

STATEMENT OF GREGORY H. FRIEDMAN

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DEPARTMENT OF ENERGY

BEFORE THE

SUBCOMMITTEE ON ENERGY AND ENVIRONMENT
OF THE
COMMITTEE ON SCIENCE

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Mr. Chairman and members of the Subcommittee, I am pleased to be here to respond to your request to testify on reviews conducted by the Office of Inspector General on the Department of Energy's implementation of the Government Performance and Results Act of 1993 (Results Act).

The Office of Inspector General supports the goals of the Results Act, which, if implemented effectively, are designed to hold Federal organizations accountable for achieving program results. Because of our recognition of the potential benefits of the Results Act, we have committed significant resources to reviewing various aspects of its implementation by the Department of Energy (Department).

In February 1999, we issued an audit report on *The U.S. Department of Energy's Implementation of the Government Performance and Results Act*, (DOE/IG-0439). This review disclosed that:

1. Budget requests for some of the Department's program offices were not clearly linked to Department goals.
2. Some program offices had not developed measurable, results-oriented performance standards.
3. The Department had no systematic process in place to ensure the integrity of the contractor cost data used for performance measurement.

I will discuss these findings in more detail later in my testimony.

Background

The Results Act is intended to improve Federal program effectiveness and public accountability by promoting a new focus on results, service quality, and customer satisfaction. Successful implementation should help change the emphasis in the Federal Government from simply spending appropriated funds to managing for results.

The Results Act requires Federal organizations to develop formal plans for measuring performance. It requires the creation of long-range strategic plans that define the organization's mission and form the basis for performance measurement. These plans lay out long-term goals that describe, in general terms, what the agency plans to accomplish. The Results Act also requires the creation of annual performance plans which contain short-term performance goals. The short-term goals define the incremental progress necessary to achieve the longer-term goals. Annual budget requests should directly support achievement of these goals. Throughout the year, agencies must collect and validate cost information to determine how resources are being applied to achieve desired performance.

Department of Energy Challenges

The Department of Energy is a diverse, decentralized, \$18 billion a year agency charged with addressing issues of extraordinary technical and scientific complexity. Its missions range from the cleanup of environmental contamination at nuclear weapons facilities, to stewardship of the nuclear weapons stockpile, to a broad array of scientific research. This diversity makes the implementation of the Results Act -- through development of a Departmental strategic plan, the creation of integrated performance plans at the program level, and the development of a sound performance measurement system -- a challenging task. The Department is in the early stages of this process. It is likely that the successful adoption of Results Act principles and procedures will require several planning and budgeting cycles.

Assessing the Department's Overall Progress

In February of this year, the Office of Inspector General completed a review that was intended to serve as an early assessment of the Department's overall progress in adopting Results Act requirements. I would like to provide some details on the outcome of that review.

We assessed progress in Results Act implementation at five of the Department's largest program offices: the Offices of Environmental Management, Defense Programs, Science (formerly the Office of Energy Research), Energy Efficiency and Renewable Energy, and Nuclear Energy Science and Technology.

We concluded that implementation of the Results Act in the Department of Energy is progressing, but that it is incomplete. The two largest Departmental programs, Environmental Management and Defense Programs, have done reasonably well at integrating their planning and budgeting processes. Further, these offices had devised performance measures that were clear, measurable, and results-oriented.

In contrast, budget requests for the Offices of Science, Energy Efficiency and Renewable Energy, and Nuclear Energy Science and Technology did not provide clear links to the planning information in the Department's strategic and performance plans. In addition, these offices had not developed effective performance measures to which the programs and contractors could be held accountable.

Finally, the program offices, including Environmental Management and Defense Programs, had not implemented defined processes to ensure that all cost data used to evaluate performance were reliable.

Integration is Needed

The Offices of Science, Energy Efficiency and Renewable Energy, and Nuclear Energy Science and Technology had not integrated their planning, budgeting, and performance measures into a unified strategy. Information in their respective Fiscal Year 1999 budget requests did not clearly connect to the Department's strategic and performance plans.

The relationship between data on strategic goals and objectives and data on specific activities was not always clear. For example:

- The Office of Science budget discussed five strategic goals, only one of which related to the Department's strategic and performance plans. The budget request also included high-level strategies that did not clearly relate to those in the Department's strategic plan.
- Performance data in the budget request for Energy Efficiency and Renewable Energy were not always linked to performance data in the Department's strategic plan. Additionally, within the budget, there was no clear relationship between some of the goals and the program's long-term priorities.
- Performance measures in the budget request for Nuclear Energy Science and Technology were not always clearly linked to the program's goals. Although the budget listed performance measures, objectives, and goals, it was not always clear

which measures were applicable to specific objectives and, similarly, which objectives applied to specific goals. Further, some individual program goals did not appear to relate to overall goals for the office.

