



U.S. Department of Energy
Office of Inspector General
Office of Audits & Inspections

Special Report

Management Challenges at the Department of Energy – Fiscal Year 2013

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October 2012



Department of Energy
Washington, DC 20585

October 19, 2012

MEMORANDUM FOR THE SECRETARY

FROM: 
Gregory H. Friedman
Inspector General

SUBJECT: INFORMATION: "Management Challenges at the Department of Energy – Fiscal Year 2013"

INTRODUCTION

The Department of Energy is a multi-faceted agency responsible for executing some of the Nation's most complex and technologically advanced missions. Since the passage of the Department of Energy Organization Act in 1977, the Department has shifted its emphasis and priorities over time as the Nation's energy and security needs have evolved. In recent years, the Department has focused on issues such as clean energy innovation, energy efficiency and conservation, and science and engineering research and development. While these areas have received increased attention, the Department has continued its vital work in the areas of environmental cleanup, nuclear weapons stewardship, and nuclear nonproliferation. In order to execute this diverse portfolio, the Department receives an annual appropriation approaching \$30 billion, employs more than 115,000 Federal and contractor personnel, and manages assets valued at more than \$180 billion, including, among other facilities, 16 Federally Funded Research and Development Centers.

With this diverse set of agency objectives in mind, on an annual basis, the Office of Inspector General identifies what it considers to be the most significant management challenges facing the Department. Now codified as part of the Reports Consolidation Act of 2000, under this effort we assess the agency's progress in addressing previously identified challenges and consider emerging issues facing the Department. Consistent with our mission, our goal is to use this process to advance efforts to work with the Department to enhance the effectiveness of agency programs and operations.

MANAGEMENT CHALLENGES

Based on the results of our body of work over the last year, we have concluded that the list of management challenges for Fiscal Year (FY) 2013 should remain largely consistent with that of the previous year. While positive strides have been made in a number of areas, many of the Department's most significant management challenges are not amenable to immediate resolution. Therefore, effective solutions for these challenges may take several years and will require a concerted effort on many fronts. Most prominently, because of the Department's reliance on contractor assistance for most of its mission responsibilities, contractor performance is a critical component in successfully addressing the management challenges. For FY 2013, these challenges include:

- Operational Efficiency and Cost Savings
- Contract and Financial Assistance Award Management

- Cyber Security
- Energy Supply
- Environmental Cleanup
- Human Capital Management
- Nuclear Waste Disposal
- Safeguards and Security
- Stockpile Stewardship

We also develop an annual "watch list" consisting of significant issues that warrant special attention by Department officials. For FY 2013, the watch list includes Infrastructure Modernization, Loan Guarantee Program, and Worker and Community Safety.

It should be noted that Safeguards and Security, a component of the watch list in 2012, is now considered a key management challenge. This change is primarily due to the recent events at the Y-12 National Security Complex. In that instance, three trespassers gained access to the area surrounding the Highly Enriched Uranium Materials Facility at Y-12 and defaced the building without being interrupted by the security measures in place. Given the policy issues that have arisen as a result of this intrusion and the importance of ensuring the safe and secure storage of nuclear materials at Department sites, we have elevated Safeguards and Security to the management challenges list.

Additional information on the challenge areas can be found at: <http://energy.gov/ig/calendar-year-reports>.

Operational Efficiency and Cost Savings

For the FY 2012 report, we concluded that the then-current Federal budgetary concerns dictated that finding ways to make Departmental operations more efficient and less costly was the preeminent management challenge. In our view, these concerns have actually intensified over the past year. For this reason, we continue to believe that, looking forward, Operational Efficiency and Cost Savings should be a top priority for management. As we outlined in last year's report, we know of no other time in recent memory when there was such a broad, bipartisan consensus regarding the need to reduce Federal spending and address the Nation's mounting debt. Significant reductions in Federal budgets appear likely and the impact on the Department's operations may be equally significant. In this context, we are reiterating the series of operational efficiency and cost reduction initiatives offered for management's consideration in last year's report. Our intent was, and continues to be, to highlight possible ways in which the Department can reduce the overall cost of operations and become more efficient. These topics include:

- Apply the Quadrennial Technology Review (QTR) strategic planning concept to the Department's entire science and technology portfolio;
- Eliminate duplicative National Nuclear Security Administration (NNSA) functions;
- Establish a "BRAC-style" commission to analyze the Department's laboratory and technology complex;

- Reprioritize the Department's environmental remediation efforts; and
- Re-evaluate the current structure of the Department's physical security apparatus.

Since issuing our FY 2012 report, several of these proposals have been cited in Congressional appropriations reports. For instance, concerns that Department of Energy security contracts "are not uniformly managed, organized, or staffed, which creates concerns about the safety of the national laboratories as well as fiscal responsibility with taxpayer dollars," were noted in the Senate Report for the 2013 Energy and Water Development Appropriations Bill. This language was specifically associated with the language in our 2012 Management Challenges Report. Further, in the same report, on the subject of duplicative NNSA functions, the Committee language directed NNSA and the Department "to submit a joint assessment to the Committee by December 1, 2012 of the costs and benefits of consolidating functions with DOE to reduce costs and improve communication and program execution to respond to Congressional and Inspector General concerns." The Department was directed to "propose options for implementing changes." Separately, in the House Report on the National Defense Authorization Act for FY 2013, the Committee requested that the Department consider the prioritization of environmental cleanup efforts, as outlined in our report. We cannot predict whether such language will be incorporated into final appropriations law. However, in our view, the studies called for in these areas can only serve to increase the existing knowledge base and improve Departmental operations.

For additional information related to the cost savings measures outlined above, please refer to our previous report, available at: <http://energy.gov/sites/prod/files/IG-0858.pdf>.

Management Initiatives

The Department has undertaken a number of management initiatives intended to increase operational efficiencies. This specifically includes an effort to achieve and sustain a new framework for "management and operational excellence." In this regard, the Department has committed to actions such as realigning roles and responsibilities, improving contract and project management, improving transparency, cutting waste, and increasing cost saving efficiencies. As part of this broader effort, the Department has outlined a number of operational areas where it believes improvements are possible and should be pursued. For instance, the Department is evaluating issues, among others, related to the Department's physical security apparatus, extension of the QTR, and human capital management. These closely track several of the Office of Inspector General management challenges.

Clearly, given the current volatility of economic conditions and associated budgetary concerns, the Department must strive to ensure that operational efficiency is a primary theme in all agency programs and operations. Although only one step in the process, by aggressively addressing the management challenges, the Department can enhance program efficiency and effectiveness; reduce or eliminate operational deficiencies; decrease fraud, waste, and abuse; and achieve substantial monetary savings. Echoing a conclusion made in the QTR, "limited resources demand thoughtful and consistent program choices to maximize impact." We look forward to working with you and agency managers in advancing these goals.

cc: Deputy Secretary
Associate Deputy Secretary
Administrator, National Nuclear Security Administration
Acting Under Secretary of Energy
Chief of Staff
Acting Chief Financial Officer

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