

U.S. DEPARTMENT OF ENERGY
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AUDIT OF BUS SERVICE SUBSIDIES

AT THE IDAHO NATIONAL ENGINEERING LABORATORY

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U.S. DEPARTMENT OF ENERGY
OFFICE OF INSPECTOR GENERAL
OFFICE OF AUDIT SERVICES
WESTERN REGIONAL AUDIT OFFICE

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November 7, 1996

SUMMARY

The National Performance Review report, Making Government Work Better and Cost Less (September 1993), and the Secretary of Energy's strategic alignment plan recommended reducing subsidies for services that could be more fully paid for by their users. Therefore, the purpose of this audit was to assess whether bus service subsidies at the Idaho National Engineering Laboratory (Laboratory) were still necessary or reasonable. The specific audit objectives were to determine if the level of provided bus services was still needed, if operating costs could be reduced, and if users should bear a greater share of bus operations costs.

Since May 1992, the Idaho Operations Office (Idaho) and the Laboratory's contractors have issued a series of bus operations reports. These reports included several recommendations to make the Laboratory's bus service smaller and less costly to operate. Despite these reports and recommendations, the Laboratory's bus service was neither cost-effective nor efficient, ridership was less than a desired rate per bus, and ticket fares were significantly lower than the costs to provide this service. This occurred because the Laboratory's contractors did not implement Idaho's recommendations to reduce the size of the fleet and the level of provided services, adopt a centralized park and ride system, eliminate overtime, and increase the price of a round-trip bus ticket. As a result, Department of Energy (Department) subsidies averaged more than \$14.6 million per year for the Laboratory's bus service since Fiscal Year 1993.

We recommended that the Manager, Idaho Operations Office, reduce the busing subsidy by adopting a park and ride system, minimizing overtime costs, increasing ticket prices, setting and maintaining a system-wide minimum occupancy level, increasing the utilization of Laboratory buses, and periodically comparing bus service costs with ticket sale revenues. The Office of Inspector General (OIG) estimated that the Department could save as much as \$7.2 million per year by implementing these recommendations.

Management partially concurred with recommendation 1 and concurred with recommendations 2, 3, and 4. However, management did not provide proposed actions and completion dates for these recommendations. Management and auditor comments are presented in Part III.

OFFICE OF INSPECTOR GENERAL

PART I

APPROACH AND OVERVIEW

INTRODUCTION

In September 1995, the OIG issued the Audit of Subsidized Ancillary Services at the Nevada Test Site (WR-B-95-08) which concluded that the Department continued to pay high subsidies for ancillary services, including bus services, that were not used extensively, may no longer be needed, could be more fully supported by its users, or could be operated more efficiently. Consistent with the audit at Nevada, the purpose of this audit was to assess whether bus service subsidies at the Laboratory were still necessary or reasonable. Specifically, the audit determined if the current level of bus services was still needed, if operating costs could be reduced, and if users should bear a greater share of bus operations costs.

SCOPE AND METHODOLOGY

The audit was conducted at the Idaho Operations Office and the Laboratory from January 1996 through June 1996. To accomplish the audit objectives, we interviewed key personnel and reviewed:

- * Lockheed's performance-based contract with the Department;
- * Lockheed's contracts with local unions;
- * employment reports for staffing levels from October 1993 through February 1996;
- * accounting records for bus service cost and pricing data;
- * bus service statistics for ridership levels on Laboratory buses; and,
- * prior reviews and internal audit reports on the management of bus operations.

The audit was performed according to generally accepted Government Auditing Standards for performance audits and included assessments of internal controls and compliance with laws and regulations to the extent necessary to satisfy the audit objectives. We limited the review of internal controls to those controls associated with determining the need for and reasonableness of the Laboratory's bus service. Because the review was limited, it would not necessarily have disclosed all internal control deficiencies that may have existed at the time of our audit. We did not rely extensively on computer-processed data and, therefore, did not fully examine the reliability of that data. An exit conference was held on October 28, 1996.