In contrast, budget requests for the Offices of Environmental Management and Defense Programs showed a logical relationship between higher-level strategic goals, performance goals, and lower-level performance indicators. For the most part, information under each of the objectives and strategies in their budget requests directly related to those in the Departmental strategic plan.

Some Data Not Measurable and Results-Oriented

Overall, the budget requests for the Offices of Energy Efficiency and Renewable Energy, Nuclear Energy Science and Technology, and Science did not include measurable and results-oriented performance standards to which programs and contractors could be held accountable.

- Goals for Energy Efficiency and Renewable Energy's "Electric Vehicle Battery" program were not always measurable because they contained subjective language, such as making electric vehicles an attractive and preferred option. These goals were not clearly linked to measurable performance indicators.
- Similarly, objectives and goals in the Nuclear Energy Science and Technology budget request were not measurable and were not supported by performance indicators. For

example, one goal of the “Nuclear Energy Facilities” program was to ensure cost-effective, environmentally compliant operation of Nuclear Energy sites. However, there were no indicators discussing how the Department planned to measure the cost-effectiveness of the contractors’ operations at its sites.

To its credit, the Office of Science had measurable performance data and specified targets for its major construction projects and facilities upgrades. Regarding its basic research mission, program officials indicated that, generally, the results of basic research cannot be predicted. Thus, they concluded, target levels of performance cannot be specified and milestones set beforehand. Performance measures for basic research, therefore, related to the quality of science as determined by numbers of awards and publications for scientists and peer reviews.

We also noted program areas where the relationship between resources and performance goals could be strengthened. Measurable goals should include all values necessary to calculate performance and should display the amount of funding sought to achieve them. Generally, the budget requests for these programs did not tie resources to measurable goals. For example:

- Nuclear Energy Science and Technology did not always show the resources needed to meet its goals. One of its goals related to managing facilities in a safe and environmentally sound manner and preserving the nation’s nuclear science and technology for the next century. Resource requests, as presented, had no clear relationship to these goals.

- The budget request for Energy Efficiency and Renewable Energy included performance goals for hybrid and electric vehicles and for completing industry vision statements, roadmaps, and implementation plans. However, it did not discuss the resources needed to meet each goal.

Our review disclosed that the Offices of Defense Programs and Environmental Management demonstrated significant progress in creating clear, measurable, and results-oriented performance data showing resources targeted for a specific facility or site. This level of clarity and conciseness offered a good indication of expected performance for the resources requested.

Contractor Cost Data Not Validated

The Department did not have a process in place to ensure that all performance data collected from the contractors were reliable. Specifically, none of the program offices validated the data on the estimated and actual costs used to measure performance, despite the requirements in the Results Act. For example:

- Environmental Management provides the funds for contractors' environmental restoration and waste management activities throughout the Department. We found no defined process for project managers to validate any of the estimated or actual project cost data prepared by the contractors.

- Under Defense Programs, one project manager had no support for a \$49 million budget estimate for various stockpile maintenance projects. Furthermore, the project manager was not sure how the estimate was derived or how the money was to be spent. Other officials similarly unfamiliar with cost data indicated that the estimates came directly from the contractors and acknowledged that cost management could be improved.

Validation of all performance data is important because of the relationship between the Department and its contractors and the need to properly measure contractor performance. To be fully effective, the validation process should extend to both actual and estimated costs because performance measurement involves comparing actual achievement against planned goals.

While we found no indication that the Department validated any of the project estimates that formed the basis of its budget requests, there were some processes for validating costs incurred. These processes consisted of periodic reviews of one contractor's procurements to validate project cost reports. They also included analyses aimed at minimizing project management costs and eliminating unneeded project management assistance. Despite these isolated examples, however, more can be done to validate this data as well as the cost estimates in the budget requests.

Better Guidance is Required

The Department's mixed success in implementing the Results Act generally reflects, in our judgment, a lack of experience by agency officials and a lack of consistent guidance. The Office of Inspector General report included a series of recommendations designed to improve the quality of the Department's performance measurement system. Specifically, we recommended that the Department:

1. Enhance the links between its overall strategic plan and its individual program office budget requests;
2. Require program offices to develop performance indicators that are results-oriented, clear, measurable, and tied to projected resources; and
3. Require program managers to collect and validate both estimated and actual cost data used in performance measurement.

The Department's response to our assessment was generally favorable. Management acknowledged that its Results Act implementation was evolving and that improvements were needed. For future budget submissions, the Department expressed its intent to establish reporting structures that more clearly link its strategic plan and budget request. The Department also agreed that its performance measures could be better designed.

