order that revises the requirements for the use and management of contractor employees.

Although DOE is addressing the issue of contractor employees in Washington, D.C., and reducing their number, concerns still remain about the amount of living allowance that employees are receiving during their assignment. At four of the five facilities we visited, the contractors have a two-tiered living allowance that pays a higher amount for employees on temporary assignments of 1 year or longer. This is because the living expenses provided for employees become taxable when the assignment is longer than 1 year. Consequently, the contractors provide higher additional compensation to offset the tax liability. For example, Los Alamos provides its employees on assignments to Washington, D.C., for longer than 1 year with (1) a basic living allowance of 80 percent of the federal lodging rate for the Washington area and (2) an additional 40 percent of the basic allowance, for a total of about $4,200 per month in fiscal year 1998. Only one contractor we visited—Battelle at DOE's Richland, Washington location—did not follow this practice. However, Battelle officials said that they are currently requesting that DOE approve a revised living allowance that would include a higher rate for employees on assignments that last longer than 1 year.

The allowability of these additional payments, however, is unclear. A DOE Notice provides requirements on headquarters' use of contractor employees. A specific objective of the notice is to establish limitations on payments to employees whose assignments exceed 1 year. The notice states that, for any assignment that exceeds 365 days, payments to the affected employee for any additional tax burden caused by the long-term assignment is unallowable in accordance with the Department's acquisition regulations. However, the cited acquisition regulations relate to reimbursed relocation costs for permanent changes of duty—not long-term assignments.

DOE's Office of General Counsel recognizes that the Department does not have a consistent and well-articulated position on allowing contractors to

[8]This total does not include certain contractor employees who were included in the amounts identified by the Inspector General. These employees are working for other federal agencies, assigned under statutorily authorized intergovernmental personnel agreements, assigned to the Nuclear Emergency Search Team, or working under the Yucca Mountain contract based in Washington, D.C.

pay for employees' additional taxes caused by long-term assignments. According to an Office of General Counsel official, there are valid arguments on both sides of the issue. Much depends on (1) the interpretation of contract provisions, or the absence of such provisions, that would make the payments allowable or unallowable and (2) whether, after a certain period of time, a temporary assignment becomes tantamount to a permanent relocation and therefore the relocation rules should apply. According to the General Counsel official, the issue of long-term assignments of contractor employees to headquarters has top-level attention and concern within the Department and is being closely monitored by DOE management.

Conclusions

The lack of substantial travel cost reductions from contractors stems largely from a lack of overall travel management by DOE and its contractors. In this regard, DOE has set targets for its contractors to achieve but has not enforced them or ensured that its overall contractor travel cost-savings target was met. For its part, DOE contractors were aware of the targets, but many contractors did not translate this into an overall strategy or plan to achieve lower travel costs. Furthermore, consistent practices for reducing costs have not been put into place. In our view, it is difficult to justify why some contractors allow their staff to stay in high priced hotels, purchase higher priced airline tickets, or charge higher meal costs when others take stronger actions to minimize such costs. Similarly, the payments that contractors are making to employees on long-term temporary assignments for their tax-related costs are also being implemented inconsistently, and the allowability of such costs has not been resolved.

A number of relatively simple ways are available to achieve substantial cost reductions. However, a commitment—by both DOE and the contractors—will be required to reduce the number of trips, reduce the cost of airfares, and reduce other allowable travel costs. This means that DOE, as an organization, needs to make clear what cost reductions are expected, contractors need to improve both their travel management and travel cost control, and DOE program areas will have to lessen their travel demands on contractor staff. Furthermore, achieving cost reductions will require that DOE develop clear policies and guidance on the travel-related costs it will deem allowable.