BACKGROUND

The Laboratory, located in southeastern Idaho, is the largest applied engineering facility within the Department's national laboratory system. Initially chartered in 1949, the Laboratory was instrumental in establishing the U.S. Navy's nuclear submarine fleet, supporting the commercial nuclear power industry, and recovering uranium from spent nuclear fuel. For more than 40 years, these three missions -- national security, nuclear power, and uranium recovery -- dominated Laboratory operations.

Prior to Fiscal Year 1995, five contractors managed the Laboratory. At the beginning of Fiscal Year 1995, however, these five contracts were consolidated into one contract which was awarded to Lockheed Idaho Technologies Company (Lockheed). When Lockheed became the Laboratory's management and operating contractor, it continued using a former contractor's Fleet Management Division to operate the Laboratory's bus service, which had about 150 Department owned buses. The Department's former contractors had started the Laboratory's bus service in 1951 with 24 buses which serviced Pocatello, Blackfoot, and Idaho Falls, Idaho. Since its inception, the Laboratory's bus service, which provides safe and reliable transportation, became an integral part of the Laboratory's support system for Government and contractor employees who have needed mass transportation from Pocatello, Blackfoot, and Idaho Falls, Idaho, more than 50 miles from the Laboratory's eastern boundary.

Since the mid 1980s, however, significant changes have impacted Laboratory operations as well as the need for subsidized bus services. The Cold War ended, for example, and the Laboratory's mission changed from supporting national security and the commercial nuclear power industry to environmental management. As a result, Laboratory programs ended, including the training program for U.S. Navy officers and crew as well as the uranium recovery program. Accordingly, Laboratory employment declined approximately 3,700 positions (i.e., from over 12,000 in Fiscal Year 1992 to fewer than 8,300 positions in Fiscal Year 1996), and its budget decreased about \$44 million from \$987 million in Fiscal Year 1993 to about \$943 million in Fiscal Year 1996. Consequently, each of these changes -- an end to the Cold War, a mission change, program cancellations, as well as employment and budget declines -- impacted on the extent of bus services needed and provided at the Laboratory.

OBSERVATIONS AND CONCLUSIONS

Since Fiscal Year 1992, Idaho and the Laboratory's contractors have recognized the need to reduce the busing subsidy. In May 1992, for example, Idaho completed a review of bus operations and recommended eliminating bus driver overtime costs, reducing the size of the bus fleet as well as the level of services, and increasing the price of round-trip bus ticket. Consequently, the size of the Laboratory's bus fleet declined from about 152 active buses in Fiscal Year 1992 to nearly 120

active buses in April 1995. Further, a Lockheed presentation on bus operations in February 1996 included recommendations to (1) increase bus service occupancy rates to as much as 90 percent per bus, (2) adopt a park and ride system, and (3) increase ticket prices. We commend Idaho and the Laboratory's contractors for addressing and reducing the busing subsidy.

This audit showed that, despite these actions, reports, and recommendations, bus operations were neither cost-effective nor efficient, ridership levels were less than desired levels per bus, and ticket fares were significantly less than the costs to provide this service. In our opinion, continuing to subsidize the Laboratory's bus service that is neither cost-effective nor efficient is a material internal control weakness that Idaho should consider when preparing the yearend assurance memorandum on internal controls.

PART II

FINDING AND RECOMMENDATIONS

Subsidized Busing at the Idaho National Engineering Laboratory

FINDING

The National Performance Review and the Secretary's strategic alignment plan recommended that the Department "cut back to basics" by discarding old work practices that are neither cost-effective nor efficient, and by reducing subsidies for services that could be more fully paid for by their users. However, the Department heavily subsidized the Laboratory's bus service that was neither cost-effective nor efficient, ridership was less than a desired rate per bus, and ticket fares were significantly lower than the cost to provide this service. The Department continued to pay high subsidies for the bus service because the contractor's Fleet Management Division sustained past practices and did not implement Idaho's recommendations to adopt a centralized park and ride system, eliminate overtime, and increase ticket prices. Additionally, Idaho did not enforce these recommendations. As a result, the Department's bus service subsidy has averaged about \$14.6 million per year for the past three years.

