



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

# Audit Report

National Nuclear Security Administration's  
Planning, Programming, Budgeting, and  
Evaluation Process



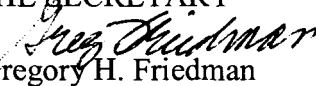
## Department of Energy

Washington, DC 20585

August 5, 2003

MEMORANDUM FOR THE SECRETARY

FROM:

  
Gregory H. Friedman  
Inspector General

SUBJECT:

INFORMATION: Audit Report on the "National Nuclear Security Administration's Planning, Programming, Budgeting, and Evaluation Process"

### BACKGROUND

The National Nuclear Security Administration (NNSA) was established in March 2000 as a semi-autonomous agency within the Department of Energy. At NNSA's inception, management committed to implementing a Planning, Programming, Budgeting, and Evaluation (PPBE) process, modeled on the system used by the Department of Defense. A PPBE process uses short-term and long-term planning to define program requirements and matches requirements with budgetary resources. NNSA's Administrator established an overall objective that the PPBE process become the core management protocol for NNSA.

Consistent with Congressional appropriations report language (Senate Report 107-220 and House Report 107-681), the Office of Inspector General conducted an independent assessment of NNSA's PPBE process and structure to determine if improvements could be made to further enhance NNSA's planning, programming, budgeting, and evaluation. We also addressed specific questions regarding: (1) how the NNSA's PPBE process compared to the process used by the Department of Defense; (2) whether the PPBE process was capable of being used as a central decision-making process for resource allocation decisions; and, (3) to what extent PPBE had been incorporated by NNSA's management and operating contractors.

### RESULTS OF AUDIT

In response to the Congress' specific questions, we found that NNSA's PPBE process:

- Was consistent with the Department of Defense process, although the two processes differ with regard to the way budget execution and evaluation are handled;



- Provided a mechanism for making centralized resource allocation decisions; and,
- Had not yet resulted in changes for existing financial and budgeting systems at the NNSA management and operating contractors visited because the field role had not been fully developed for the Fiscal Year 2004 process. In response to this point, NNSA noted that while PPBE does not mandate changes to integrated contractor budget or accounting systems, a process for "cascading" performance metrics is needed and is under development.

While NNSA had made significant progress towards the implementation of its PPBE process, several areas need to be addressed before it is fully operational. For example, we found that NNSA managers were not always clear on their roles and responsibilities; contractor estimates that form the basis for budget estimates were not validated; and, an independent analysis group to support the resource allocation decision process had not been established. These issues arose because NNSA determined that PPBE development would occur concurrently with implementation.

Given the fact that NNSA's annual budget is over \$7 billion, including a diverse portfolio of activities, the importance of having a fully functioning PPBE system cannot be overstated. Clearly, NNSA management has made good progress on the implementation of such a system. However, as noted in this report, there are some unresolved details which need to be addressed. Accordingly, we recommended a series of specific actions intended to help NNSA improve the implementation and effectiveness of its PPBE process.

#### MANAGEMENT REACTION

NNSA's Associate Administrator for Management and Administration generally agreed with the report, the conclusions reached, and the recommendations presented. NNSA also indicated that significant progress towards resolving one of the recommendations -- concerning better communication -- had already been made. Further, NNSA proposed several alternative methods for achieving the objectives of our recommendations. We found these to be consistent with the underlying purpose of the recommendations.

Attachment

cc: Deputy Secretary  
Administrator, National Nuclear Security Administration  
Director, Policy and Internal Controls Management

# **NATIONAL NUCLEAR SECURITY ADMINISTRATION'S PLANNING, PROGRAMMING, BUDGETING, AND EVALUATION PROCESS**

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# **ASSESSMENT OF NATIONAL NUCLEAR SECURITY ADMINISTRATION'S PLANNING, PROGRAMMING, BUDGETING, AND EVALUATION PROCESS**

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## **Background**

The National Nuclear Security Administration (NNSA) began developing the Planning, Programming, Budgeting, and Evaluation (PPBE) process in October 2000 after the Administrator set a goal of using it to develop the Fiscal Year (FY) 2003 budget. However, after evaluating its progress, NNSA delayed implementation of the PPBE process because of concerns about the complexity of development. In September 2001, NNSA's Administrator announced the implementation of PPBE beginning with the FY 2004 budget cycle. He stated that PPBE was designed to "redress the lack of discipline and inconsistency in current processes" and to facilitate management decision-making.

