U.S. Department of Energy
Office of Inspector General
Office of Audit Services

Audit Report

Voluntary Separation Program at the Idaho Cleanup Project

DOE/IG-0765

May 2007

Department of Energy
Washington, DC 20585

May 18, 2007

MEMORANDUM FOR THE SECRETARY

FROM: Gregory H. Friedman
Inspector General

SUBJECT: INFORMATION: Audit Report on "Voluntary Separation Program at the Idaho Cleanup Project"

BACKGROUND

On May 1, 2005, CH2M Washington Group Idaho, LLC (CWI), assumed responsibility for the management and operation of the Department of Energy's (Department) environmental remediation project at the Idaho National Laboratory site. In its contract proposal, CWI included a strategy for workforce restructuring to optimize employment levels and obtain the proper skills mix to safely address the project's objectives. The Department approved a two-phased restructuring approach, permitting CWI to separate up to 700 employees by offering a voluntary separation program in January 2006; and, if necessary, an involuntary separation program in March 2007. As a result of this initiative, 291 CWI employees were separated voluntarily at a cost to the Department of $14 million.

We conducted this audit to determine whether the cost and benefits associated with Idaho's voluntary separation program were consistent with recent similar efforts at other Department facilities and whether the separation was structured to ensure that the Idaho Project retained the skill mix necessary to meet mission objectives.

RESULTS OF AUDIT

As noted previously, the Idaho separation program reduced the size of the CWI workforce. Consequently, it will result in monetary savings to the Department over time. However, the separation program proved to be exceptionally costly and, in certain respects, inefficient. Specifically, the program:

- Provided significantly higher incentives than were offered in other recent comparable Department separation programs;
- Used costly incentives that did not have analytical support to justify the additional benefits paid; and,
- Did not retain critical skills of certain employees needed to accomplish the Idaho Cleanup Project's work scope.

We evaluated the separation scheme at Idaho by contrasting it to other recent Departmental efforts. We noted that 24 of the last 26 contractor restructurings throughout the complex, conducted in Fiscal Years 2004 and 2005, provided only involuntary separation benefits based on years of service and other benefits. The CWI voluntary workforce restructuring provided up to 10 weeks of pay and $25,000 to each employee -- in addition to the traditional involuntary separation benefits. The supplemental voluntary separation incentives offered by CWI averaged $35,000 per employee. The CWI voluntary separation program was also materially inconsistent with the two other voluntary separations that the Department offered during this period. For example, the voluntary workforce reduction conducted at the Waste Isolation Pilot Plant provided an incentive of only $5,000 per employee. These inconsistencies raised issues of fundamental fairness in terms of employee relations, in addition to questions as to the prudent use of taxpayer-provided funds.

CWI's voluntary program was approved by the Department. We found, however, that this was done without conducting formal cost analyses or comparisons to support the need for additional incentives to achieve the goals of the program. The Department had not:

- Defined organizational responsibility for performing cost analyses and comparisons of workforce restructuring programs to justify the amount of incentive paid; nor had it,

- Provided adequate guidance to assist field offices and contractors in planning workforce restructuring actions.

One of the Department's goals was that the CWI separation program structure retained personnel with specific skills needed to accomplish the mission. Yet, we noted that the Department had to backfill 44 (or 15 percent) of the positions vacated through the CWI separation program, within six months of the separation date. The direct cost of backfilling these positions and the turbulence associated with such action raised additional concerns about the mechanics of the separation program.

Additionally, we found that 249 individuals had left the contractor for other employment while the separation program was awaiting Departmental approval. Yet, neither the Department nor CWI reevaluated the workforce skill mix and requirements before implementing the restructuring despite the significant reduction in CWI employees. This may have significantly impacted the need to backfill positions.

The workforce restructuring at Idaho will result in an average annual savings of about $23 million. However, our analysis showed that the Department spent as much as $10 million more for the CWI voluntary separation program than it had on other comparable efforts. Additionally, nearly $2 million was spent to voluntarily separate employees whose skills were needed for the cleanup mission and whose positions were backfilled within six months of being separated. We could find no documentation to support the notion that employee incentives exceeding those provided in other parallel Departmental restructuring efforts were necessary to meet the objectives of the program.

To ensure the reasonable and equitable treatment for separated employees and their affected communities, the Department needs a consistent approach to workforce restructuring. Our report includes specific recommendations to achieving this goal by improving management of future workforce separations.

