



Implementation of Governance Reforms in Sandia Competition

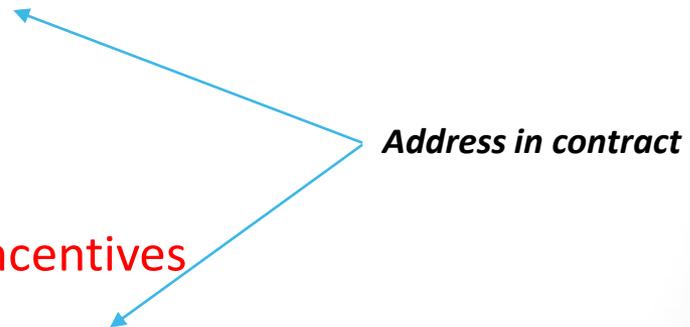


Recommendations from:

- Congressional Advisory Panel on the Governance of the Nuclear Security Enterprise [Mies-Augustine Report] (MA)
- Commission to Review the Effectiveness of the National Energy Laboratories (CRENEL)
- Secretary of Energy's Advisory Board (SEAB)
- Office of Science Working Groups (SC WG)
- NNSA meetings with Lab/Plant Directors and Parent companies

Common Themes

- Strengthening National Leadership
- Clarifying Roles, Responsibilities, and Authorities
- Strengthening Risk Management
- Continuous Improvement
- Implementing Workforce Best Practices
- Enhanced Cost Analysis Capability
- Improving Program Management and Integration
- Transparency in Overhead Rates
- Mitigating Burdensome Practices
- Improving Project Management
- Improving Contract Structures and Incentives
- Improving Contract Competition



Transparency in Overhead Rates

Recommendation: DOE should provide greater transparency into laboratory indirect costs and publish an annual report of the overhead rates at each individual National Laboratory. CRENEL 30

Current

- Proposed rates are evaluated for compliance with accounting standards but there is no reasonableness determination made.
- No published rates.

Future

- Require Contracting Officer approval of indirect rates in advance of applying them.
- Contracting Officer may determine unilaterally if there is failure to agree.
- Work towards greater consistency and transparency within legal constraints.

Mitigating Burdensome Practices

- Conference Management
- Compensation Increase Plans
- Labor Negotiations
- Benefits
- Pension Plan Funding
- Outside Legal Counsel
- Contractor details to DC

Conference Management

Recommendation: Reconsider the restrictions and simplify approval process. CRENEL 18 & SEAB 2.2.5

Current

- Contracts were modified to include the “Conference Management Clause (Sep 2015)”
 - Eliminates requirement for approval for non-DOE/contractors sponsored events
 - Requires Lab Director approval
 - Retains DOE approval for events >\$100K
 - Simplifies process

Future

- Will continue to include the established clause and will update if changes are made to the requirements or process.

Compensation Increase Plan

Recommendation: Approval process too long and requires too much data. SEAB 2.2.1 & SC WG 6

Current

- Approval required before M&O can implement pay raises.
- Applies to every annual CIP submission, without exception.
- Approval generally within 4 weeks.
- Uses data routinely gathered by compensation managers.

Future

- Approval assumed after two weeks, allows time to review for anomalies, except...
- Approval required when
 - Increase will exceed national benchmark
 - Position to market is or will become above market
 - Promotion/adjustment funds exceed DOE/NNSA thresholds
- Uses data routinely gathered by compensation managers.

Labor Negotiations

Recommendation: Current parameters are provided by discrete elements, consider trying approval by “not-to-exceed total” amount.
SEAB 2.2.2 & SC WG 10

Current

- Approve discrete elements, e.g., wage increase, signing bonus, benefit changes
- Require approval for changes to discrete elements during collective bargaining

Future

- Review discrete elements, approve aggregate cost thresholds
- No further approvals needed unless changes:
 - Would exceed aggregate figure, or
 - Are contrary to DOE policy or written instructions

Benefits

Recommendation: Authorize Labs to manage benefits below a preset cost threshold. SEAB 2.2.3 & SC WG 12

Current

- Approve benefit package during contract transition
- Beginning ca. 2008, eliminated approvals for benefit changes unless:
 - Increase costs because of plan design changes
 - Increase long-term liabilities to DOE
 - Contrary to DOE policy or written direction.
- Advanced notification required of all changes

Future

- Build on current process.
- Clarify that during transition the successor contractor may propose a corrective action plan to enable a gradual move to market based benefits
- Require that existing defined benefit pension plans must be sponsored and maintained by a successor contractor and that existing participants must be allowed to continue to accrue benefits under the plan

Pension Plan Funding

Recommendation: Approval takes too long, consider strategies that enable long-term strategic pension management. SEAB 2.2.4 & SC WG 5

Current

- Annual Pension Management Plans request 6-year funding strategies
- Routinely approve alternative funding to remove volatility from reimbursement amounts
- Approval provided in time to make desired payments on-time

Future

- Same as current, and
- Approve multi-year funding strategies to allow appropriate planning
- Through annual budget guidance, in 2015 directed standard alternative funding approach to stabilize budget formulation

Outside Legal Counsel

Recommendation: Approvals require substantial resources without commensurate value, allow annual billing to DOE based on strategic intent constraints with DOE. SEAB 2.2.6

Current

- 2011-2013 DOE followed rulemaking procedures taking into account input from M&Os.
- No additional specific changes proposed, therefore no changes will be made at this time.

