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United States General Accounting Office
Washington, DC 20548

December 12, 2001

The Honorable Mac Thornberry
Chairman
The Honorable Ellen O. Tauscher
Ranking Minority Member
Special Oversight Panel on Department of Energy Reorganization
Committee on Armed Services
House of Representatives

Subject: NNSA Management: Progress in the Implementation of Title 32

Title 32 of the National Defense Authorization Act for Fiscal Year 2000 (P.L. 106-65) established the National Nuclear Security Administration (NNSA) as a semiautonomous agency within the Department of Energy (DOE) with responsibility for the nation's nuclear weapons, nonproliferation, and naval reactors programs. The Congress created NNSA to correct long-standing and widely recognized management problems at DOE, which had been underscored by significant cost overruns on major projects and security problems at the national laboratories.

At your request, we reviewed NNSA's progress in implementing four key components of Title 32 intended to improve NNSA's management, including NNSA's reorganization efforts; integrated planning, programming, and budgeting improvements; use of its excepted service personnel authority; and efforts to improve its procurement practices. In presenting the results of our work, we agreed to identify for each of the four management areas (1) the underlying problems to be addressed, (2) the status of NNSA's progress, and (3) the management issues that still remain. We recognize that the implementation of Title 32 is an evolving and dynamic process; our observations on NNSA's progress are based on audit work conducted through December 2001.

In summary, we found the following:

- While NNSA announced a new headquarters organization in May 2001, the reorganization did not contain a clear definition of the roles and responsibilities of the headquarters organizational units and did not address NNSA's field organization at all. More importantly, an overall organizational structure that clearly addresses long-standing issues such as the division of roles and responsibilities among headquarters offices and between headquarters and field staff still does not exist. NNSA recognizes the importance of these issues, and the acting Principal Deputy Administrator is leading an effort to address them.

Report Documentation Page

Report Date 12DEC2001	Report Type N/A	Dates Covered (from... to) -
Title and Subtitle NNSA Management: Progress in the Implementation of Title 32	Contract Number	
	Grant Number	
	Program Element Number	
Author(s)	Project Number	
	Task Number	
	Work Unit Number	
Performing Organization Name(s) and Address(es) General Accounting Office, PO Box 37050, Washington, DC 20013	Performing Organization Report Number GAO-02-93r	
Sponsoring/Monitoring Agency Name(s) and Address(es)	Sponsor/Monitor's Acronym(s)	
	Sponsor/Monitor's Report Number(s)	
Distribution/Availability Statement Approved for public release, distribution unlimited		
Supplementary Notes		
Abstract <p>Title 32 of the National Defense Authorization Act for Fiscal Year 2000 (P.L. 106-65) established the National Nuclear Security Administration (NNSA) as a semiautonomous agency within the Department of Energy (DOE) with responsibility for the nations nuclear weapons, nonproliferation, and naval reactors programs. The Congress created NNSA to correct long-standing and widely recognized management problems at DOE, which had been underscored by significant cost overruns on major projects and security problems at the national laboratories. At your request, we reviewed NNSAs progress in implementing four key components of Title 32 intended to improve NNSAs management, including NNSAs reorganization efforts; integrated planning, programming, and budgeting improvements; use of its excepted service personnel authority; and efforts to improve its procurement practices. In presenting the results of our work, we agreed to identify for each of the four management areas (1) the underlying problems to be addressed, (2) the status of NNSAs progress, and (3) the management issues that still remain. We recognize that the implementation of Title 32 is an evolving and dynamic process; our observations on NNSAs progress are based on audit work conducted through December 2001.</p>		
Subject Terms		
Report Classification unclassified	Classification of this page unclassified	

Classification of Abstract unclassified	Limitation of Abstract SAR
Number of Pages 20	

- NNSA lost some momentum over the summer of 2001 as it reevaluated its efforts to develop a new process for planning, programming, budgeting, and evaluation (PPBE). NNSA now has established a conceptual PPBE process and begun to develop the necessary implementation plans and procedures. However, because of the broad scope of work needed to develop these plans and procedures, it will be difficult to fully implement NNSA's PPBE process in time for the fiscal year 2004 budget cycle. Furthermore, it is too soon to tell whether NNSA's proposed process, when fully implemented, will effectively address widely recognized problems in NNSA's existing planning, programming, budgeting, and evaluation practices.
- While it has developed an interim excepted service personnel policy, at this time, NNSA has firm plans to use only one-third of the 300 excepted service positions authorized by Title 32. NNSA human resources officials told us that they will not make decisions about using all of the available positions until they are certain of the congressional response to their request for expanded authority beyond the 300 positions authorized by Title 32. More fundamentally, NNSA does not have the coherent human capital and workforce-planning strategies it needs if it is to develop and maintain a well-managed workforce over the long run.
- Finally, NNSA has determined that there is no need for an NNSA-specific procurement regulation, and it has begun to address long-standing contract management problems through efforts to improve contractor oversight and performance evaluation.

Background

Since its creation in 1977, DOE has conducted technically complex activities at its facilities across the country. These activities include developing, producing, and maintaining nuclear weapons; preventing the worldwide proliferation of weapons of mass destruction; and designing, building, and maintaining naval nuclear propulsion systems. However, in conducting these activities, DOE historically has been plagued by organizational and managerial problems that have resulted in significant cost overruns and schedule delays on major projects, as well as in the failure to complete some of those projects and to operate other completed facilities. These problems continue, as the recent cost overrun of more than \$1 billion and schedule delays with building the National Ignition Facility demonstrate. There have also been a number of security concerns at DOE facilities.

