

DOE Working Capital Fund WCF Cost Structure Analysis, FY 2004

Introduction

In response to the 1997 Inspector General report, Fund management agreed to provide a report to the Board that identifies Working Capital Fund business costs not now reflected in the Working Capital Fund pricing structure ... [including] the hypothetical impacts on business line viability of including such costs in the Fund pricing structure.¹ The first report was transmitted to the Board on June 30, 1998, followed by subsequent reports in July 1999, April 2000, December 2001, August 2002, and July 2003. This current report updates the information in the previous six reports and summarizes areas of change.

Since the creation of the Working Capital Fund, there have been numerous changes in the structure and offerings of the Fund businesses:

- The Contract Audit and Executive Information System businesses were eliminated in FY 1998 and FY 1999, respectively;
- The Payroll business was added in FY 2000.
- The Supply business was outsourced in FY 2001;
- In FY 2001 the Board approved the addition of two new businesses, the Online Learning Center and CHRIS;
- Beginning in FY 2003, the Copy Business Line introduced document imaging and Optical Character Recognition (OPR) services; and
- For FY 2004, the Board approved the addition of a new Project Management Career Development Program business line, expansion of the Contract Closeout Business Line to include purchase card surveillance; expansion of the Online Learning Center Business, which was renamed to Corporate Training Services; and expansion of the Telephone business line to include cell phones and other devices.

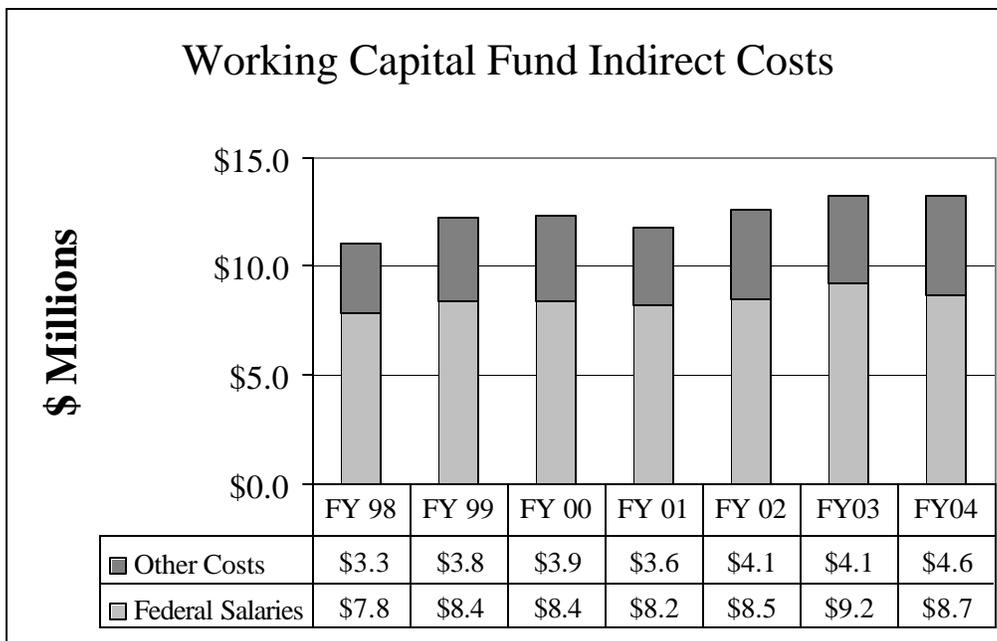
Despite these changes, the Indirect Costs² related to the Fund have remained fairly constant in relation to revenues, representing 14- 15% of the amounts being charged to customers through approved pricing policies. That is, on average, prices charged to customers would need to be 14-15% higher if Federal employee salaries and related costs were included in the Fund. These Indirect Costs, estimated at \$13.4 million for FY 2004, are funded in the budgets of the Office of Management, Budget and Evaluation/Chief Financial Officer and the Chief Information Officer.

¹ Reference: Attachment to January 13, 1998 memorandum from the Assistant Secretary for Human Resources and Administration to the Acting Inspector General.

² The term *indirect costs* as used in this paper refers to costs that are not recognized in the Fund because of regulatory considerations. In fact, these categories of costs would normally be consider *direct* in most financial contexts.

