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Improvements Needed in the Department of Energy's Efforts To Develop a Financial Reporting System. EMD-78-95; B-178205. July 31, 1978. 3 pp. + enclosure (4 pp.).

Report to Secretary, Department of Energy; by J. Dexter Peach (for Monte Canfield, Jr., Director, Energy and Minerals Division.).

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Contact: Energy and Minerals Div.

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Authority: Energy Policy and Conservation Act (P.L. 94-163).

The Energy Policy and Conservation Act requires the Department of Energy (DOE) to collect information from oil and gas producers and to submit quarterly reports to the President and the Congress. DOE is developing a comprehensive energy data base, entitled the Financial Reporting System, which is to encompass the required data on exploration and production. Findings/Conclusions: There were several concerns about the adequacy of DOE's efforts in developing the data base. First, the needs and uses of the data in the proposed data collection form have not been documented. Although some suggestions and advice were obtained, this information did not determine the data in the proposed form. Second, DOE has not developed a data form for small producers who must report information. Third, DOE's plans for collecting information from small producers on a sample basis is inconsistent with the act's provisions which require that data be collected from all producers. Recommendations: The Secretary of Energy should document the needs and uses of the data in the proposed collection forms and insure that the data relate directly to the reporting system's objectives. He should: specifically plan and document the manner in which DOE will analyze the capital and revenue needs of the petroleum producing industry, design a data collection form for small producers who should be given an opportunity to review and comment on the form, determine whether or not sample basis reporting by small producers will provide adequate information for purposes of the act, and seek the necessary legislative changes in the act's provisions. (Author/BTW)

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REPORT BY THE U.S.

General Accounting Office

Improvements Needed In The Department Of Energy's Efforts To Develop A Financial Reporting System

The Department of Energy is developing a comprehensive energy information system. The Financial Reporting System is intended to compile the information required under several energy mandates, including the Energy Policy and Conservation Act. While the Department has completed an extensive data collection form, there is no evidence that it has answered certain fundamental questions essential to the design of any information system and essential to the Department's compliance with the Act. GAO makes several recommendations to the Secretary of Energy regarding shortcomings in the Department's efforts.



EMD-78-95

JULY 31, 1978



UNITED STATES GENERAL ACCOUNTING OFFICE
WASHINGTON, D.C. 20548

ENERGY AND MINERALS
DIVISION

B-178205

The Honorable
The Secretary of Energy

Dear Mr. Secretary:

Since passage of the Energy Policy and Conservation Act (Public Law 94-163), we have closely followed the efforts of the Department of Energy (DOE) and the Securities and Exchange Commission (SEC) to develop an energy data base and related accounting practices as required by Sections 503 and 505 of the Act. Section 503 requires that the SEC develop accounting practices for compliance by oil and gas producers reporting information to the DOE. Section 505 requires that the DOE collect information from oil and gas producers and submit quarterly reports to the President and the Congress.

To address its data collection responsibilities under several mandates, the DOE is developing a comprehensive energy data base entitled the Financial Reporting System. The DOE staff has indicated that this system will encompass the exploration and production data required by the Energy Policy and Conservation Act. Pursuant to our consulting role under Section 503 and our general oversight role, we have closely monitored the work of your staff and have submitted formal and informal comments throughout the project. This letter describes our concerns on the status of DOE's efforts to date and recommends actions we believe are necessary on your part to meet the requirements of the Energy Policy and Conservation Act.

We have three principal concerns with DOE's efforts to date. First, the needs and uses of the data in DOE's proposed data collection form have not been documented. Although DOE obtained some suggestions and advice from various parties on data needs and uses, we have found no evidence to indicate that this information dictated the data in DOE's proposed collection form. We believe that unless DOE documents the relationship between the data in the proposed form and the

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reporting system's objectives, the Department runs the risk of imposing an unnecessary reporting burden on industry, undating policymakers with irrelevant data, and delaying the collection of relevant information on which energy policy should be based. Second, DOE has not developed a data form for small producers who must report information under the Act. Further delay in designing such a form will jeopardize DOE's ability to meet the Act's reporting deadlines. Third, DOE's plans for collecting information from small producers on a sample basis is inconsistent with the Act's provisions. The Act requires that DOE collect data from all producers, not merely a sample of producers as presently contemplated by DOE. DOE should determine whether sample basis reporting will adequately provide the information needed for purposes of the Act, and seek the necessary legislative changes in the Act's provisions.