Ultimately, the Congress concluded that DOE, as originally configured in 1977, could not correct these organizational and managerial problems alone. Accordingly, in Title 32 of the National Defense Authorization Act for Fiscal Year 2000, the Congress created a new, semiautonomous agency within DOE—the National Nuclear Security Administration. As required by the act, DOE issued an implementation plan for the creation of NNSA in January 2000. The implementation plan called for NNSA to have three program offices, various support offices, and a field office organization. In the view of the Special Oversight Panel on Department of Energy Reorganization, DOE's plan, as originally crafted, was not in keeping with the intent of Title 32. As a result, the National Defense Authorization Act for Fiscal Year 2001 (P.L. 106-398) amended

Title 32 to require, among other things, that additional information on NNSA's organization and planning, programming, and budgeting processes be supplied to the Congress.

NNSA's first and current Administrator was sworn in on June 28, 2000. Since that time, NNSA has undertaken a number of initiatives to comply with Title 32, including announcing the restructuring of its headquarters organization in May 2001, with a field restructuring proposal originally promised for October 2001;¹ undertaking the development of a formal PPBE process, including drafting a Future Years Nuclear Security Program plan; adopting an interim policy for the use of NNSA's excepted service personnel authority; and signing an agreement with DOE for support in the procurement arena.

Important NNSA Organizational Issues Remain Unresolved

NNSA was established, in part, to correct the confused lines of authority and responsibility within DOE's nuclear weapons complex that contributed to a wide variety of problems, such as cost overruns and schedule slippage on large projects, as well as security lapses. Past advisory groups, internal DOE studies, and GAO have reported over the years on DOE's dysfunctional organizational structure. In particular, in December 2000, we concluded a comprehensive study of the management of the Office of Defense Programs, which makes up over 70 percent of NNSA.² We reported that the Office of Defense Programs suffered from organizational problems, such as a lack of clear roles and responsibilities, at three levels: within its headquarters organization, between headquarters and the field, and between contractor-operated sites and their federal overseers. This situation made it difficult for the program to be managed as an integrated whole and for managers to make sound decisions about balancing competing resource priorities, such as allocating funding between the short-term demand for production of weapons components and the long-term need to maintain the weapons complex infrastructure.

While Title 32 did not specify exactly how NNSA was to be organized, the act did establish certain positions, such as a general counsel, and gave the Administrator the flexibility to determine the best organizational structure for the new agency. The act also laid out chains of command in both DOE and NNSA that would insulate NNSA from DOE decision-making, except at the level of the NNSA Administrator. In our April 2001 testimony before the Special Oversight Panel on Department of Energy Reorganization, we reported that some progress had been made in establishing a

¹As of December 2001, NNSA had not yet issued a field restructuring proposal.

²*Nuclear Weapons: Improved Management Needed to Implement Stockpile Stewardship Program Effectively* (GAO-01-48, Dec. 14, 2000).

better-organized NNSA.³ We noted that the practice of “dual-hatting”⁴ had been virtually eliminated, enabling NNSA to manage its programs more independently. In addition, we noted that NNSA had established a new support structure for its headquarters office that had as its goals establishing clear and direct lines of communication, clarifying the roles and responsibilities of NNSA’s headquarters and field offices, and integrating and balancing priorities across NNSA’s missions and infrastructure. Specifically, NNSA established two support offices: one office headed by an associate administrator for management and administration, who is responsible for PPBE, personnel, and procurement, among other things; and the other office headed by an associate administrator for facilities and operations, who is responsible for managing the field structure, among other things.

Despite these initiatives, fundamental organizational issues, such as those we identified in our December 2000 report and April 2001 testimony, remain. Specifically, the details regarding how the new NNSA headquarters support offices will work with the established headquarters program offices—the Office of Defense Programs and the Office of Defense Nuclear Nonproliferation—remain unclear.⁵ Many of the NNSA field managers we spoke with were concerned that reporting relationships could become more complex and confused rather than less because these various headquarters offices may have different expectations. For example, depending on how responsibility is divided, it is possible for field offices to receive direction from multiple headquarters offices on such areas as infrastructure and major construction projects. More importantly, long-standing, fundamental issues regarding confused lines of authority between headquarters and the field that directly affect how NNSA’s contractors are managed remain unresolved. Direction and guidance to the NNSA contractors is still being provided from multiple sources—NNSA local area office managers, DOE and NNSA operations office managers, and NNSA headquarters managers. As we have found in the past, when contractors receive multiple and sometimes conflicting guidance, NNSA’s ability to hold its contractors accountable for performance is undermined. NNSA recognizes that these issues need to be addressed. The acting Principal Deputy Administrator is leading an effort to address organizational issues remaining from the May 2001 headquarters reorganization and to clarify confused lines of authority between headquarters and the field.

An additional organizational issue that has become apparent at NNSA’s new area offices in Savannah River and Y-12 also needs attention. Specifically, at those sites, the DOE operations office managers must formally approve certain activities before NNSA area office officials can act, even though the operations office managers are

³*Department of Energy: Views on the Progress of the National Nuclear Security Administration in Implementing Title 32* (GAO-01-602T, Apr. 4, 2001).

⁴Initially, the then-Secretary of Energy chose to fill numerous key NNSA positions with DOE officials; thus, these officials had both DOE and NNSA responsibilities and were dubbed “dual-hatted.” This practice caused considerable concern on the Special Oversight Panel on Department of Energy Reorganization and with others, including GAO, that NNSA might not be able to function with the independence envisioned when NNSA was created.

⁵The Office of Naval Reactors continues to be managed as a separate entity within NNSA.

not NNSA employees. For example, operations office approval is required for foreign travel as well as for some procurement actions, such as approving a waiver of certified cost and pricing data for the Office of Defense Nuclear Nonproliferation work being done in Russia. While the NNSA managers at the Y-12 and Savannah River area offices told us that their respective DOE operations office managers have been careful not to interfere with their decision-making, NNSA officials need to be empowered to execute such duties to eliminate the last vestiges of dual-hatting.