Background

- Federal Accounting Standards Advisory Board (FASAB) guidelines for managerial cost accounting require that "all costs be recognized in developing the price at which goods and services would be sold to other entities [within the government]."
- However, since FY 1997, the House Energy and Water Development Appropriations Committee report has directed the Department not to include the costs of Federal employee salaries and benefits in the cost structures of the Fund business lines.
- The 1997 WCF report prepared by the DOE Inspector General also raised the issue of indirect costs, and management agreed to prepare an analysis of such costs by June 30, 1998 and to advise the Board of likely impacts on business line viability. Further, the 1998 WCF report of the Inspector General noted that the Office of Management Budget and Evaluation (then the Office of Human Resources and Administration) spent more for Fund services than other Headquarters customers. This is linked to the question of OMBE subsidy of Fund operations, since a portion of the OMBE payment into the Fund is associated with the use by one WCF business of services from other WCF businesses.
- While the policies of the House Appropriations Committee and DOE management preclude the inclusion of DOE Federal salaries and certain related costs in the Fund pricing structure, there remains the question of whether such exclusion may have a material impact on customer and business line behavior. This analytical question, rather than the policy question, is the subject of this report.
- This 2004 report concludes that the costs to the business lines would increase by approximately \$13.4 million or 14% if the cost structure was expanded to include Federal salaries (\$8.7 million) and other costs (\$4.6 million).



Analytic Approach

The focus of the 2004 analysis was to validate the estimates provided with the 2003 report and to identify subsidy costs that were being borne by the CIO separate from those of OMBE. Space allocation estimates that affect the Building Occupancy charges associated with WCF businesses were also updated. The data are presented on the basis of annualized FY 2004 costs as they were estimated at the time of the issuance of the May 2004 bill.

Staffing Levels

It is estimated that 115 Federal staff are directly engaged in the operation of the Fund businesses. Table I provides these estimates by business line in comparison to estimates in previous reports, and also includes FY 2004 salary and benefits estimates.

Table I: Federal Employees Engaged in Delivering WCF Services by Business Line, 1998 - 2004.								FY 2004 Salaries & Benefits (\$000)
Business Line	Federal Staff members							
	FY 1998	FY 1999	FY 2000	FY 2001	FY 2002	FY 2003	FY 2004	
Telephones	3	4	4	3	3	3	3	\$335
Networking	2	1	1	2	2	2	2	\$235
Desktop	3	3	3	3	3	3	5	\$570
Building Occupancy	70	69	69	71	68	61	53	\$4,102
Supplies	6	7	7	2	0	0	0	\$0
Copiers	2	3	3	3	2	3	3	\$199
Mail Services	2	2	2	2	3	2	2	\$165
Printing & Graphics	25	24	23	22	23	14	12	\$600
Procurement Management *	0	0	0	2	3	3	4	\$380
Payroll	7	17	11	15	12	11	11	\$707
Corporate Training Services (CTS) **	NA	NA	NA	NA	3	5	4	\$284
CHRIS	NA	NA	NA	NA	3	11	12	\$597
Project Management Career Development Program (PMCDP)	NA	NA	NA	NA	NA	NA	2	\$166
WCF Management Activity	NA	2	2	2	2	3	3	\$380
Total	120	130	125	127	127	121	115	\$8,720
Management Budget & Evaluation	NA	NA	115	119	119	113	105	\$7,580
Chief Information Officer	NA	NA	11	8	8	8	10	\$1,140

* Formerly Contract Closeout-Business now includes Contract Closeout and Purchase Card Surveillance

**Formerly On-Line Learning Center (OLC)-Business now includes Training & Delivery Services (TDS) and OLC

Inter-Business Transactions

Working Capital Fund businesses consume goods and services that are provided by other Fund businesses, but heretofore only a small proportion of these charges are made to the consuming business. For the most part, Management Budget and Evaluation and the Chief Information Office have paid these other related expenses as though they were derived from non-WCF activities. The 1998 analysis estimated these costs at approximately \$3.3 million. Follow on analyses were undertaken in 1999, 2000, 2001, 2002, and 2003 estimating that the inter-business transactions would amount to approximately \$3.8 million, \$3.9 million, \$3.6 million, \$4.1 and \$4.1 million respectively.