Recommendations

To reduce contractor travel costs, consistent with DOE's cost-reduction targets for travel, we recommend that the Secretary of Energy set travel cost targets for each contractor and require that contractors not exceed these targets. The target amounts should be conveyed to both the contractors and DOE program areas for a combined commitment to ensure that the cost reductions are achieved. Furthermore, to implement more consistent travel cost reimbursement practices, the Secretary should establish clear DOE policy on allowable costs—both travel costs and the reimbursement of tax-related costs—and, when new contracts are let, incorporate the policy into the contracts.

Agency Comments and Our Evaluation

DOE agreed that there are additional opportunities to achieve travel cost savings and generally concurred with the report's recommendations. With regard to the first recommendation, DOE stated that it will establish travel cost targets, in collaboration with program offices and contractors, to ensure a combined commitment to cost reductions. Furthermore, DOE will promote alternatives to travel and will heighten headquarters and field managers' awareness of the cost of contractor travel to headquarters. However, DOE did not specifically agree to require that contractors not exceed its travel cost targets. In our view, firm targets are necessary to provide DOE with the control needed to ensure that travel costs are effectively managed and that its savings objectives are achieved; consequently, we continue to recommend that DOE require that its contractors not exceed the targets that it establishes.

In commenting on the second recommendation—to establish clear DOE policy on allowable travel costs—DOE said it will evaluate the merits of establishing standard rates, such as federal per diem rates, for the reimbursement of contractor travel. DOE also agreed to determine the appropriate treatment of the tax consequences of extended temporary assignments and promulgate departmental guidance, which will be incorporated into new contracts. The complete text of DOE's comments is included as appendix IV.

Scope and Methodology

To determine the amount of travel incurred by DOE contractors, the primary destinations of this travel, and the travel purposes, we collected data from the 34 management and operating contractors identified in DOE's Strategic Alignment and Downsizing Initiative. We requested data on the cost of travel and the number of trips taken in fiscal years 1996 to 1998, as well as the most frequent travel destinations in each of those fiscal years.

We also requested information on the purpose of travel, as well as each contractors' staffing and funding levels during fiscal years 1996 to 1998. We did not independently verify the data that the contractors provided. We also compared the data with other information available at the five sites we visited—the Oak Ridge National Laboratory and Y-12 Plant in Oak Ridge, Tennessee; the Hanford Reservation in Richland, Washington; the Lawrence Livermore National Laboratory in Livermore, California; the Los Alamos National Laboratory in Los Alamos, New Mexico; and the Sandia National Laboratories in Albuquerque, New Mexico. Such information included contractors' internal self-assessments of their data and travel systems and internal audit reports. In general, we found that the data were reliable for the purpose for which they were used.

At each of the facilities we visited, we reviewed pertinent contracts, regulations, and guidance that detailed the controls over travel costs and the allowability of such costs. We obtained and reviewed internal audit reports on travel costs and the propriety of these costs. We also judgmentally selected contractor employees' travel vouchers for review to determine if the costs for airfare, hotels, rental cars, and other expenses were appropriate. We met with travel officials at each facility and discussed with them the management of travel costs and the efforts being taken to reduce these costs. Finally, we interviewed travelers, supervisors, and managers to obtain their perspectives on the amount of and need for the travel taken and on the methods for reducing these costs.

We obtained and reviewed documentation from DOE on its Strategic Alignment and Downsizing Initiative and its plans for achieving the initiative's cost-savings goals. We discussed with officials from the Office of the Chief Financial Officer and the Office of Management and Administration the Department's efforts to reduce contractor travel costs and obtained their viewpoints on the contractors' control of travel and efforts to meet the current cost-reduction targets.

To examine the travel and other costs associated with contractor employees in Washington, D.C., we obtained information at each facility that we visited on the rationale and procedures for approving and conducting off-site assignments and obtained listings of the individuals on such assignments. We also obtained information on the additional compensation provided for employees while on assignments. Furthermore, we discussed contractor assignments to Washington, D.C., with DOE's Office of General Counsel and with DOE officials in the Office of Management and Administration who are responsible for maintaining the inventory of assignees and for developing management controls for contractor assignments. We obtained and reviewed relevant DOE documents and Inspector General audit reports that addressed the costs and controls over contractor assignments.