RECOMMENDATIONS

We recommend that the Manager, Idaho Operations Office, decrease the Department's bus service subsidy by:

- * implementing prior Idaho recommendations to adopt a park and ride system, minimize overtime costs, and increase bus service ticket prices;
- * setting and maintaining a system-wide minimum occupancy level for Laboratory buses;
- * increasing the utilization of Laboratory buses; and

- * periodically comparing bus service costs with generated ticket revenues to ensure that the Department's bus service subsidy remains within a defined benchmark for this subsidy.

MANAGEMENT REACTION

Idaho management partially concurred with recommendation 1 and concurred with recommendations 2, 3, and 4. However, management did not provide proposed actions and completion dates for these recommendations. Management and auditor comments are presented in Part III.

DETAILS OF FINDING

The National Performance Review, completed in September 1993, recommended that all Federal agencies "cut back to basics" by reducing spending on programs and services that serve special, not national, interests. The Review also stated that taxpayers should not be called upon to subsidize services that could be paid for more fully by their users. In addition, the Department's strategic alignment plan and a performance based contract with Lockheed echo a theme similar to the National Performance Review. The strategic plan, for example, challenges the Department to make its operations smaller and less costly to operate by discontinuing the use of limited resources for past practices that are neither cost-effective nor efficient. Furthermore, Lockheed's performance based contract with the Department requires it to manage and operate the bus service more cost-effectively and efficiently than previous contractors.

SUBSIDIZED BUS SERVICES

In recognition of the need to make bus operations smaller and less costly to operate, Idaho and the Laboratory's contractors have conducted several bus reviews and made several recommendations to reduce the size and cost of operating the Laboratory's bus service. Despite these recommendations, however, the audit showed that the Laboratory's bus service was neither cost-effective nor efficient, ridership was less than a desired rate per bus, and ticket fares were significantly less than the costs incurred to provide this service.

Bus Service Routes and Runs

The audit showed that the Laboratory's bus service was neither cost-effective nor efficient because there were numerous, overlapping bus routes and runs for Pocatello, Blackfoot, and Idaho Falls. During Fiscal Year 1995, for example, Fleet Management dispatched about 54 buses per day to and from the Idaho Falls area, and most of these buses would leave within minutes of each other from the same general location on the west side of Idaho Falls. Before leaving the city, however, these 54 buses would stop and board passengers within four to five blocks of their homes. In an attempt to reduce the level of bus operations in Idaho Falls, Fleet Management adopted a Modified Route System in January 1996. As a result, two buses were eliminated from the Idaho Falls operations, but the remaining 52

buses continued to follow the same general routes and runs. However, if the Idaho Falls bus operations were consolidated under a park and ride system, according to a Lockheed internal report published in July 1995, Fleet Management could have eliminated 21 buses rather than 2 buses. Moreover, this reduction of 21 buses could have reduced bus operations costs, as well as the Department's subsidies, by as much as an estimated \$2.1 million per year. Consequently, the Modified Route System did not significantly improve the cost-effectiveness or the efficiency of bus operations in Idaho Falls.

Ridership Levels

The audit also showed that ridership levels on Laboratory buses servicing Pocatello, Blackfoot, and Idaho Falls were less than desired levels of 90 percent per bus. In Fiscal Years 1993 and 1994, for example, the percentage of seats filled averaged between 50 and 60 percent per bus. Then in Fiscal Year 1995, ridership averages ranged from about 42 percent to 46 percent per bus. Moreover, ridership averages had declined in spite of reducing the size of the fleet from 152 active buses in Fiscal Year 1993 to 120 active buses as of April 1995. In fact, ridership statistics compiled by the Laboratory showed that average ridership had declined from over 4,000 per day in Fiscal Year 1993 to less than 3,000 per day during Fiscal Year 1995. In a study conducted during the audit, Lockheed proposed setting a system-wide minimum ridership level of 90 percent per bus. If this level of ridership had been applied to the ridership statistics compiled by the Laboratory during Fiscal Year 1995, Fleet Management could have serviced an average of 3,000 passengers per day with 73 buses rather than 120 active buses.