MANAGEMENT REACTION

Management expressed general concurrence with the audit recommendations, but expressed its view that the audit had not adequately considered the local circumstances underlying contractor work force actions across the Department complex. This included differing mission objectives, the number of employee separations, site labor agreements, funding availability, contract type and site-specific stakeholder input. We recognize that local conditions affect separation programs. But, we believe that the comparisons/contrasts we drew between the Idaho program and other Department contractor separation programs were fair and valid for analytical purposes. A summary of the 26 workforce reductions conducted during Fiscal Years 2004 and 2005, is presented in Appendix 3 of the audit report.

The underlying purpose of the audit was to determine if the Idaho experience provided lessons learned for future Department of Energy restructuring efforts. We believe that it did. For this reason, despite our unresolved disagreements with management, we are pleased that the planned actions are responsive to the report's recommendations. We are hopeful, as well, that they will be considered in future Departmental personnel restructuring programs. The concerns raised by management and the auditor's response to those concerns are discussed in the body of this report. Management's comments are included in their entirety in Appendix 5.

Attachment

cc: Deputy Secretary
Acting Under Secretary of Energy
Under Secretary for Science
Chief of Staff
Assistant Secretary for Environmental Management
Director, Legacy Management
Manager, Idaho Operations Office

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Background

In the past, the Department of Energy's (Department) contractors experienced massive and unprecedented workforce restructuring activities to reflect the Department's changing mission priorities. These events, which took place in the 1990s, led to the loss of approximately 50,000 jobs, greatly affecting local communities. In order to mitigate the effects on these workers and their communities, the Department implemented a policy to minimize involuntary layoffs. This policy was implemented by offering generous early retirement incentives for those who were eligible, voluntary separation incentives for those who were not, and, as a last resort, involuntary separations.

However, the Department's current trend is to offer involuntary separation benefits. These involuntary severance packages provide cash payments based on years of service as well as other benefits, including health benefits that continue after termination for defined periods of time, and outplacement assistance.

The Idaho Cleanup Project workforce restructuring was overseen by the Department's Office of Environmental Management (EM), as well as the Department's Office of Legacy Management (Legacy Management). Legacy Management is considered the subject matter expert on restructuring activities and provided assistance and guidance to EM to ensure workers were treated fairly, critical skills were retained, and severance packages were consistent with other Departmental sites. According to Legacy Management's planning guidance, contractor workforce restructuring plans should be presented to Legacy Management for approval. Prior to approval, this office coordinates the appropriate review, analyses and evaluation of proposals with other Departmental offices, including the affected program office, the Office of General Counsel, field management, and procurement.

Separation Program at Idaho

Although the voluntary separation program successfully reduced the size of the CH2M Washington Group Idaho, LLC (CWI) workforce, it provided significantly higher incentives than were offered in other recent Department separation programs and did not retain some of the critical skills needed to accomplish the Idaho Cleanup Project's work scope.

Significantly Higher Incentives

The incentives under the CWI voluntary separation program were higher than those offered in other recent Department voluntary separation programs. Specifically:

- In a voluntary separation in Fiscal Year (FY) 2004, the Oak Ridge complex in Oak Ridge, Tennessee, separated 193 employees. Voluntarily separated employees were offered an incentive that increased the involuntary severance benefits by an additional 50 percent. We applied the Oak Ridge complex severance plan to the separated CWI population (for comparability), and determined that this amounted to an average voluntary incentive of $12,800 per employee. In contrast, the voluntary incentive offered to CWI employees averaged $35,100 per employee.

- In FY 2004, the Carlsbad Field Office in Carlsbad, New Mexico, offered employees at the Waste Isolation Pilot Plant an additional incentive of $5,000 to voluntarily separate. Once again, in contrast, the voluntary incentive offered to CWI employees averaged $35,100 per employee.

In total, the CWI separation incentives cost $6.5 million more than the voluntary severance incentive offered by the Oak Ridge complex and over $8.7 million more than the voluntary severance incentive offered by the Carlsbad Field Office.

The Department's decision to approve the voluntary incentives for the CWI voluntary separation program was also inconsistent with recent trends to conduct contractor staff reductions that offer only involuntary separation benefits. Specifically, the Department offered involuntary separation benefits in 24 of the 26 recent workforce restructurings (see Appendix 3) carried out by the Department during FYs 2004 and 2005. For example, in FY 2005, the Savannah River Site in Aiken, South Carolina, and the Hanford Site in Richland, Washington, separated a total of 1,590 employees without offering an incentive benefit. Similar to the Idaho site, these sites are located in relatively small communities where the Department is a major employer with environmental management missions.