With regard to validating estimated and actual costs, the Department was not completely in accord with our recommendation. The Department indicated that its recently adopted budget validation process, in conjunction with existing efforts, such as the audit of the financial statements, would be sufficient to provide reasonable assurance on the reliability of costs. Although these efforts are worthwhile, it was the opinion of the Office of Inspector General that they are not sufficient to ensure appropriate, project-level cost integrity. The validation process must also involve the program management officials directly responsible for project milestones.

As I indicated earlier, my testimony today is based on our most recent report. Since 1997, however, the Office of Inspector General has issued several other reports recommending improvements to the measurement and validation of contractor performance and to the Department's communication of its goals. A synopsis of those reports is attached to this testimony.

Mr. Chairman, this concludes my statement and I would be happy to answer any questions you may have.

ATTACHMENT

RELATED OFFICE OF INSPECTOR GENERAL REPORTS

Performance Measurement in the Department of Energy

The Office of Inspector General has issued six recent reports citing needed enhancements in Department processes for measuring contractor performance and for validating contractor-generated data. In addition, we recommended improvements to performance measurement reporting in each of the last two annual audit reports on the Department's consolidated financial statements.

Reports on Measuring Contractor Performance

- *Inspection of the Performance Based Incentive Program at the Richland Operations Office*, (DOE/IG-0401, March 1997) disclosed a number of problems with the performance measurement system used to evaluate and reward the contractor. For example, the Department paid incentive fees for work that was not completed, work that was completed before the performance measure was established, and work that was easily accomplished.
- *Audit of Department of Energy Contractor Occupational Injury and Illness Reporting Practices* (DOE/IG-0404, May 1997) noted that the Department did not have a systematic process for periodically validating the completeness and accuracy of contractor-generated injury and illness data. Without such a validation process, the

Department could not reasonably expect to adequately manage its occupational safety and health programs, measure contractor performance, and ensure that its facilities provide a safe and healthy work environment.

- *Audit of the Department of Energy's Scientific and Technical Information Process* (DOE/IG-0407, June 1997) showed that contractors at the locations audited did not have performance measures established at the outset of the projects. Furthermore, the Department had neither a systematic process in place to collect the information from contractors nor a mechanism to compare actual accomplishments against expectations. Thus, the Department was not in a position to know whether it received value for its investment in research and development, an investment of about \$7.5 billion in Fiscal Year 1995.
- *Audit of Environmental Restoration at the Los Alamos National Laboratory* (DOE/IG-0410, July 1997) demonstrated that Los Alamos did not generate the information needed for the Department to assess the cost-effectiveness of the \$29 million spent on environmental remediation by the laboratory in Fiscal Year 1996. Also, certain performance criteria were not reasonable, measurable, or complete. As a result, the Department could not evaluate the cost-effectiveness or progress of the remediation program or accurately budget for upcoming remediation activities.
- *Audit of the Contractor Incentive Programs at the Rocky Flats Environmental Technology Site*, (DOE/IG-0411, August 1997) identified contractor performance measures that did not include clearly defined criteria and were process-oriented rather

than results-oriented. For meeting such performance measures, the contractor was paid about \$6.9 million in incentive fees.

- *Audit of the Contractor Incentive Program at the Nevada Operations Office* (DOE/IG-0412, October 1997) illustrated performance measures that were vague and non-specific. Contractors were rewarded for performance that could not be objectively validated. Furthermore, the Nevada Operations Office established measurement milestones after work had actually been completed. In the first 9 months of a performance-based contract, the contractor received \$14.6 million in incentive fees.

Financial Statement Audits

- *The Department of Energy's Consolidated Financial Statements for Fiscal Year 1997* (IG-FS-98-01, February 1998) identified many cases in which the usefulness of the programmatic performance measures presented in the financial statements was limited. For example, performance measures generally did not present the Department's goals or make comparisons to such goals and did not sufficiently relate results to the Department's missions, goals or objectives. Additionally, the performance data were not always objective or measurable. Furthermore, performance information in the Department's database system was not always supported, accurate, complete, or up-to-date.

- *The Department of Energy's Consolidated Financial Statements for Fiscal Year 1998* (IG-FS-99-01, February 1999) contained a repeat finding regarding the meaningfulness of the programmatic performance measures. Descriptions in the financial statement overview generally excluded cost-effectiveness attributes, as costs were not tied to outputs. Also, explanatory information to help readers understand the significance of the measures was excluded. The meaningfulness of the performance measures was limited because the Department's method of summarizing data from the Strategic Plan and the Performance Agreement with the President did not focus on the measurement of performance against goals and, in many cases, eliminated essential detailed goal information.