Complementing the need for organizational clarity is the need for consistent leadership. As we noted in our December 2000 report, a significant number of management positions in the Office of Defense Programs were vacant or filled with acting managers. We expressed concern that this situation could affect the programs' ability to provide a long-term focus and consistent leadership. Throughout NNSA, this issue continues to be a concern, as many management slots within NNSA headquarters are still vacant or held on an acting basis. In addition, NNSA established a new area office in Savannah River almost a year ago, but no manager for that area office has yet been designated. Although a formal memorandum of agreement between DOE's Savannah River Operations Office and the NNSA area office has been developed, without an NNSA area office manager it will not be signed.

In our December 2000 report, we recommended that NNSA take action to clarify roles and responsibilities at all levels in the organization, clarify the lines of authority between headquarters and the field, and provide greater management consistency and stability for the nuclear weapons program. However, the problems that prompted our recommendations remain. As NNSA moves forward, it needs to employ the organizational principles that we cited in our April 2001 testimony before the Special Oversight Panel on Department of Energy Reorganization: focusing a small headquarters staff on strategic management, policy, and external relationships; moving program management officials as close to the action as possible; establishing clear lines of authority between NNSA and its contractors; and holding federal and contractor employees accountable for meeting mission goals. Only by applying these principles can NNSA effectively organize to manage its national security programs, to identify opportunities to reduce duplication and achieve efficiencies both in headquarters and in the field, to ensure that the right people are in the right places to manage the contractors who perform its work, and to hold both federal managers and the contractors accountable for meeting mission goals.

Significant Effort Still Required to Develop an Effective Planning, Programming, and Budgeting Process

Numerous studies—including the 1997 “120-Day Study” by the Institute for Defense Analyses,⁶ the 1999 report by the Chiles Commission,⁷ the 1999 report by the Foster

⁶*The Organization and Management of the Nuclear Weapons Program*, Institute for Defense Analyses, Mar. 1997.

⁷*Report of the Commission on Maintaining United States Nuclear Weapons Expertise to Congress and the Secretary of Energy*, Commission on Maintaining United States Nuclear Weapons Expertise, Mar. 1999.

Panel,⁸ a report by the DOE Inspector General,⁹ and our 2000 report on the management of the Stockpile Stewardship Program,¹⁰—have identified problems in DOE’s planning, programming, and budgeting. These problems include the lack of a unified planning and programming process, the absence of integrated long-range program plans, and the failure to fully link existing plans to budgets and management controls. Without sound, integrated planning, programming, and budgeting, it has been difficult for officials to ensure that decisions with resource implications are weighed against one another in a complete and consistent fashion and that mission outcomes are linked to management controls. In our December 2000 report, we recommended that NNSA take action to improve and integrate its planning processes and to improve its budgetary data to provide needed management information.

Title 32 mandates the use of sound planning, programming, budgeting, and financial activities. It also requires that NNSA submit to the Congress a Future Years Nuclear Security Program plan that details NNSA’s planned expenditures for the next 5 years. Very early in his tenure, the NNSA Administrator indicated that he intended to comply with Title 32 by instituting a programming, planning, and budgeting process similar to that in use at the Department of Defense (DOD). While DOD’s approach has not been without problems over the past 40 years, it is generally recognized as a system that, when properly led and staffed, is capable of making cost-effectiveness comparisons and of developing the detailed program and budget plans called for in Title 32. The Administrator originally set a goal of having NNSA’s version of DOD’s programming, planning, and budgeting process—now referred to as the PPBE process—fully established by the fiscal year 2003 budget cycle. Subsequently, this date was pushed back to the fiscal year 2004 budget cycle because development was taking longer than expected.

NNSA’s initial attempts to develop its own PPBE process consisted of several important activities, as follows:

- NNSA contracted with the Institute for Defense Analyses, a federally funded research and development center with many years of experience in PPBE development, to assist in strategic planning and PPBE development.
- NNSA brought in an experienced chief financial officer on detail from DOE’s Oak Ridge Operations Office to lead the PPBE effort.
- NNSA created a draft *Concept of Operations Report* that laid out the high-level processes and requirements that NNSA would need to implement to develop its PPBE process.

⁸*FY 1999 Report of the Panel to Assess the Reliability, Safety, and Security of the United States Nuclear Stockpile*, Foster Panel, Nov. 1999.

⁹*Management of the Nuclear Weapons Production Infrastructure*, DOE Inspector General, Audit Report DOE/IG-0484, Sept. 22, 2000.

¹⁰GAO-01-48, Dec. 14, 2000.

- Finally, NNSA established seven implementation teams, staffed by representatives from throughout the nuclear weapons complex, to document current processes and to develop the detailed implementation plan needed to implement the *Concept of Operations Report*.

In our testimony before the Special Oversight Panel on Department of Energy Reorganization in April 2001, we concluded that NNSA's PPBE process, as it appeared to be developing, offered the potential to help bring NNSA into compliance with Title 32. It appeared that both NNSA headquarters and field units appreciated the discipline that such a process could offer. We noted, however, that an enormous amount of work would have to be completed before NNSA had even a minimally functional PPBE process.

Since June 2001, the acting associate administrator of the Office of Management and Administration and the acting director, Office of Planning, Programming, Budgeting, and Evaluation, have reevaluated NNSA's initial efforts. These officials believe that the initial approach, described above, was oriented too much to the program structure of the DOD and that this approach failed to take into account the uniqueness of NNSA's programs and the type of contracting approaches NNSA uses to do its work. As a result, NNSA stopped working with the Institute for Defense Analyses, discontinued most of its implementation teams, and moved away from the original *Concept of Operations Report* in favor of a proposed process that would use existing NNSA plans, practices, and processes as much as possible. In addition, NNSA pulled virtually all of its planning, programming, and budgeting work back into headquarters, where it is being staffed by a small, part-time team.