The CWI separation program, with its added incentives, led to significantly higher severance payments, as compared to what would have been paid had involuntary separation benefits been offered. In total, $10.2 million of the $14.2 million paid in CWI severance payments was for the incentive portion of the separation program.

According to the Department's Office of General Counsel, the primary advantage of using a voluntary separation incentive is that the Department requires a "Release of Claim" from those employees who accept the voluntary incentives. The Office of General Counsel asserted that these releases help protect the

Department from potential legal claims that employees may otherwise seek. However, our analysis showed that there have been only 2 legal settlements resulting from the 24 involuntary workforce restructuring activities carried out by the Department in FY 2004 and 2005.

In reviewing a draft of this report, management stated that since the contract target price included an "advanced understanding" of workforce restructuring costs, there is no increased cost to the Government. However, we noted that the original contract proposal, upon which the contract award was made, included an estimate that only $12,500 would be paid to separate each employee – an amount consistent with involuntary separation benefits. In the end, an average of $48,900 was paid to each employee, due largely to the average of $35,100 in voluntary incentives offered by CWI.

Retaining Critical Skills

In addition, CWI's voluntary separation program did not retain some critical skills of certain employees needed to accomplish the Idaho Cleanup Project work scope. According to CWI's workforce restructuring plan, the Idaho Cleanup Project required a workforce with different skill sets than the contractor had in place when it assumed the contract. Both CWI and the Idaho Operations Office (Operations Office) originally envisioned a voluntary separation program in which the skills mix was thoroughly evaluated, compared to program needs, and surplus positions targeted for separation. However, the program was ultimately open to any employee who wished to participate.

Within six months of the separation date, CWI had to backfill 44 of the 291 (15 percent) positions vacated by separation participants who had received severance payments. CWI determined that these positions were needed to support cleanup efforts at the Idaho Cleanup Project (see Appendix 4). For example:

- Although CWI was already experiencing a shortage of decontamination and decommissioning workers before the voluntary separation program, 19 employees in this area were allowed to participate in the separation program. CWI backfilled 14 of these positions with new hires.

- Four managers of critical areas such as dosimetry, subsurface disposal area operations, maintenance, and human resources participated in the separation program. CWI hired new managers to replace these manager positions.

The Idaho Operations Office's Work Force Restructuring Plan specifically stated that backfilling was only permitted "for vacancies created by circumstances other than employees separating pursuant to incentive separation programs." Nonetheless, CWI spent nearly $2 million on severance benefits to the employees who vacated critical positions and for which replacements had to be hired.

In reviewing a draft of this report, the Operations Office stated that CWI requested and was granted authority to backfill roughly 10 to 15 employees. Also, the Operations Office disagreed with the auditors about the specific number of backfills that CWI hired, stating that the auditors overstated the actual number of backfills and that the auditors should not include subcontractors hired to replace departed employees as backfills. However, the auditors' estimate of 44 backfills, including 11 subcontractors, is a very conservative number. Specifically, we used numerous factors including CWI's job title, work description code, organization, and position descriptions based on job tasks and responsibilities for conservatism in our estimate. By matching these four descriptive elements of a job, we eliminated many employees who would have been considered backfills using only the job title, which is the methodology CWI used for its skills mix analysis. Finally, we concluded that subcontractors should be considered as backfilled positions since they perform the same duties and responsibilities as the employees who received severance payments to leave CWI. CWI also considered subcontractors to be backfilled positions until they reviewed a draft of this report.

Administration of Separation Program

These problems occurred because of several weaknesses in the administration of the voluntary separation program. Specifically, the Department did not:

- Adequately define organizational responsibility for performing and documenting cost analyses and comparisons with workforce restructuring programs at other sites to justify the amount of incentive provided; and,

- Provide adequate guidance to evaluate the cost and benefits of expending funds in excess of involuntary separation costs.

Additionally, we noted that as the staffing circumstances changed, neither the Department nor CWI reevaluated the plans for the voluntary separation program or sufficiently monitored its subsequent hiring activities.

