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Office of the Comptroller General  
of the United States

United States Government Accountability Office  
Washington, DC 20548

July 6, 2010

The Honorable Daniel B. Poneman  
Deputy Secretary of Energy

Dear Mr. Poneman:

Thank you for meeting with the management of GAO's Natural Resources and Environment team and me on April 20 and for your letter of May 19. We appreciate the Department of Energy's (DOE) continued commitment to improving its contract management to support the achievement of DOE's critical missions. Over the past several years, DOE has worked hard to make progress toward removal from GAO's High-Risk List. As you know, the High-Risk List has brought much-needed attention to problems impeding effective government and costing the government billions of dollars each year. We believe that DOE's inclusion on GAO's High-Risk List has led to much needed improvements to DOE's oversight of its contractors and management of its projects.

I would like to specifically address two matters raised in your May 19 letter: (1) the criteria GAO employs to evaluate agencies' continuation or removal from the High-Risk List and (2) the scope of GAO's concerns with respect to DOE's activities. We agree that it is essential to have a mutual understanding of the expectations and criteria on which the Department's performance is evaluated and that these expectations and criteria must remain consistent. GAO has five long-established criteria for removing any area from the High-Risk List.<sup>1</sup> Specifically, agencies must have:

- A demonstrated strong commitment and top leadership support to address the risks;
- The capacity (that is, the people and other resources) to resolve the risks;
- A corrective action plan that defines the root causes, identifies effective solutions, and provides for substantially completing corrective measures near term, including but not limited to, steps necessary to implement solutions we recommended;

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<sup>1</sup> GAO, *Determining Performance and Accountability Challenges and High Risks*, GAO-01-159SP (Washington, D.C.: Nov. 2000).

- A program instituted to monitor and independently validate the effectiveness and sustainability of corrective measures; and
- The ability to demonstrate progress in implementing corrective measures.

These criteria have been communicated to DOE officials at all levels of the Department. They will continue to form the basis for our interactions with DOE and decisions on high-risk issues.

Regarding the scope of GAO's concerns about DOE's activities, your May 19 letter states that GAO's 2009 high-risk update focused on major construction and environmental clean-up projects. As discussed below, your interpretation of the latest update does not fully capture the scope of GAO's high-risk concerns at DOE. Our 2009 high-risk update noted DOE's progress completing a root cause analysis and corrective action plan and recognized improvements made in the cost and schedule performance of projects in DOE's Office of Science. We therefore narrowed the focus of the high-risk area on the two major organizations within DOE that continue to experience significant contract management problems—the National Nuclear Security Administration (NNSA) and the Office of Environmental Management.<sup>2</sup> It is important to note, however, that while we narrowed the scope with regard to organizational units, we did not narrow our focus on the types of contracts. Therefore, the contract management problems within these two organizational units are not limited solely to major construction and environmental clean-up projects; they encompass the planning, execution, management, and oversight of all of NNSA's and the Office of Environmental Management's contracting activities.

Consequently, the challenges in NNSA's Tritium Readiness Program, the Office of Environmental Management's Savannah River Site Tank Waste Program, and NNSA's Readiness in Technical Base and Facilities Program that were discussed during our April 20 meeting fall squarely within our high-risk concerns. Specifically,

- Our ongoing review of NNSA's Tritium Readiness Program indicates that contract management problems are resulting in the program accumulating large amounts of unexpended funding. In addition, the program was unable to provide us with evidence that its supply and component contracts comply with applicable sections of the Federal Acquisition Regulation governing contracts in excess of 5 years. We will be sending our draft report to DOE and NNSA for review and comment during the first week of July.
- Our ongoing review of DOE's efforts to close underground radioactive waste tanks at the Savannah River Site has found evidence of contract management problems that could lead to significant cost increases and schedule delays. Furthermore, DOE's inability to conclude a contract performance baseline with its contractor at the Savannah River Site for over a year may affect the Department's ability to oversee the contractor's activities. We are currently drafting our report and expect it and our recommendations to be delivered to DOE for its review and comment in the coming weeks.

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<sup>2</sup> GAO, *High-Risk Series: An Update*, GAO-09-271 (Washington, D.C.: Jan. 2009).

- Our June 21, 2010 report on NNSA's Readiness in Technical Base and Facilities Program found that NNSA cannot accurately identify the total costs to operate and maintain its nuclear weapons facilities.<sup>3</sup> This is because NNSA does not have a mechanism to reconcile the differences in site contractors' cost accounting practices. As a result, NNSA lacks the management information necessary to make cost-benefit decisions on infrastructure investment. Our report contained five recommendations that are designed to allow Congress to better oversee management of the nuclear security enterprise and to improve NNSA's management information. NNSA agreed with the report and our recommendations.

