

memorandum

DATE: February 12, 2009

Audit Report No. OAS-L-09-04

REPLY TO

ATTN OF: IG-32 (A08ID016)

SUBJECT: Report on "Contractor Severance Plans at the Department of Energy"

TO: Director, Contract Administration Division, MA-622
Director, Office of Acquisition and Supply Management, NA-63

INTRODUCTION AND OBJECTIVE

The Department of Energy (Department) reimburses its management and operating contractors for severance benefits paid to employees as part of involuntary workforce reductions. Severance benefits are paid to employees to mitigate the impact of involuntary separations that result from changing missions and budget constraints. The Department reimburses the cost of benefits provided under contractor severance benefit plans. The contractor's severance benefit plans are based on an employee's pay and number of years of service at the time of the separation. The Department's Office of Management's (MA) Office of Procurement and Assistance Management is responsible for development and implementation of policies for reimbursing contractor compensation plans, including severance benefits.

The Department has managed numerous contractor workforce restructurings throughout its complex of research and nuclear weapons production facilities. While workforce restructurings are intended to provide cost savings over the long-run, they are often very costly to implement. We reported, for example, that the "Voluntary Separation Program at the Idaho Cleanup Project" (DOE/IG-0765, May 2007) was exceptionally costly. Although the Idaho workforce restructuring was estimated to save about \$23 million annually, it cost as much as \$10 million more in expenditures than comparable efforts. We concluded that the Department needed a consistent approach to workforce restructuring to ensure reasonable and equitable treatment of separated employees.

Because of the importance of providing reasonable and equitable benefits to separated employees, we conducted this audit to determine whether the Department had a consistent approach to reimbursing contractor employee involuntary separation severance benefit costs.

CONCLUSIONS AND OBSERVATIONS

Based on our evaluation of 23 contractor plans, we determined that the Department did not have a consistent approach to reimbursing contractor severance benefits costs for employees that may be involuntarily separated in the future. Under the contractor severance plans we reviewed:

- Six allowed a maximum severance of 10-20 weeks of pay;
- Six allowed a maximum severance of 21-30 weeks of pay;
- Five allowed a maximum severance of 31-52 weeks of pay; and,
- Six had no limit to the amount of severance pay.

Further, contractor severance plans were not always consistent in the amount of severance pay available to separated employees based on the same number of years of service. Although the majority of the contractor severance plans offered one week of pay per year of service, five of the plans we examined offered less than one week of pay per year of service. Another six plans offered significantly more weeks of severance per year of service.

Although differences in plans would result in a wide range in reimbursements to contractors, the Department had not justified the differences among the severance plans either in terms of unique site conditions or identified best practices. Department and contractor officials told us that differences in the maximum amount of pay available to separated employees resulted from the benefit levels inherited from the previous contractor at the site. The Department had not always reviewed and modified its reimbursement policies for contractor severance benefit plans despite the fact that the majority of the plans were established many years ago by contractors that were no longer at the sites. For example, of the 23 severance plans reviewed, only 9 plans inherited from previous contractors had been modified in some form.

Department officials also stated that sometimes the severance benefit levels were the result of collective bargaining negotiations. However, unlike other areas of employee compensation, the Department had not adopted a benchmark for severance benefits that could be used by contractors in negotiating employee benefits. Although it requires contractors to ensure that their total compensation benefits package, including health benefits and retirement, approximates industry averages; the Department had not established a similar benchmark for severance benefits. For example, a recent study showed that the average maximum severance of the aerospace and defense industry offered 23 weeks of pay for administrative and professional employees. Eleven of the plans we reviewed provided significantly more benefits than the aerospace and defense industry benchmark. While not a perfect benchmark, we concluded that firms in the aerospace and defense industry reasonably compared to the Department's contractors in terms of size, workforce demographics and nature of work. We were unable to determine how the contractors' severance plans compared to their parent companies' plans due to the proprietary nature of the parent companies' benefits.

Without a consistent approach to reimbursing severance benefits, the Department cannot ensure that the costs of future involuntary separation actions are reasonable and properly controlled and that separated employees and affected communities are treated equitably. To its credit, the Department's National Nuclear Security Administration has recently recognized the disparity among its various contractors and has begun evaluating options to make severance benefits more consistent among contractors. Two Office of Science contractors also have reduced the maximum severance allowed in an effort to control

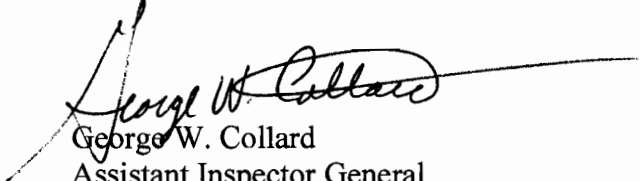
those costs in the future. Such changes to severance benefits plans are not, however, part of an overall, coordinated Department effort to provide more consistency in cost reimbursements associated with contractors' severance benefits plans.

SUGGESTED ACTIONS

To address the issues described in this report, we suggest that the Director of Contract Administration Division and the Director, Office of Acquisition and Supply Management:

- 1) Develop and implement guidance to ensure a consistent approach in determining the amount of contractors' severance benefits that are reasonable for the Department to reimburse; and,
- 2) Evaluate severance plans for consistency across the complex and with industry benchmarks periodically.

Because no formal recommendations are being made in this report, a formal response is not required. We appreciate the cooperation of your staff and the various Departmental elements that provided information and assistance.



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

Attachment

cc: Team Leader, Audit Liaison Team, CF-1.2
Audit Liaison, MA
Audit Liaison, LM
Audit Liaison, EM
Audit Liaison, SC
Audit Liaison, NNSA

SCOPE AND METHODOLOGY

The audit was performed from July 2008 to December 2008 and included sampling at the following field sites: Hanford Site, Waste Isolation Pilot Plant, Idaho National Laboratory, Oak Ridge National Laboratory, Argonne National Laboratory, Brookhaven National Laboratory, Fermi National Accelerator Laboratory, Pacific Northwest National Laboratory, Sandia National Laboratories, Y-12 National Security Complex, Los Alamos National Laboratory, and the Lawrence Livermore National Laboratory. The audit covered the severance plans of major Environmental Management, Office of Science, and National Nuclear Security Administration contractors at these sites.

We conducted this performance audit in accordance with generally accepted Government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective. 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 examined the establishment of performance measures in accordance with the *Government Performance and Results Act of 1993* as it relates to the audit objective. Finally, since we did not rely upon automated data processing information to accomplish our audit objective, we did not conduct an assessment of the reliability of computer processed data.

An exit conference was held with officials from the Office of Management, Office of Legacy Management, Office of General Counsel, each of the three program offices, and representatives from 6 of the 12 sites on February 10, 2009.