Analysis and Justification of Incentive Amounts

Departmental officials were not aware of any documented analysis that CWI had performed in developing the incentives amount offered, stating that it was the contractor's responsibility to manage the workforce. When we discussed this concern with management, we were informed that while the Operations Office and CWI did not document a formal analysis, an informal analysis was conducted. According to management, this analysis included a discussion and review of CWI's proposed incentives which the Operations Office found to be reasonable and judged that it would successfully encourage as many CWI employees to voluntarily leave as possible. However, in the absence of a documented analysis, we were not able to assess the validity of management's assertions on the matter.

Additionally, Department management asserted that it reviewed and analyzed CWI's "Business Case" which provided the cost to benefit calculations for their workforce restructuring activities. However, the business case did not address the appropriateness of the amount of incentives that were offered to the employees, and the rationale for arriving at the generous amounts offered to the workforce. Finally, management also noted that the separation costs were included and evaluated during the contract award process. However, as previously indicated, the contract proposal estimated separation costs of only $12,500 per employee, rather than the average payment of $48,900 that was ultimately paid to each participant.

We also found that the Federal stewardship for analyzing, accepting and monitoring the implementation of CWI's voluntary separation package had not been adequately defined. Each of the Departmental offices involved in the process, EM, Legacy Management, and the Operations Office, stated that they had not been assigned responsibility for analyzing the severance payment amounts. The Operations Office informed us that before they could implement the plan, Legacy Management was required to approve the restructuring plan. This is consistent with DOE Order 350.1, which requires Legacy Management approval for all major workforce restructuring activities, since it is the subject matter expert. However, Legacy Management officials stated that it was EM's responsibility to assess the appropriateness of the amount offered in CWI's severance plan since its program funds were used to fund the separation. EM, in turn, relied on the Operations Office and Legacy Management to do this. Legacy Management asserted that it is responsible for approval of the use of funds specifically provided by Congress throughout the 1990s and until 2004 for transitioning Cold War employees, and is not responsible for approving the use of program funds for workforce restructuring plans.

Both the Operations Office and Legacy Management indicated that the Office of Contractor Human Resources (an office in the Department's Procurement business line) had oversight authority for all contractor severance programs, since these are reviewed as part of the contract award process; therefore, this office approved the severance benefits offered by the contractor in its winning contract proposal and subsequent development of the contract. However, according to Legacy Management Guidance, major workforce restructuring activities (such as the one being conducted by CWI) require an additional approval and review process to be led by Legacy Management. Since the severance benefits offered by CWI exceeded the benefits contemplated in CWI's contract proposal, we concluded that management should have more fully analyzed the need for such a generous voluntary incentive. Unfortunately, since each group assumed the other was doing the necessary analysis to justify and approve the severance amount, ultimately, none of the cognizant groups were able to provide this analysis to the auditors.

Departmental Guidance

We also noted that the Department did not have clear guidance on workforce restructurings to assure consistency and reasonableness over expenditures for separations. While the Department did offer guidance articulating its goal that involuntary separations and the impact to employees and communities should be minimized, this general guidance was not consistent with recent Department practices in which the overwhelming majority of the separations were paid only involuntary severance benefits.

Furthermore, although Legacy Management's strategic plan requires it to provide "… definitive direction on the amounts of severance permitted for workforce separations" and "… separation benefits comparable to industry standards," it had not issued sufficient guidance to ensure fair and equitable treatment across the Department. Rather, Legacy Management's role in the process was limited to reviewing CWI's workforce restructuring program for legality, completeness, and fair treatment of protected classes of employees. Also, the Department had not established performance measures to be used in weighing the costs and benefits of using incentives to achieve desired workforce restructuring goals. Departmental officials informed us that any savings are worthwhile and that any performance measure would be fairly arbitrary. However, we noted that until FY 2004, the Department measured its savings from workforce restructurings. In fact, the Department's experience indicated that past workforce restructurings met a performance measure in which the annual savings ratio was three times the one-time cost of the separation. In the case of the CWI restructuring, the average annual savings were 1.6 times the one-time cost of the restructuring.