Ticket Fares

Finally, bus service cost and ticket revenue reports showed that the Department's cost to operate Laboratory buses increased significantly, with no related increase in ticket fares. In Fiscal Year 1993, for example, the Department paid about \$14.75 million, or about \$97,000 per bus, to operate the Laboratory's 152 active buses, and part of these costs included over \$1.3 million in bus operations overtime expenses. By the end of Fiscal Year 1995, the Department's bus service subsidy had increased to about \$122,000 per bus, while bus operations overtime expenses had increased to about \$1.5 million per year. In contrast to the Department's increased subsidy cost of about \$25,000 per bus, which included an increased cost of \$200,000 per year for bus operations overtime expenses between Fiscal Years 1993 and 1995, ticket fares did not change to reflect these increased costs. In fact, while the Department's bus service subsidy had increased from about \$13 per person in Fiscal Year 1993 to about \$22 per person in Fiscal Year 1995, round-trip ticket fares had not changed since they were set at \$1.00 in Fiscal Year 1989.

PAST PRACTICES

The Laboratory's bus service was neither cost-effective nor

efficient, ridership was less than a desired rate per bus, and ticket fares were significantly lower than the cost to provide this service. This occurred because Fleet Management sustained past practices and did not implement Idaho's recommendations to make the Laboratory's bus operations smaller and less costly to operate. Specifically, Idaho conducted a bus operations review in Fiscal Year 1992 and found that ridership levels of 60 percent per bus were unacceptable, overtime costs in excess of \$1.3 million per year were too high, and round-trip ticket prices of \$1.00 were too low. Consequently, Idaho recommended that Fleet Management make the Laboratory's bus service smaller and less costly to operate by (1) reducing the size of the fleet and the level of provided services, (2) adopting a centralized park and ride system, (3) eliminating overtime, and (4) increasing the price of a round-trip bus ticket to as much as \$3.00. Had Fleet Management adopted these recommendations, Idaho estimated that the Department could have saved about \$5.3 million per year on bus service subsidies.

Instead of implementing Idaho's recommendations, Fleet Management sustained past practices. For example, overtime costs increased and ticket fares remained at \$1.00 for a round-trip ticket. In addition, Fleet Management did not provide Idaho with statistics showing that Laboratory buses usually operated at less than 60 percent capacity. Instead, Fleet Management provided Idaho with bus operations reports showing that Laboratory buses were operating at 90 percent to 95 percent capacity, or with 41 to 43 passengers per 45 passenger bus. While the 90 percent to 95 percent occupancy rates may have been accurate for some buses, inventory reports for buses compared to ridership statistics showed that Laboratory buses consistently traveled to and from the site with an average ridership level of about 50 percent to 60 percent between Fiscal Years 1993 and 1995.

Finally, the Laboratory's bus service did not operate as cost-effectively or efficiently as it could have operated because Fleet Management did not provide Idaho with revised results of a centralized park and ride study. In Fiscal Year 1990, Idaho commissioned a former contractor to evaluate the feasibility of a park and ride system in Idaho Falls. The results of this study showed that the Department would have to spend about \$7.6 million to save about \$127,000 per year on bus operations costs. Since the payback period exceeded 50 years for this alternative (\$7.6 million/\$127,000), Idaho accepted a recommendation to reject the park and ride system. In Fiscal Year 1995, however, Idaho commissioned Lockheed to restudy the feasibility of a park and ride system. The 1995 report concluded that the Department could save about \$2.0 million per year on bus operations costs by spending about \$4.0 million for two parking lots -- one on the east side and another on the west side of Idaho Falls. The 1995 study also showed the Department how it could recover its \$4.0 million investment in about two years and continue saving about \$2.0 million per year on bus service subsidies. However, the published results of this 1995 study were not provided to Idaho, and the system was not implemented.