Since beginning implementation of PPBE, NNSA has reached several milestones. First, NNSA issued its first multi-year budget and program plan, called the *Future-Years Nuclear Security Program* (FYNSP), as required under Title 32. Second, NNSA used its PPBE process to develop its FY 2004 budget proposal. Third, NNSA issued guidance to make the process for executing the budget more consistent across the organization and began implementing that portion of the process in the fall of 2002. Lastly, the evaluation phase of the process was defined in April 2003, and will be fully implemented next fiscal year. The Department's Chief Financial Officer found NNSA's budget process much improved over previous years. Similarly, the Office of Management and Budget (OMB) noted that NNSA had made "early progress" in improving its budget submission.

## **PPBE Capability to Meet Congressional Concerns**

NNSA has made significant progress toward establishing a planning, programming, budgeting, and evaluation process that meets the basic criteria set by Congress in Title 32. NNSA's goal is for the PPBE process to become its core management process, replacing fragmented and inconsistent processes that NNSA's constituent programs brought into the new Administration when NNSA was created. The following paragraphs address the specific questions posed in committee reports accompanying the most recent Energy and Water Appropriations Bill.

### Comparability of PPBE with the Department of Defense Process

NNSA's process is functionally consistent with the Department of Defense (DoD) process, although the two processes are different with regard to the budget execution and evaluation processes. For example, each process begins with a planning phase during which long-range, mid-range, and short-range plans are compiled based on strategic, program, and fiscal guidance issued by the NNSA Administrator or the Secretary of Defense. Next, during the programming phase, each organization determines how the plans developed in the first phase of the process will be carried out by matching prioritized requirements to

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available fiscal resources. Each process provides a mechanism for programs to request and justify additional resources. Final programming decisions are documented in a program decision memorandum, which becomes the basis for budget development. After the budgeting phase, DoD's process does not directly address the budget execution and evaluation portions of the cycle, leaving it to each military service to define the budget execution and evaluation processes it will use. In contrast, NNSA defines specific processes and requirements for those phases of its PPBE process, which provide feedback to the next planning cycle.

#### Mechanism for Central Resource Allocation Decisions

NNSA's PPBE process provides a mechanism for making centralized resource allocation decisions. In NNSA, the same managers who make resource allocation decisions within their own program offices also make resource allocation decisions between programs. After making allocation decisions within their program offices, NNSA's senior managers meet in a Programming Decision Council (Council) that hears program proposals from each office, including a program's justification for additional resources to meet requirements it is unable to fund within its target allocation. The Council can either decide to shift funding between programs to meet such requirements or determine whether the issue should be presented to the Administrator for resolution. The Administrator reviews the Council's decisions, resolves issues identified by the council, and makes final resource allocation decisions. While NNSA's Council reallocated only a small amount of funding in the FY 2004 process, senior managers were pleased with the results of the first programming cycle and expect more reallocations among programs to occur in the future.

#### Incorporation of PPBE by M&O Contractors

Finally, we determined that, at the two sites visited, the decision to make changes to the financial and budgeting systems of NNSA's M&O contractors could not yet be made for two reasons. First, NNSA had not clearly defined how the roles of the contractor field staff would change under PPBE. The lack of a clearly defined field role created concern because the contractors were not asked to prepare budget data for NNSA until several months after they prepared data for the Department. Second, the contractors' existing systems must continue to meet both the Department's and NNSA's requirements for budget and financial information, since the M&O contractors also receive funding from other Department programs in addition to the funding from NNSA. For the FY 2005 budget process, NNSA has issued further guidance to clarify when and how the field should provide budget information to both the Department and NNSA.

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## **Challenges for Effective Implementation of PPBE**

Although, as stated above, NNSA had made progress toward implementation of PPBE, significant challenges remained in order to meet the Administrator's objective of establishing PPBE as the core management process for NNSA. For example, NNSA managers were not always clear on their roles and responsibilities. In discussions with NNSA managers, we determined that the purpose of PPBE, individual's roles, and the specific requirements necessary for PPBE implementation were not clearly communicated to those responsible.