This shift in direction slowed NNSA's momentum in establishing a PPBE process and caused some confusion in NNSA field offices, but NNSA recently has undertaken a number of activities aimed at implementing a PPBE process for the fiscal year 2004 budget cycle. Examples of some of these activities follow:

- NNSA is developing a revised PPBE process, as mentioned above. NNSA communicated this revised process to all NNSA program, support, and field offices on September 12, 2001.¹¹
- NNSA released draft strategic guidance developed by its Office of Policy Planning on September 27, 2001. This long-range guidance focuses on the key issues NNSA faces, such as the projected security environment and size of the stockpile, and is intended to guide the planning process. As the first step in its revised PPBE process, NNSA believes that the draft strategic guidance will establish a basis for the development of 5-year program plans for the individual programs within NNSA.

¹¹Program offices include Defense Programs, Defense Nuclear Nonproliferation, and Naval Reactors. Support offices include the Office of Facilities and Operations and the Office of Management and Administration. Field offices include the Albuquerque Operations Office, the Chicago Operations Office, the Nevada Operations Office, the Oakland Operations Office, the Savannah River Area Office, and the Y-12 Area Office.

- NNSA has also issued guidance to its program and support offices for developing an integrated plan and a summary 5-year plan for each major program—Defense Programs, Defense Nuclear Nonproliferation, and Naval Reactors—and each of the support offices. The integrated plans, known as program integrated plans, will be annual documents that delineate the responsibilities, priorities, and performance commitments for an entire program. Each summary 5-year plan will lay out an array of program performance measures and estimated resources to carry out mission-specific programs within each NNSA office.
- NNSA is currently in the process of reestablishing implementation teams to help create workable processes for two other phases of its PPBE process. One of these teams will be working on the programming process, in which competing priorities and mission needs will be evaluated, alternatives and trade-offs will be analyzed, and resources will be allocated to meet the highest priorities. The other team will be working on the evaluation phase, which will establish performance measures, indicators, and metrics to evaluate progress in meeting programmatic goals. Both teams are to develop recommendations and report to the NNSA senior leadership in December 2001.

While this recent activity is a positive sign, NNSA still has an enormous amount of work to do before its PPBE process can be fully implemented during the fiscal year 2004 budget cycle, which began in September 2001 for NNSA. Examples of the work remaining follow:

- **Planning, programming, budgeting, and evaluation processes:** As we have said, NNSA has made some progress in starting high-level activities associated with the various phases of planning, programming, budgeting, and evaluation. However, NNSA's proposed process primarily exists as a schematic drawing; NNSA does not have a complete, detailed implementation plan. For example, important details of the programming phase and evaluation phase will not be determined for some months.
- **Decision and information systems:** Because these systems are key components in a modern PPBE process, a critical issue will be the interface of NNSA's systems with both the existing DOE planning, financial, and budgeting systems and DOE's planned changes to these systems. For example, NNSA must provide budgetary information to DOE for incorporation into the Department's budget submission. In addition, NNSA's systems have to continue to comply with the financial reporting requirements set by the Department's Chief Financial Officer. NNSA and DOE officials report that they are cooperating on these issues. However, NNSA officials report that coordinating with the Chief Financial Officer is causing some delays in implementing NNSA's PPBE process.
- **Personnel:** NNSA currently has only a small part-time staff on hand to lead its PPBE effort. Over the past couple of months, this staff has focused most of its attention on the pressing issues of the fiscal year 2002 and 2003 budgets, though it

now reports it is able to focus more attention on the development of NNSA's PPBE process. NNSA was unsuccessful in attracting an outside candidate to lead its PPBE efforts. As a result, except for budgeting, NNSA does not appear to have many personnel on hand with the right skill mix to conduct the analytical functions typically associated with a PPBE process.

- **Future Years Nuclear Security Program plan:** Although required to do so by Title 32, NNSA has yet to submit a Future Years Nuclear Security Program plan to the Congress. NNSA was required to submit its first plan for the fiscal year 2001-2005 period but failed to do so because the NNSA Administrator said he did not have reliable data on planned expenditures that reflected recent congressional direction and the new executive branch priorities. NNSA did produce a plan for the fiscal year 2002-2006 period and submitted it to the Office of Management and Budget in March 2001. The Office of Management and Budget is reviewing the plan, pending the soon-to-be-completed high-level reviews of the nation's national security programs, but it is unclear if the plan will ever be released to the Congress. NNSA officials concede that they developed the plan without the benefit of a PPBE process and that the plan represents only a first step in developing a true multiyear program plan as required by Title 32. NNSA is committed to developing a fiscal year 2003-2007 plan, but it will do so, again, without a fully implemented PPBE process.

With its shift in direction, NNSA lost momentum over the summer of 2001 toward its goal of making real changes to its planning, programming, budgeting, and evaluation processes. While NNSA has established a conceptual PPBE process, it will be difficult to fully implement such a process during the fiscal year 2004 budget cycle. Furthermore, it is too soon to tell whether the proposed process, when fully implemented, will effectively address widely recognized problems in NNSA's existing planning, programming, and budgeting practices and will establish an effective evaluation process.

NNSA Must Take Additional Steps to Make Effective Use of Its Excepted Service Authority

Retaining and recruiting the highly skilled scientific and technical personnel needed to make our government run efficiently and effectively challenges virtually every federal department and agency. NNSA, in particular NNSA's Office of Defense Programs, has had difficulty meeting this challenge. According to NNSA officials, specific obstacles to recruiting and retaining staff include the downsizing and resulting program instability of the past decade, the high cost of living near some NNSA field sites or their remote locations, a shortage of people trained in the relevant scientific and engineering disciplines, relatively low federal salaries compared with those offered by private high-technology companies, and the lengthy process required to hire people into the federal workforce. We and others have concluded that the lack of technically competent personnel has contributed to weak contract management and to poorly managed projects that are often late or over budget.