We conducted our review from August 1998 through March 1999 in accordance with generally accepted government auditing standards.

As agreed with your office, unless you publicly announce its contents earlier, we plan no further distribution of this report until 30 days after the date of this letter. At that time, we will provide copies of this report to Senator Ted Stevens, Chairman, Senate Committee on Appropriations; Senator Robert C. Byrd, Ranking Minority Member, Senate Committee on Appropriations; the Honorable Bill Richardson, Secretary of Energy; and the Honorable Jacob J. Lew, Director, Office of Management and Budget. We will make copies available to others on request.

Please call me at (202) 512-8021 if you or your staff have any questions about this report. Major contributors to this report include William F. Fenzel, John R. Schulze, Christopher M. Pacheco, and Patricia J. Rennie.

Sincerely yours,

Gary L Jones

(Ms.) Gary L. Jones
Associate Director, Energy, Resources,
and Science Issues

Contents

Abbreviations

DOE Department of Energy

DOE Contractor Travel Costs and Number of Trips During Fiscal Years 1996-98

Dollars in thousands

		FY 1996		FY 1997		FY 1998	
Contractor	**DOE site**	**Total cost**	**Number of trips**	**Total cost**	**Number of trips**	**Total cost**	**Number of trips**
Iowa State University	Ames Laboratory	$857	1,194	$713	921	$694	757
The University of Chicago	Argonne National Laboratory	10,473	10,353	10,162	9,517	9,583	8,646
RMI Environmental Services	Ashtabula Environmental Management Project	84	119	107	152	90	161
CBS Corporation	Bettis Atomic Power Laboratory	830	995	988	1,236	1,189	1,308
Brookhaven Science Associates	Brookhaven National Laboratory	5,102	7,464	4,879	6,576	5,239	6,045
Battelle	Columbus Environmental Management Project	76	76	51	54	39	47
Universities Research Association, Inc.	Fermi National Accelerator Laboratory	3,951	4,770	4,049	4,860	4,223	4,978
Fluor Daniel Fernald	Fernald Environmental Management Project	1,878	Not available	1,633	Not available	1,811	Not available
Hanford Environmental Health Foundation	Hanford	186	168	136	123	110	121
Fluor Daniel Hanford, Inc.	Hanford	4,754	4,450	2,723	2,612	2,868	2,543
Lockheed Martin Idaho Technologies Company	Idaho National Environmental Engineering Laboratory	10,653	8,164	12,195	8,542	11,134	8,520
Allied Signal Aerospace FM&T	Kansas City Plant	4,757	5,933	4,432	5,707	5,401	5,847
Lockheed Martin Corporation	Knolls Atomic Power Laboratory	1,139	1,988	1,449	2,450	1,561	2,699
University of California	Lawrence Berkeley National Laboratory	5,173	7,455	7,126	8,189	7,114	8,311
Univeristy of California	Lawrence Livermore National Laboratory	30,634	24,678	33,793	24,565	36,812	26,791
University of California	Los Alamos National Laboratory	28,573	32,347	35,830	36,855	37,864	36,784
Babcock & Wilcox of Ohio	Miamisburg Environmental Management Project	711	Not available	490	Not available	172	Not available

(continued)