In addition, contractor estimates, which form the basis for budget estimates and resource allocation decisions, had not been validated in several years. According to the Department's guidance issued with the field budget call for FY 2004, operations offices were tasked with validating 20 percent of each program's budget estimates. However, officials at the Y-12 Site Office and the Albuquerque Service Center told us they had not performed any validation activities for the FY 2004 budget. Similarly, NNSA headquarters officials also acknowledged that they had not conducted budget validation activities. While the majority of managers felt reasonably confident that the cost and budget estimates they used as a basis for decisions in the FY 2004 process were reliable, many of them expressed concern that budget validation did not occur.

Finally, unlike DoD, NNSA had not established an independent group tasked with reviewing program proposals, validating program cost estimates, and analyzing alternatives. Most NNSA senior managers we interviewed thought such an analytical group could be of value. NNSA's Acting Associate Administrator for Management and Administration supports the formation of an analysis group to provide objective analyses and to support the Administrator, especially when decisions to move resources between programs have to be made. OMB also believes that an independent analytical group could improve the PPBE process by providing an objective look at program proposals. In addition, NNSA managers identified specific types of analyses that would be useful to them or to the Administrator, such as: long-range strategic analyses, realistic budget estimates, and comparisons of actual program execution to plans. Several senior managers reported that resource allocation decisions among program offices are likely to become more frequent in future years and, for such occasions, NNSA's need for independent analytical services is likely to grow.

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**NNSA's Strategy for Implementation Created**

The challenges noted came about because implementation of PPBE preceded the full development of key elements necessary for the most effective use and efficient operation of the process. NNSA determined that, due to concerns raised by Congress about the speed of PPBE execution, development would occur concurrently with implementation. While implementation was in progress, development of guidance and training for managers had not been completed; field-restructuring activities affecting contractor oversight were underway; and the establishment of an independent analysis unit had been delayed.

Poor communication of the purpose and requirements for implementing PPBE occurred because the development of the appropriate guidance and training had not yet been completed. For example, of the 19 Federal managers that provided comments to us on the PPBE guidance and training available during the FY 2004 process, 15 identified additional types of guidance that would have been useful to them, such as more specific strategic policy guidance and better communication to all managers about how to meet PPBE requirements. In addition, 14 of the managers identified specific training needs. These needs ranged from improving communication regarding the purpose of PPBE to specific concerns such as how the FYNSP relates to PPBE. Even the individuals designated to serve as PPBE coordinators in each program office and to assist other managers with PPBE identified additional training needs. The most frequently cited needs were for better guidance and training on an individual's role in the process and on preparing PPBE materials to meet requirements.

For the FY 2004 PPBE process, the PPBE Office had developed informal guidance and training appropriate for each phase of the PPBE just in time for each phase of the process to be implemented. In addition, NNSA issued two policy letters in June and July 2002 and the PPBE Office staff briefed senior managers and others on the FY 2004 PPBE process. However, several managers told us that the guidance and briefings would have been difficult to understand without detailed knowledge of the DoD process or that they were still unsure of their roles in the process after attending the briefings.

Cost and budget estimates provided by the NNSA contractors were not validated because the role of the field offices was undergoing significant change during the FY 2004 PPBE process. NNSA's field restructuring, which eliminated one layer of management in the field, was implemented in December 2002. The PPBE Office decided to wait until the restructuring was implemented before defining the field role in the PPBE process to ensure that roles and responsibilities would be consistent once the new field structure was established.



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**PPBE Can Provide  
Discipline and Promote  
Efficiency**

The implementation of an independent analysis unit in the PPBE Office was delayed in order to give senior managers experience in using the process before providing additional analytical tools. In addition, the PPBE Office was not fully staffed and activities other than independent analyses were determined to be higher priority during the initial implementation of the PPBE process.

Without full implementation, NNSA will not reap the full benefits of its new PPBE system. Managers cannot effectively monitor and track program performance if they do not have enough information to understand how performance is used in the PPBE process. In addition, although PPBE is a new process that needs flexibility to adjust as NNSA gains experience using it, PPBE will not meet the Administrator's objective of becoming the core management process for NNSA until everyone in NNSA has a clear understanding of the purpose of the process, the expected benefits of using a PPBE, and how to effectively participate in the process.