In response to this situation, the Congress provided NNSA in Title 32 the authority to create up to 300 excepted service positions specifically for scientific, engineering, and technical staff. For excepted service positions, each agency—in this case NNSA—develops, within basic requirements prescribed by law or regulation, its own hiring system. This system establishes the evaluation criteria to be used in filling the excepted positions. Specifically, NNSA may now hire staff through a noncompetitive selection process and has greater flexibility in setting salaries.

NNSA Managers See Pros and Cons of the Excepted Service Authority

NNSA managers and human resource officials with whom we spoke have had mixed reactions to the excepted service authority granted by Title 32. In general, NNSA officials were optimistic that the excepted service authority would help make the agency more attractive to prospective employees. Several managers told us that additional pay flexibility would allow them to be competitive in their efforts to hire new employees and to retain current employees. However, managers also cautioned that the limited authority might create morale problems for those employees not in the excepted service. (NNSA currently employs about 2,300 people, including more than 800 in scientific, engineering, and technical job series.) Specifically, these managers were concerned that staff morale could be jeopardized if scientific, engineering, and technical employees doing similar work were covered by different compensation systems. Moreover, managers responsible for business operations—such as budgeting, procurement, and human resources—were worried that their staff—who believe they contribute important skills to the agency’s mission—would resent being treated differently from scientists and engineers.

In light of these concerns, NNSA managers told us that they would prefer to have the entire agency in the excepted service or at least enough positions for all of the organization’s scientific, engineering, and technical employees. Accordingly, NNSA has pursued congressional authorization to expand the excepted service authority granted in Title 32. NNSA also created a task force in September 2000—co-chaired by experienced human resources officials—to examine other agencies’ excepted service systems and to develop a framework for an NNSA-wide service. The agency has received some congressional support for increasing the number of excepted service positions, although not to the level necessary to cover all of its workforce. Specifically, the Senate Committee on Armed Services has recommended that Title 32 be modified to increase the number of authorized excepted service positions to 500.¹²

NNSA Has Made Limited Use of the Authority to Date

In the meantime, NNSA has made limited progress toward using its new authority. The Administrator has developed an interim excepted service policy that covers new

¹²See Report 107-62, to accompany S. 1416, the National Defense Authorization Act for Fiscal Year 2002.

staff, and NNSA employees who were hired into DOE's excepted service systems who will be converted to NNSA's system. The Administrator has also delegated the authority to implement the policy to headquarters and field organizations. In addition, the Administrator created an NNSA Executive Resources Board and appointed its members. The Board is responsible for making hiring and promotion decisions affecting NNSA employees assigned to the two highest levels of the excepted service, as well as to the Senior Executive Service, Scientific and Professional, and Senior Level pay systems.

NNSA has made an initial allocation of about one-third of the 300 excepted service positions provided by Title 32. In October 2001, the agency allocated 97 positions throughout the field units and headquarters to be used in the first phase of implementation. According to the acting deputy director for workforce planning and management systems implementation, 46 of those 97 positions will be used to convert employees currently in DOE excepted service systems. An additional 29 of the 97 positions will be used to hire new employees. On October 1, 2001, however, NNSA imposed a hiring freeze through December 31, 2001, because of uncertainty over the amount of the agency's fiscal year 2002 appropriation. NNSA plans to use the remaining 22 positions of this initial allocation to convert current civil service employees. According to agency human resources managers, however, the NNSA is not prepared to make those conversions because it has not developed all of the policies needed to cover employees who might consider making the conversion from civil service to excepted service.

NNSA human resources officials told us that they will not make decisions about using all of the available positions until they are certain of the congressional response to their request for expanded authority. While they continue to be concerned about the morale problems that a fragmentary excepted service system might create, they told us that if they learn that the Congress will not grant the request, they will proceed to quickly allocate the 300 positions throughout the agency. The allocation would be made on the basis of requests for positions that the field units submitted to headquarters in August 2001. There is no specific timetable, however, for filling the remaining positions.

Use of the Limited Excepted Service Authority Needs to Be Grounded in Workforce Analysis Linked to Agency Mission and Structure

A more fundamental obstacle to full use of the excepted service authority is that NNSA does not have a long-term strategic approach that can ensure a well-managed workforce. We have reported in the past that agencies need to create a coherent human capital strategy—that is, a framework of human capital policies, programs, and practices specifically designed to steer the agency toward achieving its vision.¹³ We have also reported that agencies should have an agencywide workforce planning strategy. Such a strategy needs to be linked to the agency's strategic and program planning efforts and should identify the agency's current and future human capital

¹³*Human Capital: A Self-Assessment Checklist for Agency Leaders* (GAO/OCG-00-14G, Sept. 2000).

needs, including the size of the workforce; its deployment across the organization; and the knowledge, skills, and abilities needed for the agency to pursue its vision.

According to the acting deputy director for workforce planning and management systems implementation, NNSA plans to develop a human capital strategic plan and a workforce analysis, but a specific timetable for doing so does not yet exist. Both of these efforts will be affected by decisions that NNSA is now considering concerning organizational structure, lines of authority, and roles and responsibilities. Reorganization decisions will affect human capital issues by determining what skills are needed, how many employees are necessary, and where they should be located. These decisions are key to developing a human capital strategy that steers NNSA toward achieving its vision and a workforce planning strategy that is linked to strategic program planning efforts and identifies the agency's current and future personnel needs. These strategies are important precursors to effective use of the excepted service authority, particularly because (1) the number of excepted service positions is limited and (2) decisions about which positions are in the excepted service cannot be easily undone.