Monitoring

From May to December 2005, while the voluntary separation program was awaiting approval from the Department, there was considerable employee turnover at CWI. During this period, 249 employees left the contractor for positions elsewhere and 107 new employees were hired. Despite this turnover, the Operations Office did not require CWI to reassess their skills mix and workforce requirements. Additionally, the Operations Office did not sufficiently monitor CWI's subsequent hiring activities. Specifically, the Operations Office granted CWI permission to backfill a small number of critical positions, roughly 10-15, if CWI found this necessary subsequent to the separations program. This permission was granted despite the Operations Office requirement that the contractor avoid backfilling positions except for positions created by circumstances other than an incentivized voluntary separation program. However, the Operations Office did not sufficiently monitor CWI's hiring activities to ensure that no more backfills than agreed to were being hired.

Cost of Voluntary Separation

As a result, the Department spent between $6.5 million and $10.2 million more for CWI's voluntary separation program than comparable separations. Additionally, the Department spent nearly $2 million to voluntarily separate employees whose positions were backfilled within 6 months of being separated. Without a consistent approach to workforce restructuring, the Department cannot ensure the reasonable and equitable treatment of separated employees and their affected communities.

RECOMMENDATIONS

1. We recommend the Director, Office of Legacy Management:

    a. Work with programmatic secretarial offices to clearly delineate roles and responsibilities for workforce restructuring;

    b. Develop and issue Department-wide guidance to assist field offices and contractors in planning workforce restructuring actions, including methodologies for determining appropriate amounts of benefits offered and corporate parameters (limits) on restructuring activities; and,

    c. Establish Department-wide performance standards to evaluate and weigh the relative cost and benefits of workforce restructuring activities to assist management in its evaluation of proposed actions.

2. We recommend the Assistant Secretary for Environmental Management require sites to justify and document the reasoning behind benefits offered in workforce restructuring activities, and consider factors such as community impact, industry standards, and Department trends.

3. We recommend the Manager, Idaho Operations Office:

    a. Require CWI to notify the Idaho Operations Office of any other backfilling needs for their review and approval;

    b. Rigorously monitor subsequent hiring activities to ensure excessive backfilling does not occur in future workforce restructuring activities; and,

    c. Evaluate whether any of the nearly $2 million in payments to separate positions that were backfilled are allowable under the contract.

MANAGEMENT REACTION

Department management concurred with the recommendations but expressed concern with some of the information presented in the report. Specifically, management stated that the findings did not take into consideration different circumstances underlying contractor workforce actions across the complex; discounted the net life cycle savings to be realized from the workforce reductions; and misconstrued the effectiveness of the "Release of Claim" form from voluntarily separating employees.

Management stated that the report findings did not take into consideration the different circumstances underlying contractor workforce actions across the complex such as (1) different mission objectives; (2) the number of employee separations determined necessary by a contractor for the necessary skill mix; (3) site labor agreements; (4) funding availability; (5) contract type; and, (6) site specific stakeholder input. Because of these differences, management did not agree that different separation incentives at different sites result in unfair or inequitable treatment.

In management's view, the report also discounted the contractor's estimate of net life cycle savings of $143 million to be realized over the term of the contract. CWI's contract specifically provides additional financial incentives for the contractor if it completes the workscope under specified target costs. If the Department had not allowed the workforce restructuring, as completed, the contractor may have been unable to remain under the target costs and been subject to a reduced fee instead of earning an additional fee for remaining under the target costs.

Finally, management asserted that the report misconstrued the effectiveness of a "Release of Claim" from voluntarily separating employees. Management believed that two legal settlements resulting from 24 involuntary workforce restructuring activities did not support the implied proposition that Releases of Claim used for voluntary separations are of little value.

AUDITOR COMMENTS

While management's proposed actions are responsive to the recommendations, we believe that the report clearly considered the circumstances underlying contractor workforce actions across the complex, highlighted the cost savings available to the Department through the workforce restructuring at CWI, and supports the need to assess the value and effectiveness of providing voluntary separation incentives to the workforce.

While the report focused on similarities between sites rather than differences as noted by management, in performing the audit, we considered the issues raised by management. For example, the report compares the Idaho separation program to those at Savannah River and Hanford. All of these sites have a significant environmental cleanup mission, are in similar sized communities where the Department is the major employer, have a similar cost of living, and the workforce reductions were large. We believe that these similarities adequately justify a comparison. Also, management stated that the report did not consider the number of separations deemed necessary by a contractor for the necessary skills mix to complete its required workscope. On the contrary, this issue was a major element of the report. Specifically, we compared the CWI restructuring to sites such as Savannah River and Hanford, which also conducted workforce restructurings that involved large numbers of employees. Additionally, the report noted that CWI did not manage its separations program in a manner that retained employees with the skills mix required for the completion of the workscope. Accordingly, CWI was forced to backfill many necessary positions that it paid its employees to vacate.