We recommend that the Secretary of Energy:

- Document the needs and uses of the data in the proposed collection forms and insure that the data relate directly to the reporting system's objectives. The Secretary should specifically plan and document the manner in which DOE will analyze the capital and revenue needs of the petroleum producing industry as discussed in the Act's legislative history. This documentation should be thoroughly discussed and included in a submission to the Senate Committee on Energy and Natural Resources, the House Committee on Interstate and Foreign Commerce, the Senate Committee on Governmental Affairs, the House Committee on Government Operations, and the House and Senate Appropriations Committees within 60 days.
- Design a data collection form for small producers who are required to report information to DOE under the Act. Small producers should be given an opportunity to review and comment on the form as it is developed.
- Determine whether or not sample basis reporting by small producers will provide adequate information for purposes of the Act, and seek the necessary legislative changes in the Act's provisions.

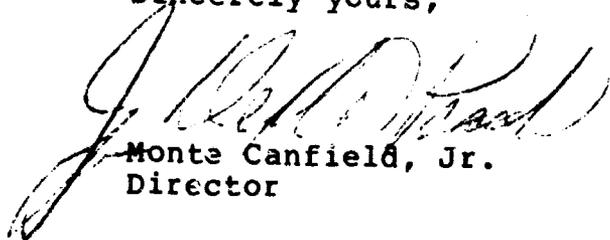
Both the small producers reporting form and the determination of need for changes in the Act's provisions may be affected by modifications in the data required to meet the system's objectives. Consequently, efforts under all three recommendations should be closely coordinated.

We discuss these conclusions and recommendations more fully in the enclosure to this letter.

We are sending copies of this letter report to the Chairman, Securities and Exchange Commission; the Director, Office of Management and Budget; the Chairmen, Senate Committee on Energy and Natural Resources and House Committee on Interstate and Foreign Commerce; the Chairmen, Senate Committee on Governmental Affairs and House Committee on Government Operations; and the Chairmen, House and Senate Appropriations Committees.

As you know, Section 236 of the Legislative Reorganization Act of 1970 requires the head of a Federal agency to submit a written statement on actions taken on our recommendations to the House Committee on Government Operations and the Senate Committee on Governmental Affairs not later than 60 days after the date of the report and to the House and Senate Committees on Appropriations with the agency's first request for appropriations made more than 60 days after the date of the report.

Sincerely yours,



Monte Canfield, Jr.
Director

Enclosure

CONCLUSIONS ON DOE'S EFFORTS UNDER
THE ENERGY AND POLICY AND CONSERVATION
ACT AND RECOMMENDATIONS TO
THE SECRETARY OF ENERGY

EARLY CONCERNS IN THE PROJECT

GAO has been continually concerned over the adequacy of DOE's efforts to identify the data needs of policymakers under the Energy Policy and Conservation Act (Public Law 94-163). The Act directs DOE to compile financial and operating information on the petroleum exploration and production business, but it does not specify precise data or provide a complete list of analyses that are to be made using the data. These fundamental determinations were left largely to the discretion of the DOE. The Act provides some broad guidelines in this regard, but DOE must ultimately determine what issues the data base will address and what specific data are required.

The Act's legislative history, like the Act itself, leaves DOE substantial freedom in defining the scope of the data base, but it does identify one issue that the reporting system should address at a minimum. The House Interstate and Foreign Commerce Committee, in reporting the bill out of Committee on July 9, 1975, indicated that for purposes of developing crude oil pricing policy, the data base should ultimately contain the information needed to analyze the capital and revenue needs of the petroleum exploration and producing industry. At a minimum, therefore, DOE should determine how best to analyze industry's capital and revenue needs (what information best portrays these needs) and what data DOE has to collect from oil and gas producers to compile that information.

We voiced concern early in the project that the Federal Energy Administration had done too little to define the scope and content of the data base and requested the Administrator of FEA to outline the steps he would take to meet his responsibilities in this regard. In his response dated May 26, 1977, the FEA Administrator stated that a project had been initiated to develop a comprehensive energy data base entitled the Financial Reporting System that would include the petroleum exploration and production data required by the Act. As a result of that project, DOE has developed a proposed data collection form which provides for a substantial amount of exploration and production data. However, because of considerations expressed below, we remain concerned over the adequacy of the form in capturing the petroleum exploration and production data needed by policy-

makers and the adequacy of DOE's plans for reporting useful information to the President and the Congress.