As a result of not having a formal validation process, inaccurate cost and budget estimates could undermine the quality of the decisions reached during PPBE's central resource allocation process. If costs are understated, activities or projects may be started without sufficient resources to complete them in an efficient manner. Conversely, if costs are overstated, resources that could be made available to meet unfunded program requirements would appear to be unavailable, which could result in mission requirements not being met in a timely manner.

Finally, the lack of an independent analysis group could preclude NNSA from making the best decisions about what programs and activities to start and whether programs are affordable, not only in the current budget year, but throughout the time it takes to complete them. NNSA may find decisions involving reallocation of resources from one program to another especially difficult without objective analysis to support prioritization of the activities that support its competing missions.

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**RECOMMENDATIONS**

We recommend that the Associate Administrator for Management and Administration take the following steps to improve the implementation and effectiveness of the PPBE process:

1. Improve communication to all Federal and contractor employees concerning the purpose of PPBE, the uses of and requirements for PPBE documents, and employees' roles in the process through additional guidance and training;
2. Establish a formal process for validating contractor budget estimates, such as that outlined in the Department's Budget Field Manual; and,
3. Assess management's need for independent analytical support for the PPBE process and determine how to staff an analytical group that possesses sufficient analytical skills to be effective, either by permanent or rotational assignments.

**MANAGEMENT REACTION**

NNSA's Associate Administrator for Management and Administration agreed with the report, the conclusions reached, and the recommendations presented. NNSA reported that it had made significant progress on actions related to Recommendation 1 since the conclusion of the audit, including the launching of an interactive Intranet site and the development of a PPBE task force. Related to Recommendation 2, NNSA supports the budget validation requirements contained in the Department's budget handbook and expects that the NNSA Service Center will perform this validation process. Lastly, to address Recommendation 3, NNSA plans to create a small advisory capability; however, it will not likely be as robust as DoD's independent analytical group. We have included management's comments in their entirety as Appendix 3.

**AUDITOR COMMENTS**

NNSA's proposed actions are responsive to the audit recommendations. However, an action plan detailing specific milestones with planned completion dates is needed.

## Appendix 1

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### OBJECTIVE

We initiated the audit in response to a Congressional request for an independent review of NNSA's PPBE system. The objectives were to assess NNSA's implementation of the PPBE process to determine if improvements could be made to further enhance NNSA's planning, programming, budgeting, and evaluation. We also answered the Congress' specific questions: (1) how NNSA's PPBE compared to the process used by DoD; (2) whether the PPBE process was capable of being used as a central decision-making process for resource allocation decisions; and (3) to what extent PPBE had been incorporated by NNSA's management and operating contractors.

### SCOPE

The audit was performed from September 2002 to March 2003 at NNSA Headquarters, Washington, DC; Sandia National Laboratories, Albuquerque, NM; Y-12 National Security Complex, Oak Ridge, TN; and NNSA's Service Center and the Sandia Site Office, Albuquerque, NM.

### METHODOLOGY

To accomplish the audit objective, we:

- Interviewed NNSA Federal staff at NNSA Headquarters, the Y-12 Site Office, the Service Center, and Sandia Site Office;
- Interviewed M&O contractor staff at the Y-12 Plant and Sandia National Laboratories;
- Reviewed documentation on the DoD PPBS process;
- Evaluated policies, procedures, and other documentation related to NNSA's PPBE;
- Compared the DoD process to the NNSA process;
- Evaluated NNSA's implementation of PPBE;
- Determined the strengths and weaknesses of the PPBE system; and,
- Reviewed prior audit reports and other reports related to the audit objective.

## Appendix 1 (continued)

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With regard to our interviews, we judgmentally selected interviewees to ensure that we talked with people at all NNSA program offices and at various levels in the organization. In addition, we interviewed a variety of contractor staff, including those working for Defense Programs and Defense Nuclear Nonproliferation, as well as financial staff. In addition, we interviewed officials directly involved in developing and implementing the PPBE process.