Dollars in thousands

		FY 1996		FY 1997		FY 1998	
Contractor	**DOE site**	**Total cost**	**Number of trips**	**Total cost**	**Number of trips**	**Total cost**	**Number of trips**
Midwest Research Institute	National Renewable Energy Laboratory	4,794	Not available	5,001	3,870	4,920	3,790
Wackenhut Services, Inc.	Nevada Test Site	101	77	87	63	102	81
Bechtel Nevada	Nevada Test Site	5,896	Not available	6,604	6,396	7,049	6,871
TRW Environmental Safety Systems, Inc.	Nevada Test Site	1,884	Not available	4,485	936	4,217	755
Oak Ridge Associated Universities	Oak Ridge Institute for Science and Education	3,821	3,096	4,377	3,492	4,493	4,028
Lockheed Martin Energy Research Corporation	Oak Ridge National Laboratory	12,710	12,674	13,737	12,371	14,194	12,445
Lockheed Martin Energy Systems, Inc.	Oak Ridge Y-12 Plant	8,916	10,608	9,093	9,064	8,307	6,945
Battelle	Pacific Northwest National Laboratory	12,965	9,942	14,246	10,326	15,681	12,387
Mason & Hanger Corporation	Pantex Plant	5,059	4,359	4,659	3,809	4,399	3,291
Princeton University	Princeton Plasma Physics Laboratory	992	1,447	1,449	1,705	1,559	1,685
Kaiser Hill	Rocky Flats Environmental Technology Site	1,911	1,220	1,965	1,218	1,586	910
Sandia Corporation	Sandia National Laboratories	39,364	37,324	40,633	35,111	41,574	35,634
Westinghouse Savannah River Company	Savannah River Site	9,547	6,022	8,669	5,157	9,673	5,686
Wackenhut Services, Inc.	Savannah River Site	429	503	514	519	537	574
Stanford University	Stanford Linear Accelerator Center	2,307	Not available	2,201	1,573	2,029	1,655
Westinghouse Electric Company	Waste Isolation Pilot Plant	1,520	1,623	1,342	1,825	1,850	2,004
West Valley Nuclear Services, Inc.	West Valley Demonstration Project	526	602	696	709	937	913
Totals		**$222,571**	**199,651**	**$240,513**	**210,503**	**$249,010**	**213,213**

Notes: Columns may not total due to rounding.

The table includes subcontractor travel reported to GAO.

DOE Contractor Travel Costs Per Thousand Dollars of Funding, Fiscal Years 1996-98

Contractor	DOE Site
Iowa State University	Ames Laboratory
The University of Chicago	Argonne National Laboratory
RMI Environmental Services	Ashtabula Environmental Management Project
CBS Corporation	Bettis Atomic Power Laboratory
Brookhaven Science Associates	Brookhaven National Laboratory
Battelle	Columbus Environmental Management Project
Universities Research Association, Inc.	Fermi National Accelerator Laboratory
Fluor Daniel Fernald	Fernald Environmental Management Project
Hanford Environmental Health Foundation	Hanford
Fluor Daniel Hanford, Inc.	Hanford
Lockheed Martin Idaho Technologies Company	Idaho National Environmental Engineering Laboratory
Allied Signal Aerospace FM&T	Kansas City Plant
Lockheed Martin Corporation	Knolls Atomic Power Laboratory
University of California	Lawrence Berkeley National Laboratory
University of California	Lawrence Livermore National Laboratory
University of California	Los Alamos National Laboratory
Babcock & Wilcox of Ohio	Miamisburg Environmental Management Project
Midwest Research Institute	National Renewable Energy Laboratory
Wackenhut Services, Inc.	Nevada Test Site
Bechtel Nevada	Nevada Test Site
TRW Environmental Safety Systems, Inc.	Nevada Test Site
Oak Ridge Associated Universities	Oak Ridge Institute for Science and Education
Lockheed Martin Energy Research Corporation	Oak Ridge National Laboratory
Lockheed Martin Energy Systems, Inc.	Oak Ridge Y-12 Plant
Battelle	Pacific Northwest National Laboratory
Mason & Hanger Corporation	Pantex Plant
Princeton University	Princeton Plasma Physics Laboratory
Kaiser Hill	Rocky Flats Environmental Technology Site
Sandia Corporation	Sandia National Laboratories
Westinghouse Savannah River Company	Savannah River Site
Wackenhut Services, Inc.	Savannah River Site
Stanford University	Stanford Linear Accelerator Center