Table II: FY 2004 Inter-Business Costs (\$000)			
Business Line (Consumer)	Building Occupancy	Other	Total
Telephones	\$172	\$38	\$210
Networking	\$814	\$27	\$841
Desktop	\$178	\$49	\$227
Building Occupancy	\$803	\$322	\$1,125
Supplies	\$215	\$43	\$258
Copiers	\$180	\$18	\$198
Mail Service	\$198	\$12	\$210
Printing & Graphics	\$793	\$73	\$866
Procurement Management	\$79	\$24	\$103
Payroll	\$127	\$67	\$194
Corporate Training Services (CTS)	\$32	\$36	\$68
CHRIS	\$49	\$71	\$120
Project Management Career Development Program (PMCDP)	\$11	\$12	\$23
WCF Management Activity	\$56	\$18	\$74
Total	\$3,707	\$806	\$4,563

In FY 2004 other related expenses are \$4.6 million, and increase of \$0.5 million from FY 2003. This is due to the expansions of the CTS and Procurement Management Businesses and the addition of the PMCDP business to the Fund. Table II summarizes the findings of the 2003 report with more detailed information provided in Attachment A.

In this report, we have not attempted to quantify further OMBE or CIO costs, such as training, travel or workstation charges associated with the Excite operation, that might also be associated with the Federal employees performing WCF services.

Overall Cost Impacts on Businesses

Overall, we estimate that including the Federal salaries and inter-business costs in the Fund would expand Fund costs by \$13.4 million, representing an increase of approximately 14%. This is consistent with the 2003 estimate of a 15% subsidy rate. As shown in Table II below, the subsidy rate for Building Occupancy of 8% tends to bring the overall average down considerably. Without the Building Occupancy business, the average subsidy rate is estimated at 24%, which is less than the 2003 estimate of 28%. Most businesses showed a decrease in estimate from 2003; Mail and Networking businesses showed a small increase while the Desktop business showed an increase of 42%. This is the result of including two senior federal staff members over the 2003 staffing level. Desktop and Online Learning Center, with their higher use of Federal staff relative to contractors, ranking highest again in the implied subsidy rates.

Table III: 2004 Subsidies by Business Line		
Business Line (Consumer)	Total Subsidy (\$000)	Percent of Current Billings
Telephones	\$545	7%
Building Occupancy	\$5,227	8%
Supplies	\$258	10%
Mail Services	\$375	15%
<i>Average for All Businesses</i>		14%
Networking	\$1,076	18%
Copiers	\$397	18%
<i>Average for Businesses other than Building Occupancy</i>		24%
Desktop	\$797	82%
CHRIS	\$750	35%
Contract Closeout	\$477	38%
Payroll	\$900	43%
Printing & Graphics	\$1,466	47%
Online Learning	\$352	82%
Project Management Career Dev. Program (PMCDP)	\$222	N/A
WCF Management Activity	\$454	N/A

The addition of federal salaries makes up approximately 65% of the \$13.4 million cost increase to the Fund, while 35% of the increase would come from other related expenses. If federal salaries were to be included in the cost structures of the Fund business lines, then the total direct costs to the businesses would be approximately \$105 million as opposed to the current \$96. The inclusion of other related expenses would further increase that number to around \$110 million.