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. Accordingly, the audit included reviews of NNSA's PPBE management 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. As part of our review, we also evaluated the Department's implementation of the Government Performance and Results Act of 1993. The Department's Annual Performance Plan for Fiscal Year 2003 did not contain specific performance data addressing PPBE. However, there were objectives and goals related to PPBE. We did not rely on computer-processed data to achieve our audit objective.

The exit conference was waived at NNSA's request.

## Appendix 2

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### PRIOR AUDIT REPORTS

#### Office of Inspector General Reports

- *Management Challenges at the Department of Energy* (DOE/IG-0538, December 2001). The report found that the Department has had problems managing its projects and that projects have had cost overruns, schedule delays, and undesirable scope reductions. Additionally, the Department needs to ensure it has appropriate metrics in place and uses them to manage its programs and activities effectively.
- *The Department of Energy's Tritium Extraction Facility* (DOE/IG-0560, June 2002). The report found that the Tritium Extraction Facility project had not made full use of project management controls. For example, design of the facility was not completed before beginning construction. As a result, the facility may not meet its baseline cost, schedule, and scope and could affect NNSA's ability to meet Stockpile Stewardship goals.
- *Management of the Nuclear Weapons Production Infrastructure* (DOE/IG-0484, September 2000). The audit disclosed the Department has not fully implemented a process to link workload, production capacity, and budget information with facility requirements.

#### Other Reports

- *NNSA Progress in Implementing Title 32* (GAO-02-93R, December 2001). The report found that NNSA did not have a clear definition of roles and responsibilities either at headquarters or in the field. Additionally, NNSA will have difficulty fully implementing its new planning, programming, budgeting, and evaluation process by the Fiscal Year 2004 budget cycle.
- *Establishing the National Nuclear Security Administration: A Year of Obstacles and Opportunities* (Special Oversight Panel on Department of Energy Reorganization, Committee on Armed Services, U.S. House of Representatives, October 2000). The Panel found that NNSA is moving in the right direction by having its own Administrator. But the Panel feels that NNSA needs to make improvements including developing an integrated set of policies and practices, defining roles and responsibilities, and creating a plan that will integrate the security management program.
- *Changing the Pentagon's Planning, Programming and Budgeting System: Phase 2 Report* (Business Executives for National Security (BENS), 2000). This report is a follow-up to its *Framing the Problem of PPBS* (January 2000) and analyzed areas of the strategic planning process of the DoD PPBS that need changes. While the DoD and the private sector management systems do have some commonality, the report showed areas where changes in the DoD process could greatly enhance the PPBS. The BENS reports categorized the changes into three categories of structural, procedural and technical recommendations.

## Appendix 3

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Department of Energy  
National Nuclear Security Administration  
Washington, DC 20585



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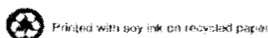
MEMORANDUM FOR Frederick D. Doggett  
Deputy Assistant Inspector General  
for Audit Services

FROM: Michael C. Kane   
Associate Administrator  
for Management and Administration

SUBJECT: Comments to Draft Report on PPBE

The Inspector General (IG), in response to congressional direction, conducted an independent assessment of NNSA's Planning, Programming, Budgeting and Evaluation (PPBE) process and structure to determine if improvements could be made to further enhance NNSA's planning, programming, budgeting, and evaluation. The IG also answered the Congress' specific questions as to how NNSA's process compares to the process used by DOD; whether the process is capable of being used as a central decision-making process for resource allocation decisions; and, to what extent the process has been incorporated by management and operating contractors.

NNSA appreciates the opportunity to have reviewed the draft report. We agree with the report, the conclusions reached, and the recommendations presented. We would like to specifically comment on the congressional question regarding the question about the extent to which PPBE has been incorporated by the management and operating contractors. The PPBE does not mandate changes to integrated contractor budget or accounting systems. For the contractors, the PPBE process is a management concept that will affect them through the ways that the Headquarters programs manage the programs that are executed by the contractors. One key concept of the PPBE process is the cascading of performance metrics that is linked to both the budget and contractor evaluations. This cascade is integral to the Planning, Budgeting and Evaluation phases of the process. NNSA's program elements and organizations are working with the contractors to develop a formal linked cascade of (various levels of) milestones and deliverables for program management and performance assessment. A key indicator as to whether the PPBE methodology has been incorporated into the contractor's processes would be the extent to which program plans and contractor performances are fully integrated into this cascade, and whether contractor management and performance systems are linked to support measures established by Headquarters.