An additional step that must be taken prior to full use of the excepted service authority is developing all of the policies and procedures necessary for the employees who might be placed into the excepted service. According to agency human resources managers, policies and procedures are in place to convert employees who were hired under DOE excepted service authorities to NNSA's excepted service authority. Policies also exist to hire new employees. However, according to agency human resources managers, NNSA is not ready to convert current employees who are in the civil service to the NNSA excepted service authority. Specifically, NNSA has not developed policies that define how a converted civil service employee would be affected in the event of a reduction in force or what rights a converted employee would have in personnel interactions with other civil service agencies. In short, NNSA is not in a position to inform current civil service employees of the pros and cons of converting to the excepted service. According to NNSA human resources managers, the agency may not be prepared to make these conversions until the spring of 2002.

NNSA Has Focused Procurement Efforts on Contract Management Changes

As noted earlier, NNSA was created to correct long-standing and widely recognized management problems at DOE, which had been underscored by significant cost overruns on major projects and the lack of an organizational structure that can effectively hold managers accountable for program performance. Reflecting concerns that DOE's procurement practices could be contributing to these problems, Title 32 gave NNSA's Administrator procurement authority and designated him as the senior procurement executive for NNSA. In addition, while it required NNSA to comply with the Federal Acquisition Regulation, Title 32 gave NNSA the flexibility to institute procurement policies and regulations that differed from DOE's, unless disapproved by the Secretary.

Under NNSA's new organizational structure, the Office of Procurement and Assistance Management, part of the Office of Management and Administration, is expected to concentrate on providing guidance on and pursuing NNSA-wide improvements in contract administration. Routine procurement tasks will continue to be performed by DOE's Office of Procurement and Assistance Management under a formal memorandum of agreement that ensures that NNSA officials retain final decision-making authority over NNSA procurements. The agreement permits NNSA to maintain a smaller procurement office than it would otherwise need, minimizes additional costs to NNSA, and minimizes duplication of services. NNSA plans to publish guidance on the agreement to ensure that field personnel are aware of what services DOE is providing and how and when to access those services.

NNSA has determined that there is no need to pursue a separate NNSA-specific procurement regulation at this time. Consequently, in addition to complying with the Federal Acquisition Regulation, NNSA continues to operate using the Department of Energy Acquisition Regulation. The director of NNSA's Office of Procurement and Assistance Management believes that the Department of Energy Acquisition Regulation, as it now stands, allows NNSA the flexibility it needs to enter into effective contracts. Many of the NNSA officials we spoke with agree that DOE's and NNSA's formal procurement processes—manifested in the formal contract documents—are not the root cause of problems with contractor performance. Rather, these officials believe it is the federal role that needs improvement, both in ensuring that clear, consistent, and unified direction is provided to contractors and in overseeing the contractors and holding them accountable at the field level.

While NNSA is not planning to issue new procurement regulations, it has begun to make changes designed to improve contractor oversight. For example, the contracts for NNSA's three weapons production plants have been recompeted, new performance-based contracts have been awarded, and new contractors have been selected for two of the plants where significant problems have occurred—Pantex and Y-12.¹⁴ For fiscal year 2001, the process for setting performance expectations and measures and determining fee awards is also being changed to make it more consistent across all of NNSA's contractors. While field managers will continue to assess the contractors' performance, final fee determinations will be made at NNSA headquarters.

These and other actions represent progress in improving the consistency of the oversight function so that contractors can be held more accountable for meeting mission goals. However, these changes are too recent for us to tell whether they will be sufficient to improve NNSA's contract results. As NNSA moves forward, studying the operation of the Office of Naval Reactors can provide many important lessons on effective contract management. The Office of Naval Reactors, which is a part of NNSA, has long been recognized as having a focused mission, strong leadership, clear

¹⁴After competition, the contract at the Kansas City Plant remained with the same contractor. The contracts at the Lawrence Livermore National Laboratory and the Los Alamos National Laboratory were not recompeted but were renewed with the University of California.

lines of authority, long-serving employees, and a strong set of internal controls, as well as a culture that enhances accountability and good control over its costs and contractor performance. As we noted in our December 2000 report, the lack of clear lines of authority and accountability and confusion over roles and responsibilities have contributed to NNSA's difficulties in keeping major projects on track and holding managers accountable for project and program performance.¹⁵ Therefore, studying and adopting the approaches employed by the Office of Naval Reactors, where appropriate, can be beneficial in improving NNSA's ability to hold both contractors and federal managers more accountable for meeting mission goals and controlling costs.

Conclusions

We recognize that NNSA's implementation of Title 32 is an evolving process. On some fronts NNSA has made progress since we testified in April 2001. However, other important, fundamental, and long-standing issues—such as organizational roles and responsibilities, where we have previously made recommendations—remain unaddressed. We believe the best time to address such problems is when the new organization and systems are first being laid out and the momentum for change is at its highest. NNSA's ability to recapture and build momentum in areas such as planning, programming, and budgeting will be critical to whether it will be successful in correcting the long-standing management problems it inherited from DOE.

To ensure that all issues pertaining to NNSA's independence are addressed, NNSA needs to eliminate the last vestiges of dual-hatting under which DOE officials could exercise NNSA responsibilities or direct NNSA employees such as could potentially happen at the Savannah River and Y-12 Area Offices. Because NNSA's current excepted service authority is limited to a relatively small number of positions in specific occupations and because decisions made about which positions are in the excepted service cannot be easily undone, it is critical that NNSA have the necessary human capital and workforce planning strategies in place in order to integrate the excepted service positions with the agency's mission needs. Until NNSA's organizational structure and the division of roles and responsibilities among the units of the organization are completed, further allocation of excepted service positions may not result in the best use of the limited number of positions available.