Funding in millions			Travel Costs in thousands			Travel cost per $1000 funding		
FY96	FY97	FY98	FY96	FY97	FY98	FY96	FY97	FY98
$33	$29	$27	$857	$713	$694	$26.36	$24.25	$25.40
476	460	460	10,473	10,162	9,583	22.00	22.09	20.83
9	15	14	84	107	90	9.23	7.18	6.38
304	302	294	830	988	1,189	2.73	3.27	4.05
407	405	400	5,102	4,879	5,239	12.54	12.05	13.10
24	17	16	76	51	39	3.17	3.00	2.44
264	273	282	3,951	4,049	4,223	14.97	14.83	14.98
269	275	295	1,878	1,633	1,811	6.97	5.94	6.15
12	12	10	186	136	110	15.76	11.72	11.22
1,121	1,152	920	4,754	2,723	2,868	4.24	2.36	3.12
677	618	587	10,653	12,195	11,134	15.74	19.73	18.97
336	358	353	4,757	4,432	5,401	14.16	12.38	15.30
307	279	275	1,139	1,449	1,561	3.71	5.19	5.67
192	220	214	5,173	7,126	7,114	26.98	32.36	33.21
951	1,120	1,274	30,634	33,793	36,812	32.21	30.18	28.89
1,110	1,250	1,327	28,573	35,830	37,864	25.75	28.67	28.53
115	112	92	711	490	172	6.18	4.38	1.87
179	158	176	4,794	5,001	4,920	26.78	31.65	27.95
17	16	18	101	87	102	5.79	5.47	5.72
251	296	290	5,896	6,604	7,049	23.46	22.35	24.32
256	255	300	1,884	4,485	4,217	7.36	17.59	14.06
112	126	147	3,821	4,377	4,493	33.99	34.66	30.56
576	546	561	12,710	13,737	14,194	22.07	25.14	25.28
1,116	751	806	8,916	9,093	8,307	7.99	12.11	10.31
504	497	465	12,965	14,246	15,681	25.71	28.68	33.73
287	291	269	5,059	4,659	4,399	17.63	16.01	16.35
65	65	59	992	1,449	1,559	15.26	22.29	26.42
556	586	618	1,911	1,965	1,586	3.44	3.35	2.57
1,314	1,300	1,341	39,364	40,633	41,574	29.96	31.26	31.00
1,421	1,317	1,252	9,547	8,669	9,673	6.72	6.58	7.73
56	56	58	429	514	537	7.73	9.21	9.26
188	181	179	2,307	2,201	2,029	12.27	12.16	11.34

(continued)

Contractor	DOE Site
Westinghouse Electric Company	Waste Isolation Pilot Plant
West Valley Nuclear Services, Inc.	West Valley Demonstration Project
Totals	
Average	

Funding in millions			Travel Costs in thousands			Travel cost per $1000 funding		
FY96	**FY97**	**FY98**	**FY96**	**FY97**	**FY98**	**FY96**	**FY97**	**FY98**
76	93	88	1,520	1,342	1,850	19.92	14.37	21.09
123	120	126	526	696	937	4.28	5.80	7.44
$13,704	**$13,550**	**$13,594**	**$222,571**	**$240,513**	**$249,010**			
						16.24	**17.75**	**18.32**

Note: The table includes subcontractor travel reported to GAO.

Living Allowances Currently Provided by Various DOE Contractors for Employees on Assignment in Washington, D.C., Area