We did not find that other circumstances cited by management, such as site labor agreements, differences in funding availability, and contract types, were always germane to the decision to offer voluntary incentives. For example, site labor agreements did not address voluntary separation incentives, the only requirement being that normal severance be paid to employees that are involuntarily separated. Additionally, we did not find management's assertion about the impact of other circumstances on the decision to offer voluntary incentives compelling because the Department could not demonstrate that it had analyzed such circumstances in determining the amount of incentive to offer CWI employees.

Management also stated the report failed to acknowledge the large life-cycle cost savings estimate the contractor anticipates from this separation action. Specifically, the report acknowledges that the separation program will result in significant cost savings and identifies the average annual amount of savings. However, had CWI offered severance benefits consistent with the amounts offered by other Department contractors, it could have met its workforce reduction goals at a lower cost. In fact, as noted in the report, the Department's experience indicated that past workforce restructurings met a performance measure in which the annual savings ratio was three times the one-time cost of the separation. In the case of the CWI restructuring, the average annual savings were only 1.6 times the one-time cost of the restructuring.

Although the Department stated that the primary advantage for proceeding with a costly voluntary separation program was the "Release of Claim," we noted that, out of the 4,579 employees separated during the 24 involuntary workforce restructuring activities, only 2 individual claim settlements have resulted. Management could not demonstrate that it had considered whether the cost of the voluntary separation was offset by the benefit of obtaining the "Release of Claim" form from CWI employees.

OBJECTIVE

The objective of this audit was to determine whether the CH2M Washington Group Idaho, LLC (CWI), voluntary separation program was consistent with recent separations within the Department of Energy (Department) and whether it retained the necessary skills mix to meet the Idaho Cleanup Project mission.

SCOPE

The audit was performed from May 2006 to April 2007 at the Idaho Operations Office (Operations Office); CWI in Idaho Falls, Idaho; and the Department of Energy (Department) Headquarters offices in Washington, D.C. The audit covered the development of the CWI Voluntary Separation Incentive Program, implementation of the program in January 2006, as well as subsequent hiring activities at CWI through August 2006. Additionally, for comparison purposes, we reviewed 26 other Departmental workforce restructuring activities from Fiscal Year 2004 through the end of Fiscal Year 2005.

METHODOLOGY

To accomplish the audit objective, we:

- Obtained and reviewed Department guidance and requirements, including workforce restructuring plans, strategic plans, and the CWI contract;
- Researched Federal and Departmental regulations;
- Interviewed key personnel at the Operations Office, the Office of Environmental Management, the Office of Legacy Management, the Office of General Counsel, and CWI;
- Reviewed findings from prior audit reports regarding workforce restructuring;
- Compared the cost of the CWI voluntary separation program to performance standards;
- Compared the cost of the CWI voluntary separation program to other sites' separation plans by applying the separation incentive rates at other sites to the CWI voluntary separation program population; and,
- Assessed the personnel statistics of CWI from contract takeover to August 2006.

The audit was performed in accordance with generally accepted Government auditing standards for performance audits and included tests of internal controls and compliance with laws and regulations to the extent necessary to satisfy the audit objective. Specifically, we tested controls with respect to the Department's design, approval, and implementation of contractor workforce restructuring activities. Because our review was limited, it would not necessarily have disclosed all internal control deficiencies that may have existed at the time of our audit. Also, we considered the establishment of performance measures in accordance with the Government Performance and Results Act of 1993 as they related to the audit objective, and determined that the Department needed to establish Department-wide performance measures. Finally, since we did not rely on automated data processing equipment to accomplish our audit objective, we did not conduct tests to assess the reliability of this equipment.

An exit conference was held with management on May 3, 2007.