Beyond the issues discussed at our April 20 meeting, other recently completed and ongoing work shows that the contract management problems that led to DOE's placement on the High-Risk List persist:

- Regarding our completed work, we reported in January 2010 that DOE has not had a policy that establishes standards for cost estimating for over a decade. DOE's guidance is outdated and incomplete, making it difficult for the Department to oversee the development of high-quality cost estimates by its contractors.<sup>4</sup> Cost estimates for four projects we examined were not credible, well-documented, accurate, or comprehensive.<sup>5</sup> Moreover, our October 2009 report on NNSA's plans to modernize its Kansas City Plant found that NNSA had based its cost estimate of leasing a new facility versus constructing one itself upon an arbitrary 20-year horizon rather than on the estimated actual lifespan of the facility.<sup>6</sup> As a result, NNSA's financing decisions were not as fully informed or as transparent as they could have been. Similarly, our September 2009 report on the costs and risks of treating tank waste at DOE's Hanford Site showed that the Department lacked credible or comprehensive cost and schedule estimates for its preferred tank waste treatment strategy.<sup>7</sup> Each of these reports made several recommendations to improve the overall management of these programs. DOE and NNSA generally agreed with the recommendations.
- Regarding our ongoing work, our review of Office of Environmental Management projects funded by the American Recovery and Reinvestment Act shows that, as of May 2010, fully one-third of these projects were not meeting cost and schedule goals. In addition, our preliminary findings indicate that

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<sup>3</sup> GAO, *Nuclear Weapons: Actions Needed to Identify Total Costs of Weapons Complex Infrastructure and Research and Production Capabilities*, GAO-10-582 (Washington, D.C.: June 21, 2010).

<sup>4</sup> GAO, *Department of Energy: Actions Needed to Develop High-Quality Cost Estimates for Construction and Cleanup Projects*, GAO-10-199 (Washington, D.C.: Jan. 14, 2010).

<sup>5</sup> The four projects this report examined include three major construction projects—the Office of Science's National Synchrotron Light Source-II at Brookhaven National Laboratory in New York; NNSA's Uranium Processing Facility at the Y-12 National Security Complex in Tennessee; and the Office of Environmental Management's Salt Waste Processing Facility at the Savannah River Site in South Carolina—and one environmental cleanup project: the Office of Environmental Management's decontamination and decommissioning project for the Y-12 National Security Complex in Tennessee.

<sup>6</sup> GAO, *Nuclear Weapons: National Nuclear Security Administration Needs to Better Manage Risks Associated with Modernization of Its Kansas City Plant*, GAO-10-115 (Washington, D.C.: Oct. 23, 2009).

<sup>7</sup> GAO, *Nuclear Waste: Uncertainties and Questions about Costs and Risks Persist with DOE's Tank Waste Cleanup Strategy at Hanford*, GAO-09-913 (Washington, D.C.: Sept. 30, 2009).

NNSA's construction of a new Uranium Processing Facility at its Y-12 National Security Complex is likely to be more expensive and take longer than estimated.

In summary, we have previously noted DOE's progress through its strong commitment and top leadership support to address the Department's problems as well as through its development of a corrective action plan based on root causes that identifies effective solutions in the near term. DOE has also demonstrated some progress implementing corrective measures; however, as this letter has discussed, we continue to find significant contract management problems that are hindering DOE's efforts to bring NNSA's and the Office of Environmental Management's projects in on time and on budget. In particular, DOE's lack of strong policy and guidance on independent cost estimating has resulted in DOE effectively ceding a significant portion of the cost estimating process to its contractors. DOE's cost estimates are likely to continue to lack credibility until it has, among other things, adequate federal personnel to gauge the quality of contractors' cost estimates and effective independent validation of these estimates. Without credible cost estimates, DOE does not have a sound basis for making decisions on how to most effectively manage its portfolio of projects.

Moving forward, DOE's removal from the High-Risk List requires meeting all five of GAO's long-established criteria. DOE has demonstrated and must sustain leadership commitment and progress implementing corrective measures and also ensure successful implementation of its corrective action plan. Additional DOE actions are needed to meet the remaining two criteria. DOE needs to commit sufficient people and resources to resolve its contract management problems. In addition, it must establish a program to monitor and independently validate the effectiveness and sustainability of these corrective measures. Ultimately, achieving improved cost and schedule performance will be an important accomplishment, but equally critical is demonstrating that these improvements are sustainable.

We will continue our oversight in support of the Congress and pledge to keep in frequent communication with you and your team on our observations.

Sincerely yours,

A handwritten signature in black ink, appearing to read "Gene L. Dodaro", written over a circular stamp or seal.

Gene L. Dodaro  
Acting Comptroller General  
of the United States