Contractor	DOE site	Assignments of 1 year or less	Assignments greater than 1 year	Permanent assignments
Lockheed Martin Energy Systems, Inc.	Oak Ridge	•55% of current federal travel regulations per diem rate •Additional 10% of base pay field premium •Additional 10% of base pay location allowance	•100% of current federal travel regulations rate •Additional 10% of base pay field premium •Additional 10% of base pay location allowance	•25% of base pay cost of living differential
Sandia Corporation	Sandia National Laboratories	•55% of current federal travel regulations per diem rate •10% of base pay assignment allowance	•100% of current federal travel regulations rate •10% of base pay assignment allowance •$1,000 miscellaneous allowance	•15%-18% of base pay living differential (declining to zero after 5 years) •$1,000 miscellaneous allowance
University of California	Los Alamos National Laboratory	•55% of current federal travel regulations per diem rate	•80% of current federal housing allowance •40% “plus-up” of housing allowance to cover additional tax liabilities	•None
University of California	Lawrence Livermore National Laboratory	•55% of current federal travel regulations rate for stays of 1 to 6 months •Actual and reasonable costs for stays of 6 to 12 months •$1,000 miscellaneous allowance	•Actual and reasonable costs, plus an additional allowance to cover additional tax liabilities •$1,000 miscellaneous allowance	•$1,000 miscellaneous allowance
Battelle	Pacific Northwest National Laboratory	•60%-85% of federal travel regulations lodging rate	•60%-85% of federal travel regulations lodging rate	•20% of base salary cost of living adjustment (declining to zero after 5 years)

Comments From the Department of Energy

Department of Energy
Washington, DC 20585

March 25, 1999

Ms. Gary Jones
Associate Director
Energy, Resources and Science Issues
U.S. General Accounting Office
Washington, D.C. 20548

Dear Ms. Jones:

The Department of Energy appreciates the opportunity to review the draft General Accounting Office report, GAO/RCED 99-107, "DOE MANAGEMENT: Opportunities for Saving Millions in Contractor Travel Costs".

The report reflects actions taken by the Department to reduce travel costs for both Federal and contractor employees and demonstrates that despite inflation and expanded nuclear safety and non-proliferation initiatives requiring travel to the Former Soviet Union, the Department has held travel costs below our FY 1995 level, achieving cumulative savings of over $115 Million for FY 1996 through FY 1998.

We concur with your findings that there are additional opportunities to achieve travel savings. Technical comments have been provided separately. Our comments on the report's recommendations are attached.

Sincerely,

Elizabeth E. Smedley

for Michael L. Telson
Chief Financial Officer

Attachment

Comments on Draft General Accounting Office Report
DOE MANAGEMENT: Opportunities for Saving Millions in Contractor Travel Costs
RCED-99-107, April 1999

General Comments

While the Department does not dispute the fact that there are opportunities to further reduce contractor travel, we have been successful in achieving significant savings below FY 1995 actual travel costs. These savings total $115 million from FY 1996 through FY 1998, including $73 million for contractor travel and $42 million for travel of Federal employees. These savings are calculated without any adjustment for inflation or for mission changes which, in some cases, have expanded the need for travel by our contractor employees.

Some contractors, such as Pacific Northwest National Laboratory, have implemented aggressive efforts to re-engineer the way travel is managed, and we are pleased that the report recognizes some of the innovations adopted. In addition, the Department has issued policies to limit attendance at conferences and to further reduce the number of contractor employees assigned to Washington, D.C. These policies will promote increased attention to opportunities to reduce travel costs.

Responses to GAO Recommendations

Recommendation 1

Set travel cost targets for each contractor and require that contractors not exceed these targets. The target amounts should be conveyed to both the contractors and DOE program areas for a combined commitment to ensure that the cost reductions are achieved.

DOE Management position

Partially concur.

The Department will establish travel cost targets in collaboration with the program offices and contractors and ensure a combined commitment to cost reductions. In addition, we will promote alternatives to travel such as conference calls and heighten awareness of headquarters and field managers as to the cost of having contractors make trips to headquarters when less costly alternatives could meet mission requirements.

Recommendation 2

Establish clear DOE policy on allowable costs - both travel costs and reimbursement of tax-related costs-and, when new contracts are let, incorporate the policy into the contracts.

DOE Management position

Concur

The Department will evaluate the merits of establishing standard rates, such as Federal per diem rates, for reimbursement of contractor travel. We will also determine the appropriate treatment of the tax consequences of extended temporary assignments and promulgate Departmental guidance for incorporation into new contracts.

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