NEED FOR DOCUMENTATION OF THE
RELATIONSHIP BETWEEN THE DATA FORMS
AND THE REPORTING SYSTEM'S OBJECTIVES

In a background memorandum issued in November 1977, DOE outlined the objectives of the overall reporting system and some policy questions it plans to address using the data collected. Several of those objectives and policy questions relate to the petroleum exploration and production business and therefore appear relevant to the Act. However, the relationship between the data in the proposed form and the policy questions and objectives they presume to address has not been documented. Although DOE obtained some suggestions and advice from various parties on data needs and uses, we have found no evidence to indicate that this information dictated the data in DOE's proposed collection form. It is unclear how the data will be used by DOE in its analyses or how the data will assist the Congress and others who deal with energy policy issues. For example, it is unclear how DOE plans to analyze the capital and revenue needs of the industry for crude oil pricing purposes and how useful the present data forms will be in this regard. As indicated earlier, the data base should, at a minimum, provide the information needed to analyze the industry's capital and revenue needs. Lacking a well-documented system, DOE runs the risk of imposing an unnecessary reporting burden on industry, inundating policymakers with irrelevant data, and delaying the collection of relevant information on which energy policy should be based.

While our comments relate specifically to the portion of the data forms containing petroleum exploration and production data, they are equally relevant to other portions of the form since the same standards of documentation should be met for all data collected.

We believe the reporting system should be implemented only after the following questions have been answered:

1. What policy issues are most relevant and potentially useful in accomplishing the public policy objectives to which the system is oriented?
2. What specific questions need to be answered in resolving the policy issues relevant to this system?

3. What analyses and industry-wide information are needed to answer the specific questions?
4. What specific data must be collected from individual companies to compile the needed information and make the required analyses?
5. Who should be required to submit the data?
6. What accuracy tolerances should be placed on the data?
7. What accounting practices are needed to insure that data is adequately comparable and reliable?

Recommendation

We recommend that the Secretary of Energy document the needs and uses of the data in the proposed collection forms and insure that the data relate directly to the reporting system's objectives. The Secretary should specifically plan and document the way in which DOE will analyze the capital and revenue needs of the petroleum producing industry. This documentation should be thoroughly explained and included in a submission to the Senate Committee on Energy and Natural Resources, the House Committee on Interstate and Foreign Commerce, the Senate Committee on Governmental Affairs, the House Committee on Government Operations, and the House and Senate Appropriations Committees within 60 days. At a minimum, the submission should include answers to the above seven questions.

NEED FOR EXPANSION OF THE DATA SYSTEM TO INCLUDE SMALL PRODUCERS

DOE has indicated that initial data collection and reporting efforts will be restricted to 29 large petroleum firms. No definite timetable has been established for bringing small producers into the reporting system. The Energy Policy and Conservation Act requires that DOE begin collecting and reporting information from small as well as large producers the third full calendar quarter after SEC's accounting practices are made effective. This date obviously depends on the future actions of SEC, but could be as early as the second or third quarter of 1979. Further delay by DOE in designing a data collection form for small producers will jeopardize DOE's ability to meet this timetable.

The Act also requires that DOE collect data from all

producers, not merely a sample of producers as presently contemplated by DOE. While we recognize that sampling may be an appropriate means of collecting the data needed, there is no provision in EPCA for collecting data on a sample basis. DOE should determine whether sample basis reporting by small producers adequately provides the information needed to make the necessary analyses for purposes of the Act, and seek the necessary legislative changes in the Act's provisions.

Recommendations

We recommend that the Secretary of Energy:

- Design a data collection form for small producers who are required to report information to DOE under the Act. Small producers should be given an opportunity to review and comment on the form as it is developed.
- Determine whether sample basis reporting by small producers will provide adequate information for purposes of the Act, and seek the necessary legislative changes in the Act's provisions.

Both the small producers reporting form and the determination of need for changes in the Act's provisions depend heavily on the results of efforts under the first recommendation in this letter report. Both products may be significantly influenced by modifications in the data required to meet the system's objectives. Consequently, efforts under all three recommendations should be closely coordinated.