Recommendations for Executive Action

To ensure that any remaining vestiges of dual-hatting are eliminated, the Secretary of Energy and the Administrator, NNSA, need to develop formal relationships so that the managers of the DOE Savannah River and Oak Ridge Operations Offices do not have to continue providing formal approval for NNSA actions, as they have had to do since the Savannah River and Y-12 Area Offices were established in October 2000.

¹⁵ GAO-01-48, Dec. 14, 2000.

To ensure effective use of the excepted service positions created by Title 32, we recommend that the Administrator not allocate any additional positions until thorough human capital and workforce planning strategies have been developed that reflect NNSA's final organizational alignment.

Agency Comments

We provided NNSA with a draft of this report for its review and comment, and NNSA's comments are included in their entirety in the enclosure. NNSA acknowledged the report's findings in each of the four management areas related to Title 32 that we reviewed. However, NNSA cited a variety of factors to explain its lack of momentum in implementing Title 32, including the events and aftermath of the September 11, 2001, terrorist attacks; ongoing operations; a slow fiscal year 2002 budget process; delays in the confirmation process for presidential appointees; and significant institutional barriers such as the need to coordinate with other federal agencies and other DOE and NNSA offices. In addition, NNSA stated that it failed to "see the value added by (GAO's) latest effort." While we appreciate NNSA's difficulties in implementing key aspects of Title 32, the intent of our work, as requested, is to provide the Special Oversight Panel on Department of Energy Reorganization of the House Armed Services Committee with an objective, fact-based assessment of NNSA's progress at the end of fiscal year 2001. Although NNSA has produced two reports for the Panel on Title 32 implementation, these reports have either not been responsive to the Panel's needs, according to the Panel's October 2000 assessment report,¹⁶ or have not addressed long-standing and widely recognized issues, such as defining roles and responsibilities among NNSA headquarters offices and between headquarters and field offices. Moreover, an October 2001 report that NNSA promised would address these issues has been delayed until at least December 2001. In the absence of comprehensive NNSA reports on the implementation of Title 32, we believe our work provides the most recent, documented assessment of NNSA's progress in implementing Title 32.

NNSA concurred with our recommendation to formalize relationships between the Savannah River and Y-12 Area Offices and their local operations offices, citing "broad guidelines" it had developed to describe working relationships between the area and operations offices. We recognize that NNSA managers in both area offices have worked with the local operations offices to establish practical working relationships that allow them to maintain continuity in mission functions. However, these agreements do not solve the broader issue of NNSA area office managers needing approvals or signatures from DOE operations office managers for specific actions, such as those we outlined in the report. We continue to believe that NNSA needs to finalize formal agreements that remove these last vestiges of dual-hatting as quickly as possible.

¹⁶*Establishing the National Nuclear Security Administration: A Year of Obstacles and Opportunities, An Assessment by the House Armed Services Committee Special Panel on Department of Energy Reorganization*, Oct. 2000.

NNSA did not agree with our recommendation regarding the use of its excepted service authority. While the agency agreed that thorough human capital and workforce planning is important, it did not believe that such planning was a necessary precursor to using the excepted service positions. Instead, NNSA stated that it is making judicious, case-by-case decisions on excepted service allocations to meet the needs of the organization. While we do not mean to imply that NNSA should not fill specific excepted service positions for which it has a critical need, we continue to maintain that thorough workforce planning would help to ensure effective long-term use of the excepted service authority, particularly given the limited number of positions available and the continuing uncertainty over organizational changes that could affect the structure of NNSA's workforce. Sound workforce planning becomes even more critical if NNSA, as it suggests in its comments, plans to shape and size its workforce to achieve significant reductions in the need for federal employees.

Scope and Methodology

We performed our review from November 2000 through December 2001 in accordance with generally accepted government auditing standards. To determine the status of NNSA's implementation of Title 32, we interviewed officials in NNSA's headquarters and program offices. We also spoke with officials in the Albuquerque, Nevada, Oak Ridge, and Oakland operations offices; officials in the Livermore site office; officials in the Kansas City, Savannah River, and Y-12 area offices; and officials at the Pittsburgh Naval Reactors Office. In addition, we collected and reviewed appropriate documentation for all of these locations. To provide some basis of comparison for NNSA's ongoing and planned management initiatives, we spoke with officials from other government agencies, including the Federal Aviation Administration, the Office of Personnel Management, and the Defense Nuclear Facilities Safety Board.

We plan to provide copies of this letter to the Secretary of Energy and the Administrator of NNSA. This letter will also be available on GAO's home page at <http://www.gao.gov>.

If you have any questions regarding this letter, please contact James Noel or me at 202-512-3841. Major contributors to this letter were Ross Campbell, Jonathan Gill, Irvin McMasters, Delores Parrett, and Barbara Timmerman.



(Ms.) Gary L. Jones
Director, Natural Resources and
Environment

Enclosure

Enclosure

Comments From the National Nuclear Security Administration



Department of Energy
National Nuclear Security Administration
Washington, DC 20585

NOV 27 2001

Ms. Gary L. Jones
Director, Natural Resources
and Environment
U. S. General Accounting Office
Washington, DC 20548

Dear Ms. Jones:

The General Accounting Office's draft report GAO-02-93R, "NNSA Management: Progress in the Implementation of Title 32," was provided to my office November 8, 2001. The General Accounting Office (GAO) was requested to review the National Nuclear Security Administration's (NNSA) progress in implementing key components of Title 32 of the National Defense Authorization Act for Fiscal Year 2000. This review included NNSA's reorganization efforts; integrated planning, programming, and budgeting improvements; use of its excepted service personnel authority; and efforts to improve its procurement practices. During the course of GAO's review, you found that (1) NNSA's reorganization did not contain a clear definition of the roles and responsibilities of the Headquarters organizational units and did not address NNSA's field organization at all; (2) NNSA lost momentum during the summer as it reevaluated its efforts to develop a new planning, programming, budgeting, and evaluation process; (3) NNSA has firm plans to use only one-third of the 300 excepted service positions authorized by Title 32; and (4) NNSA has determined that there is no need for an NNSA-specific procurement regulation.