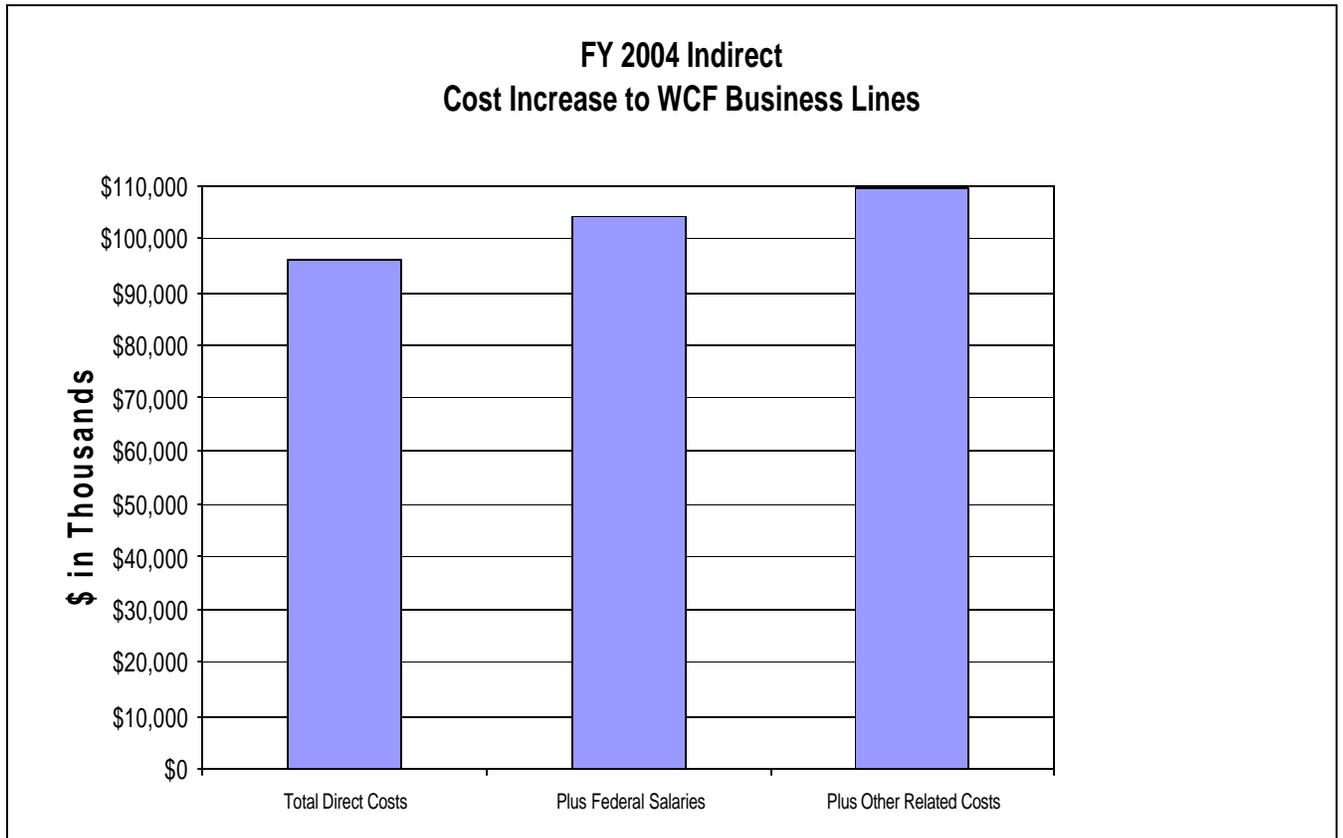


Figure A: WCF Cost Subsidy, 2004