Future

- Same as current.
- NNSA following DOE lead.

Contractor Details to DC

Recommendation: Annual approval of staffing plans for DC operations required, suggest approving based on operating thresholds rather than case-by-case. SC WG 8

Current

- Annual approval of DC staff offices and staffing plans
- Transactional approval of M&O Detailee assignments to DC, applicable to all sites
- Transactional approval of other off-site assignments to include IPAs at Sandia

Future

- Bi-Annual approval of DC staff offices and staffing plans
- Draft policy to eliminate transactional approvals, contingent on:
 - Adhering to DOE/NNSA reimbursement policy
 - Working within established overall thresholds for assignments
 - Providing transparency into systems that track assignments and costs

Improving Project Management

Recommendation: Continue improving construction project management by introducing disciplined management practices in order to recapitalize infrastructure on-time and on-budget. MA 13, 13.1-13.3 & CRENEL 34

Current

- M&Os perform nearly all capital construction projects as level of effort based on the terms of the basic M&O contract:
 - Annually re-set accountability in Fee Determination process
 - No assumption of financial risk

Future

- All capital projects negotiated and administered separately
- Appropriate risk sharing
- Separate provisional fee for life of project
- Multi-year incentives
- Strategy and contract type determined on case-by-case basis
- Assumption of financial risk

Improving Contract Structure & Incentives

- Fee
- Extend/Compete Decisions
- Improving Effectiveness of the Enterprise
- Parent Organization(s)
- Improving Competition

Fee

Recommendation: Move to fixed fees for multi-year award terms and link performance incentives to contractual period of performance.

Adopt market-based fixed fees commensurate with M&O borne risk, investments in enterprise, and scale of operation. MA 14, 14.1 &

CRENEL 6

Current

- Primarily award fee with portion of fixed fee for NNSA work and SPP
- Five Strategic Performance Objectives to determine award fee
- Current fee rates and ratios:
 - Laboratories: Fee between 1% and 3%. Range from 30% to 90% fixed fee.
 - Plants and NNSS: Fee between 3.5% and 7%, no annual adjustment. 100% at risk

Future

- Labs:
 - Primarily fixed fee with portion of award fee for NNSA work
 - Maximum 1% Fixed
 - Maximum .5% At Risk
 - Fixed fee for SPP
 - “Leadership” used to determine award fee
 - Decouple fee from budget, no annual adjustment
- Plants:
 - 100% at risk, fees ranging from 3.5% to 5.5%
 - Decouple fee from budget, no annual adjustment

Extend/Compete and Option Decisions

Recommendation: Base decisions primarily on contributions to mission performance, unsatisfactory performance should lead to early termination. MA 14.3

Current

- Follow Federal Acquisition Regulation & DOE Acquisition Regulation
- Extend/Compete and Option Exercise consider:
 - Overall performance
 - Impact of change on program needs
 - Likelihood of competition, or whether competition will produce more advantageous offer than option

Future

- Same as current.

Improving Effectiveness of Enterprise

Recommendation: *Create collaborative mechanisms to strengthen the joint contributions of the M&Os in improving the effectiveness & efficiency of enterprise obligations. Task M&Os to identify & assess management improvement opportunities, both mission execution & support. MA 15.1 & 15.2*

Current

- M&Os are to work with Nuclear Security Enterprise stakeholders to identify and implement strategies to optimize mission

Future

- Same as current.
- Outside the contract efforts to improve the relationship with the M&Os include:
 - Engaging Lab and Plant leadership through the Lab Operations Board and Lab Policy Council
 - NNSA Council and Operations Board
 - Establish Lab strategic planning function in NNSA

Parent Organization Participation

Recommendation: Reinforce M&O Parent Organization obligations to contribute to enterprise management improvement initiatives. MA 15

Current

- Parent Organizations required to establish independent & autonomous oversight and audit entity.
- Performance Evaluation and Management Plans incentivize contributions towards management improvements.

Future

- Same as current.
- Outside the contract efforts include:
 - Senior leadership meeting with Board of Directors
 - Draft policy to strengthen and clarify shared oversight responsibilities
 - Lab Operations Board
 - Lab Policy Council
 - NNSA Council and Operations Board

Improving Competition

Recommendation: *Too expensive and cumbersome to propose.*

Current

- Prior to KCNSC, focused on 'approach' to work
- Beginning with KCNSC, focus on proven performance:
 - Experience and Past Performance
 - Management Structure and Key Personnel
 - Small Business Use
- Very good feedback from industry, reflected in quality of competition
- 25 page limit

Future

- Same as revised approach used for KCNSC improved based on feedback from offerors

Improving Competition

Recommendation: Award criteria drive teaming arrangements which may not provide the best operational answer.

Current

- Questions within the past performance questionnaire measured corporate experience in *every* aspect of the statement of work
- Beginning with NNSS, more precisely defined corporate experience and considered experience of key personnel as appropriate

Future

- Build on NNSS to improve based on offeror/industry feedback.
- Evaluation of Laboratory Organization notifies offerors that a simple structure with less complex relationships may be evaluated more favorably.

Questions?