RELATED AUDIT REPORT

- *Department of Energy (Department), Value of Benefits Paid to Separated Contractor Workforce Varied Widely* (GAO, January 1997). Similar benefits were offered to separated employees at most sites, but the value of the benefits varied considerably. The variance in separation payments was due to the differences in the severance pay formula used and the characteristics of the workforce at each facility. The difference in the value of benefits shows the emphasis the Department places on developing plans at the local level. The Department gives limited oversight on how to implement workforce restructuring plans. Little monitoring is done by Department program personnel. More than half of the plans provided more generous severance pay than would have normally been provided by contractors under existing contracts, and almost all plans provided benefits not normally provided by contracts, such as extended medical insurance. In addition, the benefits exceeded those that would have been provided to Federal employees in a reduction in force. The Department has taken steps to improve their ability to retain critically needed skills. New guidance emphasizes workforce planning and facilities using targeted voluntary separations to retain critical skills. Department guidance allows the use of enhanced severance payments to encourage voluntary separations. When reviews have been performed by the Office of Inspector General or Internal Audit, instances of excessive costs have been identified.

SEPARATION PROGRAMS

Site	Fiscal Year	Voluntary	Involuntary	Total
Argonne	2004		67	67
Argonne	2005		87	87
Brookhaven	2004		50	50
Brookhaven	2005		53	53
Hanford	2004		151	151
Hanford	**2005**		**397**	**397**
Idaho	2004		15	15
Nevada Test Site	2004		47	47
Nevada Test Site	2005		33	33
Oak Ridge	**2004**	**193**	**41**	**234**
Oak Ridge	2005		19	19
Fernald	2004		212	212
Fernald	2005		233	233
Paducah	2004		18	18
Paducah	2005		5	5
Kansas City	2004		1	1
Kansas City	2005		15	15
Portsmouth	2004		17	17
Portsmouth	2005		27	27
Rocky Flats	2004		560	560
Rocky Flats	2005		967	967
Savannah River	2004		202	202
Savannah River	**2005**		**1,193**	**1,193**
Mound	2004		142	142
Mound	2005		68	68
WIPP	**2004**	**41**	**6**	**47**
Total		**234**	**4,626**	**4,860**

Bold indicates that this site was highlighted in this report. Involuntary Separations include any reductions conducted by offering involuntary separation benefits.

The table includes the Defense Nuclear Sites that reported separations to Legacy Management in 2004 and 2005.

BACKFILLED POSITIONS

Job Title – Voluntary Separation	Job Title – New Hire	Work Description of Backfilled Positions	Organization of Backfilled Positions	Number of Positions Backfilled
Department Manager	Department Manager	Manager, Admin. Services	Dosimetry	1
Department Manager	Department Manager	Manager, Sci/Eng	RWMC SDA	1
Department Manager	Department Manager	Manager, Operations	Human Resources	1
Department Manager	Department Manager	Manager, Sci/Eng	Maintenance	1
Various D&D Trades	D&D Skilled Trade	Various	Various D&D	6
D&D Helper	D&D Helper	Laborer	Various D&D	8
SR Rad Con Technician	SR Rad Con Technician	Radiological Control Tech	Radiological Control	2
Staff Engineer/Scientist	Engineer/Scientist	Mechanical Engineering	Design and Engineering	1
Staff Engineer/Scientist	Staff Engineer/Scientist	Quality Engineering	Quality Site Engineering	1
Staff Engineer/Scientist	SR Engineer/Scientist	Operations Engineering	Operations Engineering	1
SR Engineer/Scientist	Engineer/Scientist	Electrical Engineering	Design and Engineering	1
PR Technical Spec	Technical Spec	FAC Operations	Coordination Production	1
SR Tech Spec	Advisory Eng/Sci	Database Engineering	Enterprise System Engineering	1
SR Tech Spec	PR Tech Spec	Computer System	Operations	1
Bus/Ops Spec	SR Bus/ Ops Spec	Other Admin. Services	Training	1
Electrician 1st	Electrician 1st	Electrician	Various	1
Matl/Parts Specialist	Matl/Parts Specialist	Material Specialist	Warehouse/ Distribution	1
Custodian	Custodian	Custodian	ICP Maintenance	3
Total CWI Employees				**33**
Subcontractors				**11**
Grand Total				**44**

Department of Energy
Washington, DC 20585

April 5, 2007

MEMORANDUM FOR George W. Collard
Assistant Inspector General
for Performance Audits
Office of Inspector General

FROM: Michael W. Owen
Director
Office of Legacy Management

Michael W. Owen

SUBJECT: Management Decision for Inspector General Report A06ID044 Voluntary Separation Program at the Idaho Cleanup Project

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Thank you for the opportunity to review and comment on the Draft Report on the "Voluntary Separation Program at the Idaho Cleanup Project," dated March 8, 2007, that was undertaken by CH2M♦WG (CWI) at the Idaho National Laboratory. The respective Department of Energy (DOE) offices concur as stated with the audit recommendations.