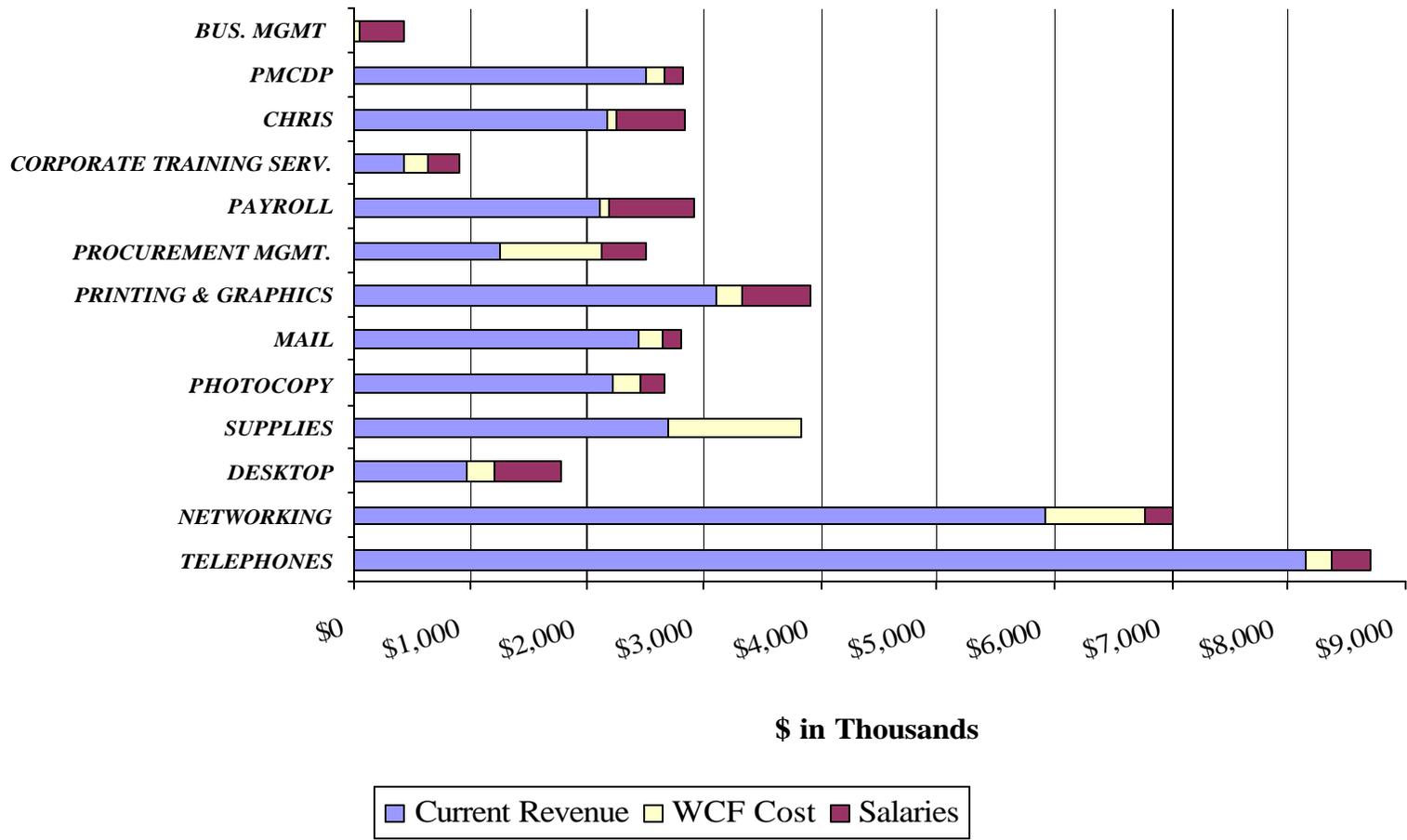
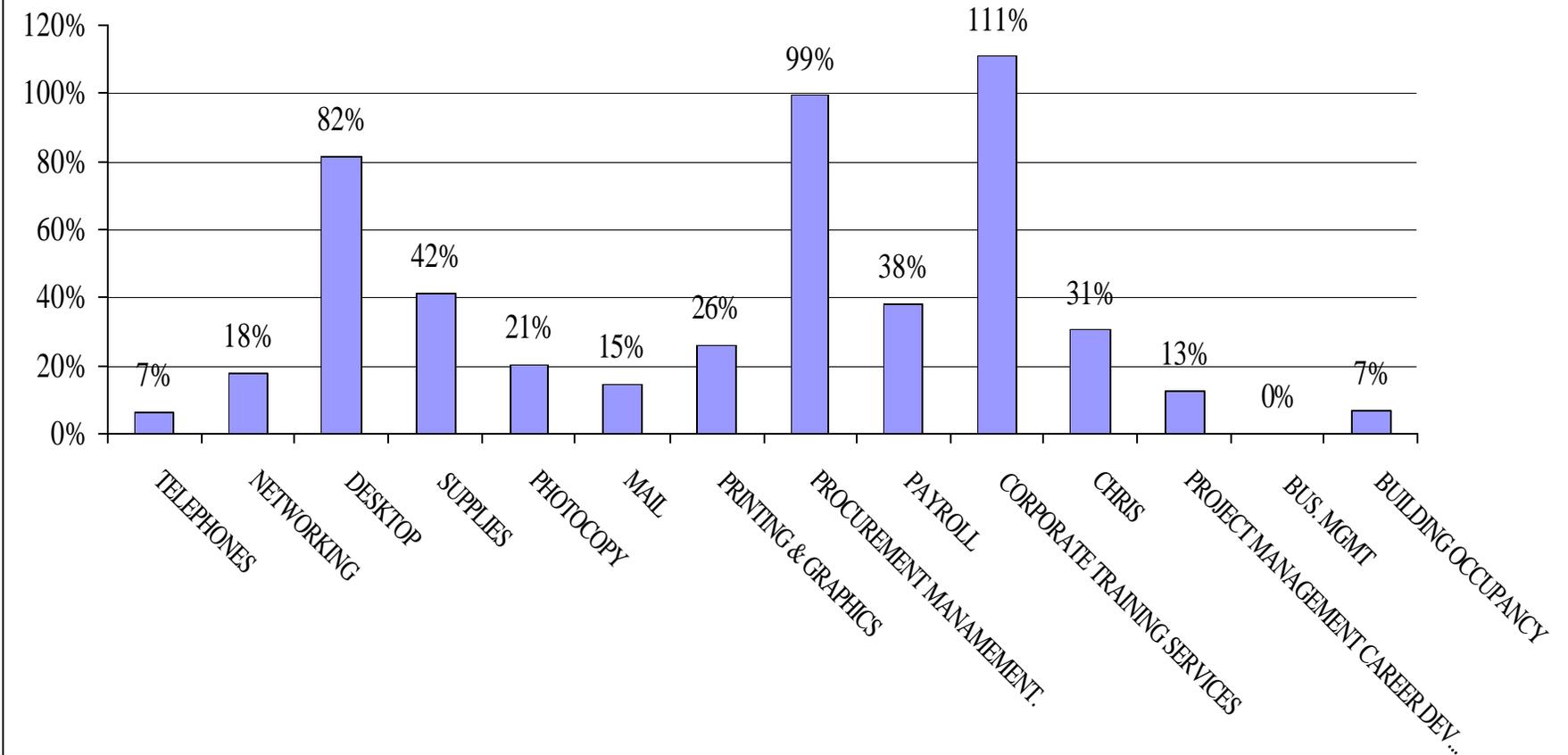