NNSA concurs with the recommendations in the draft report. Since the audit was concluded, we have made significant progress with actions related to the recommendation to improving communications. On April 3, 2003, the PPBE Intranet site was activated. This site is available to all NNSA Federal employees and NNSA's contractor personnel in the resource areas. The menu for the site is attached. Information contained on the site includes overarching policy guidance in the five published Business Operating Policy Letters; specific implementation guidance for each phase of the process, including requirements and formats for deliverables; statistical and status data; a calendar of events; legislative data; history; and other useful links.

As to employees' roles in the process, guidance is contained in the five Business Operating Policy Letters for PPBE, as stated. Implementing the Policy Letters for each phase except Budget was completed and posted to the Intranet as of May 2003. However, it must be noted that in recognition of the strong and diverse line program components within NNSA, the corporate process sets firm corporate requirements and schedules, but allows each line program flexibility in choosing the means to meet the requirements. We do not seek to standardize internal aspects unless necessary to address problems or attain major efficiencies.

Training has been provided by the PPBE staff. Training on the Programming process and deliverables was offered this year to each Headquarters program office prior to and during the FY 2005-2009 Programming phase. Three one-hour training sessions on the PPBE Evaluation process, performance measurement and the OMB PART assessment have been delivered to most NNSA employees directly involved in these efforts. Of necessity, due to ongoing personnel and funding limitations, training efforts have been in-house and limited to what the responsible Headquarters element (NA-62) Federal employees can develop and provide. The PPBE office is participating in a task force to develop roles, responsibilities and training for program managers, and the office will assure that appropriate PPBE training is included as this effort rolls out to field elements.

NNSA believes that the second recommendation to establish a formal process for validating contractor budget estimates, such as that outlined in the Department's Field Budget Manual, may not be needed. NNSA has not eliminated the recurring budget validation requirements contained in the Department's budget handbook as evidenced by the April 4, 2003, NNSA Cover to the DOE Unicall. NNSA supports the Chief Financial Officer's requirement to validate about 20 percent of the budget annually, and we suggested that this 20 percent include the programs being reviewed by the OMB PART each year. We expect that budget validation will be performed by the NNSA Service Center and the non-aligned Site Offices; information will be available prior to submission of the budget request to OMB, which is consistent with NNSA's needs.

## Appendix 3 (continued)

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Also, in the past six months, the Service Center undertook a special "For Cause" analysis of selected Safeguards and Security program activities which included validation of each site's charging of these activities to the direct versus allocable accounts at the contractors. We will continue to develop these capabilities for independent validation of contractor financial and budgeting activities as the reengineered organization matures and is fully staffed over the next few years. However, budget validation remains a fundamental DOE responsibility, and they will continue to provide validations for non-NNSA activities.

While NNSA agrees with the need for independent analytical support as part of a robust PPBE process as mentioned in the third recommendation, the issue is how to create this new capability in the near term while the PPBE organization is functioning under the same resource restrictions/limitations that is currently facing all of NNSA. For the FY 2005 Programming process, the first small step in independent analysis of the program proposals was achieved by having experienced senior budget and program analysts ask written "clarifying questions" related to the line program proposals. This first small step is significant, but we do not believe that it meets the spirit of this recommendation. Over time, we will create a small advisory capability, but we do not intend to create a DoD-like PA&E. Due to hiring constraints, this will not likely be realized before the end of calendar 2005 when all downsizing and reengineering are expected to be complete. In the meantime, there are several options that we will explore to obtain studies and analyses to be used beginning with the FY 2006-2010 Planning and Programming processes: (1) utilize in-house, cross-functional NNSA teams; (2) request studies from DOE staff organizations, and (3) leverage analyses done by DoD/PA&E.

Should you have any questions, please contact Richard Speidel, Director, Policy and Internal Controls Management. He may be reached at 202-586-5009.

Attachment



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