However, the report findings apparently did not take into consideration the different circumstances underlying contractor work force actions across the DOE complex such as differing mission objectives (i.e., on-going versus closure work); the number of employee separations determined necessary by a contractor for the necessary skill mix to successfully complete the required contractual workscope; site labor agreements; funding availability; contract type and site-specific stakeholder input. Because of these differences, DOE does not agree that different separation incentives at different sites result in unfair or inequitable treatment of contractor employees.

The report also discounts the contractor's estimate of a net life cycle savings of $143 million to be realized over the term of the contract. CWI's contract specifically provides additional financial incentives for the contractor if it completes the workscope under specified target costs. If DOE had not allowed the work force restructuring, as completed, the contractor may have been unable to remain under the target costs and been subject to a reduced fee instead of earning an additional fee for remaining under the target costs as provided by the financial incentives.

Finally, the report also misconstrues the effectiveness of a "Release of Claim" from voluntarily separating employees. The report correctly notes that the Office of General Counsel believes that these releases protect DOE from lawsuits (of course they cannot prevent filings). However, the report states "our analysis showed that there have been only two legal settlements resulting from the 24 *involuntary* workforce restructuring activities carried out by the Department in FY 2004 and 2005." (Emphasis added).

Two legal settlements resulting from 24 involuntary work force restructuring activities do not support the implied proposition that Releases of Claims used for voluntary separations are of little value.

Below are responses to each auditor recommendation.

Recommendation 1.a
Work with programmatic secretarial offices to clearly delineate roles and responsibilities for workforce restructuring.

Recommendation 1.b
Develop and issue Department-wide guidance to assist field offices and contractors in planning workforce restructuring actions, including methodologies for determining appropriate amounts of benefits offered and corporate parameters (limits) on restructuring activities; and,

Recommendation 1.c
Establish Department-wide performance standards to evaluate and weigh the relative cost and benefits of workforce restructuring activities to assist management in its evaluation of proposed actions.

Management Decision
Concur in principle with recommendations 1a, 1b and 1c. The Department has provided guidance to field offices and contractors for planning work force restructuring actions through *Planning Guidance for Contractor Work Force Restructuring* dated December, 1998 (63 FR 68441), *DOE Order 350.1: Contractor Human Resource Management Programs* and Secretarial memoranda. However, the Department will consider the Inspector General's recommendations and to that end will examine the current guidance to determine whether improvements can be made. In this regard, as explained above, even though different sites necessarily must undertake different work force restructuring actions, the Department will consider whether it is appropriate to issue guidance with common objectives for all field sites; for example, requiring work force restructuring plans to include a diversity impact analysis, benchmarking contractual severance benefits against the local economy and requiring contracting officer approval for certain actions. Estimated Date: 12/31/07.

Recommendation 2.
We recommend the Assistant Secretary for Environmental Management require sites to justify and document the reasoning behind benefits offered in workforce restructuring activities, and considers factors such as community impact, industry standards, and Department trends.

Management Decision
Concur in principle. The Office of Environmental Management (EM) will review current EM work force restructuring guidance as part of the review of DOE guidance concerning work force restructuring described above. Estimated Date: 12/31/07.

Management Decision
A06ID044

Recommendation 3.a
Require CWI to notify the Idaho Operations Office of any other backfilling needs for their review and approval;

Management Decision
Concur. The Idaho Operations Office (DOE-ID) Contracting Officer will send a letter to CWI requiring his/her approval prior to CWI backfilling any positions covered by future work force restructuring programs; *i.e.*, the situation where CWI intends to hire a new employee to fill a position that was targeted by a previous work force restructuring program. Estimated Date: 4/17/07.

Recommendation 3.b
Rigorously monitor subsequent hiring activities to ensure excessive backfilling does not occur in future workforce restructuring activities; and,

Management Decision
Concur. As noted, CWI will be required to obtain Contracting Officer approval prior to backfilling any positions covered by future work force restructuring programs. Estimated Date: 4/17/07.

Recommendation 3.c
Evaluate whether any of the nearly $2 million in payments to separate positions that were backfilled are allowable under the contract.

Management Decision
Concur. DOE-ID will perform a review of the $2 million in payments for separated positions that were backfilled to determine if the costs are allowable under CWI's contract. Estimated Date: 9/30/07.

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