Figure B: WCF Percentage Subsidy, 2004



**WCF SUBSIDIZED COSTS BY BUSINESS LINE
DIRECT AND INDIRECT
FY 2004**

Business Line Consumer

Estimated Subsidized Cost Incurred (\$000)	PHONE	NETWORK	DESKTOP	BUILDING OCCUPANCY	SUPPLIES	COPY	MAIL	PRINTING & GRAPHICS	PROCUREMENT T MGT.	PAYROLL	CORPORATE TRAINING SERVICES	CHRIS	PMCDP	FUND MGR	Total WCF
TELEPHONE EXP	12	8	15	86	10	5	3	19	5	18	10	19	3	5	218
NETWORKING EXP	10	7	13	71	10	4	3	16	4	15	8	16	3	4	183
DESKTOP EXP	7	5	9	19	8	1	1	4	1	4	2	4	1	1	65
BLDG OCCUPANCY EXP	172	814	178	803	215	180	198	793	79	127	32	49	11	56	3,707
SUPPLIES EXP	4	3	5	31	0	2	1	7	2	6	4	7	1	2	73
PHOTOCOPY EXP	1	1	1	31	0	2	1	7	2	6	4	7	1	2	66
MAIL SERVICE EXP	2	1	3	46	15	3	2	10	3	10	5	10	2	3	113
PRINTING & GRAPHICS EXP	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
PROC. MGT. EXT	1	1	1	15	0	1	1	3	1	3	2	3	1	1	33
PAYROLL EXP	1	1	1	10	0	1	0	2	1	2	1	2	0	1	10
CTS EXP	0	0	1	4	0	0	0	1	0	1	0	1	0	0	10
CHRIS EXP	1	1	1	10	0	1	0	2	1	2	1	2	0	1	22
PMCDP EXP	0	0	0	0	0	0	0	0	0	0	0	33	33	0	66
TOTAL	210	841	227	1,125	258	198	210	866	97	194	68	153	56	74	4,557

¹Totals may differ from totals in Table II on page 4 due to rounding.