BUS SERVICE SUBSIDIES

Since Fiscal Year 1993, the Laboratory's bus system has cost an average of \$15.5 million per year. Of this amount, the Department's subsidy has averaged about \$14.6 million, or 94 percent per year. However, bus service ticket sales only generated on an average less than 6 percent of total operating costs, or \$860,000 per year. By implementing the recommendations made in this and previous reports, the Department could reduce bus operations costs and related subsidies by approximately \$7.2 million per year, or \$36 million over five years.

These savings could be realized by making the Laboratory's bus operations smaller and less costly to operate. Reducing the number of active buses from 120 to 73, for example, could save the Department about \$6.0 million per year (\$128,000 per bus times 47 buses) in bus service costs and related subsidies, which include about \$1.5 million per year in bus operations overtime costs. Additionally, an increase to the cost of a round-trip bus ticket (from \$1.00 to \$3.00, for example) to reflect increased operating costs could save an additional \$1.2 million per year. In fact, the Department significantly reduced its bus service subsidy at the Nevada Test Site when the contractor increased the price of a bus ticket from \$2.00 per round-trip to \$4.00 per round-trip effective May 20, 1996.

PART III

MANAGEMENT AND AUDITOR COMMENTS

In responding to the official draft report, management partially concurred with recommendation 1 and concurred with recommendations 2, 3, and 4. However, management did not provide proposed actions and completion dates for these recommendations. A summary of management comments and our replies follows.

Recommendations

Management Comments. Management partially concurred with recommendation 1, stating that a recommendation to require Lockheed to implement Idaho's prior recommendations regarding a park and ride system, overtime, and ticket prices is too specific. Management added that the proposed actions deserve more evaluation as to their viability, including implementation challenges and paybacks. Furthermore, management stated that a reduction in overtime costs is a labor contract issue, conflicting park and ride studies and recommendations need to be analyzed and resolved, and the impact of increased ticket prices, and the level of increase, have not yet been analyzed. Management, therefore, proposed that this recommendation be changed to allow Idaho an opportunity to further study the specific actions recommended by the OIG.

Auditor Comment. We have interpreted management's response as a nonconcurrency. This recommendation was intended to encourage Idaho to follow through on its own prior studies and determinations regarding cost-effective bus operations. If Idaho is unwilling or unable to bring pressure to bear on the

contractor to implement its own recommendations, the usefulness of those recommendations, and the studies which produced them, is called into question. The results of this audit, however, support Idaho's prior conclusions that many opportunities exist to reduce the costs incident to bus operations. Further, based on the audit, the OIG does not support further study of the park and ride issue. The audit fully supports the 1995 Lockheed study which concluded that the Department could save about \$2.0 million per year on bus operations costs by implementing a park and ride system. Finally, management's comment that the impact of increased ticket prices, and the level of increase, needs to be analyzed is valid, but a target date for taking this action needs to be established.

The OIG fully agrees that bus operations overtime is a labor contract issue. We do not agree, however, that Idaho has no control over this issue based on actions that Idaho has already taken and can take in the future to minimize these costs. Specifically, Idaho expressed its concern over the costly nature of overtime costs during contract negotiations between Lockheed and the Amalgamated Transit Union in August 1996. As a result of expressing this concern, the overtime clause in the former contract was changed in the current four year contract that was ratified in September 1996. Additionally, the action that Idaho has already taken should enable Lockheed to minimize bus operations overtime costs in the future.

Management Comment. Management concurred with recommendations 2, 3, and 4, but did not provide a corrective action plan and target dates for implementing the recommendations.

Auditor Comments. Management comments are responsive to the recommendations. However, management should prepare a proposed Departmental position which states the corrective actions taken or planned and the target dates for completing each recommendation.

IG Report No. WR-B-97-02

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