While this report reemphasizes selected management challenges facing the Administration, both the GAO and the Department's Inspector General have issued reports listing the management challenges, writ large, facing the Administration. Additionally, while the NNSA is charged with implementing Title 32, it must also continue with ongoing operations of the Weapons Complex, Nonproliferation programs, and management of the Naval Reactor's program, as well as implement new initiatives resulting from the September 11 terrorist attack.



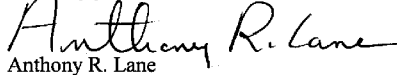
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In the Administrator's Fiscal Year 2001 Assurance Memorandum for the Federal Managers' Financial Integrity Act, the Administrator addresses these challenges and his plan of action. I have attached excerpts from the Assurance Memorandum for your information. Additionally, there is a report on the status of the National Nuclear Security Administration's organization that will be submitted to Congress during the month of December.

While I appreciate GAO's efforts to assess NNSA's progress in implementing sections of Title 32, I fail to see the value added by this latest effort. There may be a "lack of momentum" perceived by GAO; however, I would point out that the Administration did not receive its regular FY2002 appropriation until November 12, 2001; one program Deputy Administrator has only been on the job since the end of October and the second program Deputy Administrator has yet to complete the confirmation process; the Office of Management and Budget, Department of Defense, NNSA, and DOE have been in discussions on a revised budget review process which has delayed some aspects of the Fiscal Year 03 PPBES transition; and the Department, and specifically the Chief Financial Officer, is planning on having all elements of the Department on a PPBE system and that is causing some delays for the Administration standing up its own system as we coordinate our process with that of the Department. It is not apparent to me that the report offers any recommendations for either the real or perceived difficulties in developing these new processes while maintaining operational continuity. Nor does the report acknowledge the significant institutional barriers that we are overcoming in creating the NNSA PPBES.

Likewise there have been changes implemented in the procurement area. The Memorandum of Understanding ("Service Agreement") between the Department and NNSA has been renewed. However, NNSA has initiated a comprehensive study of the Department's Acquisition Regulations for the purpose of streamlining and determining NNSA applicability. We have established a Contractor Forum, Contract Administration Plans for University of California contracts, a new Small Business Program operations innovation, and revised the Balanced Scorecard to make it more of a management tool rather than a reporting tool for NNSA enterprise. Additionally, the Procurement Strategic Objectives that were developed have been approved by NNSA senior management. I believe that the progress in this area has been positive. While some would like to see more progress, we cannot and will not compromise the integrity nor the rigor of the procurement process for the appearance of short term change.

Sincerely yours,



Anthony R. Lane
Associate Administrator for
Management and Administration

**Comments on
GAO Draft Report, GAO-02-93R
“NNSA Management: Progress in the Implementation of Title 32”**

General Comments

While this report reemphasises selected management challenges facing the Administration, both the GAO and the Department’s Inspector General have issued reports listing the management challenges, writ large, facing the Administration. While the NNSA is charged with implementing Title 32, it must also continue with ongoing operations of the Weapons Complex, Nonproliferation programs, and management of the Naval Reactor’s program, as well as implement new initiatives resulting from the September 11 terrorist attack. To improve the way we work and achieve our mission, we are introducing a planning, programming, and performance culture across the Administration. All activity will be related to one or more strategies for achieving our goals. We are developing detailed plans to implement our strategy. By implementing such a culture, we are providing our people with tools that enable them to be more productive, yet remain accountable to their commitments. Making this new way of doing business a reality will take time and will require hard work and dedication. We will conduct our business by providing: (1) clear leadership and direction; (2) a consistent decision-making process that emphasizes teamwork; and (3) accountability at all levels of the organization that emphasizes performance. The Administrator is well aware of the challenges facing the organization and has published his plan of action. Additionally, the Administrator will submit, during November, a status report to Congress on the organization’s accomplishments, issues, and next steps.

Recommendations for Executive Action

Recommendation 1

“To ensure that any remaining vestiges of “dual-hatting” are eliminated, the Secretary of Energy and the Administrator, NNSA, need to develop formal relationships so that the managers of the DOE Savannah River and Oak Ridge Operations Offices do not have to continue providing formal approval for NNSA actions, as they have had to do since the Savannah River and Y-12 Area Offices were established in October 2000.”

Management Comment

Concur

As of the publication of this draft, the positions of Manager of NNSA Area Office, Savannah River Site and Manager, Y-12 Area Office are formally established and encumbered. Broad guidelines are in place to describe the working relationships between the Area Offices and their respective Operations Offices and the Area Offices and NNSA Headquarters.

Recommendation 2

“To ensure effective use of the excepted service positions created by Title 32, we recommend that the Administrator not allocate any additional positions until thorough human capital and workforce planning strategies have been developed that reflect NNSA’s final organizational alignment.”

Management Comment

Non-concur

The NNSA is utilizing its excepted service authority effectively and must continue to utilize that authority. While the Administrator is attuned to the need for thorough human capital and workforce planning, the NNSA must remain flexible in the use of all personnel authorities and, therefore, will continue to utilize the excepted service positions granted under Title 32. NNSA has identified a total of 800 scientific and engineering positions that should be converted to excepted service positions. The legislation, however, only authorized 300 excepted service positions. The excepted service authority is therefore utilized in a judicious manner. Each excepted service allocation is reviewed on a case-by-case basis in order to meet the needs of the organization. Additionally, NNSA anticipates that by shaping and sizing the workforce significant reduction in the need for federal employees can be achieved. The use of the excepted service authority, concurrent with effective rightsizing, will ensure the immediate scientific and engineering work force needs of the organization are met.

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