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U. S. Department of Energy
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Committee on Armed Services
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Thank you for the opportunity to appear today to discuss our progress at the National Nuclear Security Administration (NNSA) toward implementing Title 32 of the National Defense Authorization Act for Fiscal Year 2000, otherwise know as the NNSA Act. Since testifying before this special oversight panel last April, the NNSA has continued to perform the challenging "balancing act" required both to achieve excellence in mission performance and to improve organizational ***effectiveness*** and ***efficiency***.

I would like to begin my testimony here today by briefly reviewing what we have accomplished over the past ten months and describing the task before us. I believe our efforts, and our recently announced plans, have placed us on the right path to achieving our vision of an integrated nuclear security enterprise operating an efficient and agile nuclear weapons complex, recognized as preeminent in technical leadership and program management.

On May 3, 2001, NNSA submitted its ***Report to Congress on the Plan for Organizing the National Nuclear Security Administration***. Prepared pursuant to Section 3153 of the National Defense Authorization Act for Fiscal Year 2001, the ***May Report*** described the first phase of NNSA's strategy for becoming a fully operational, semiautonomous agency, as envisioned in our enabling legislation. It also outlined a strategy for the second phase, in which we would implement a plan for ensuring that our headquarters and field elements work in concert and with clarity concerning their respective roles and responsibilities – and for eliminating overlap and duplication.

Since submitting the ***May Report***, NNSA has achieved seven key organizational milestones. We have (1) implemented a new organizational structure that consolidates headquarters support functions allowing mission organizations to focus more intensively on achieving results; (2) installed a leadership team responsible for mission performance and driving organizational improvement; (3) begun integrating NNSA decision making through the new Management Council; (4) adopted the Planning, Programming, Budgeting, and Evaluation system as NNSA's core business process; (5) further defined NNSA's relationship with the Department of Energy (DOE) through streamlining external oversight and establishing an independent federal human resource management capability; (6) resolved the key organizational issues left unanswered by the ***May Report***; and (7) refined NNSA's strategy for achieving an ***effective*** and ***efficient*** organization.

On February 25, 2002, I submitted NNSA's ***Report to Congress on the Organization and Operations of the NNSA***. As promised, this report contains "a plan for assigning roles and responsibilities to and among the headquarters and field organizational units," as well as an overall strategy for operating an integrated national nuclear security enterprise. It summarizes our strategic plan, provides a detailed plan for resolving roles and responsibilities, and discusses our objectives for each organizational component in fiscal year (FY) 2002 and beyond.

The ***Organization Report*** includes our decision to eliminate a layer in the management and oversight of the nation's nuclear weapons complex as one of a series of steps to reduce duplication and increase accountability. When the realignment is fully implemented in or before December 2002, NNSA's eight contractor operated national security laboratories and weapons production plants will each report to an NNSA Site Office, which will in turn report to me. Currently, there are two federal management layers – an Operations Office and a local Area Office – between NNSA headquarters officials and contractor employees that carry out NNSA's mission. Federally staffed Service Centers will be established to provide crosscutting support, such as human resources and procurement, to the eight NNSA site offices.

NNSA will launch a systematic reengineering campaign to reduce the number of separate offices, eliminate unnecessary layers of federal management, reduce the overall number of federal employees and correct skills mismatches. Federal staff not performing core functions will be retrained or redeployed, and we will use incentives to encourage higher-than-average attrition, career development, training, and retention of highly skilled employees.

In addition to reorganizing its federal workforce, NNSA's report outlined a strategy to reduce administrative burdens on its contractor organizations by streamlining policies and procedures. For example, unnecessary details regarding how a task will be done will be eliminated from NNSA policy, guidance, orders and contracts.

As a result, laboratory and production plant contractors will be given clearer and more consistent expectations, and ***will be held directly accountable for achieving the results required to achieve our mission.*** They will also be expected to comply with environment, safety and health, and safeguards and security policies.

NNSA's reorganization will move key decision making responsibilities from headquarters to the field, closer to where the work is actually being done. For example, contract and project management responsibility will rest with each NNSA site office. Integration of weapons production activities will be performed in Albuquerque, New Mexico. Headquarters personnel will continue to be responsible for strategic and program planning, budgeting, and management of research, development and nonproliferation activities.

When these changes are fully implemented, we will realize the goals set by Congress in establishing the NNSA. By clearly defining roles and responsibilities between NNSA employees at headquarters and in the field we will increase accountability and reduce duplication. We need to make sure that we have people doing the right jobs in the right places to be most effective in carrying out our important national security mission.

Three Strategies for Achieving Effectiveness and Efficiency

The ***Organization Report*** describes three objectives and accompanying actions for achieving the twin goals of establishing an ***effective*** and ***efficient*** organization. Fundamentally, NNSA is seeking to attain these goals through (1) increasing organizational discipline and accountability by clearly defining authorities and responsibilities, (2) achieving enterprise-wide integration of its activities, and (3) reducing the administrative burdens on the people performing mission work.

Before adopting these objectives and actions, NNSA consulted widely and benchmarked them based on external assessments of the enterprise. The Management Council vetted these objectives and actions with five senior external advisors and the senior leaders of the laboratories, production plants, and test site. The Council also gathered input from a wide variety of external sources, including the Foster Panel and the Hamre Commission. In addition, it benchmarked the objectives and actions against the findings of four major studies of the weapons program completed during the past decade: the PFIAB Report, the Chiles Commission Report, the 120-Day Study, and the Galvin Report.

Implementing these objectives and actions will be more complex than just realigning reporting relationships and rewriting procedures and job descriptions; it is a major change that will affect nearly everyone in the enterprise. NNSA leadership is committed to implementing these organizational changes through long-term efforts that involve employees in developing new practices and by communicating frequently with employees as this transformation proceeds. Summarized below are NNSA's three strategies for attaining our twin goals of improving ***effectiveness*** and ***efficiency***.

1. Increase Organizational Discipline and Accountability by Defining Authorities and Responsibilities

Increasing organizational discipline and improving accountability require NNSA to specify reporting chains, authorities, and responsibilities. A few key principles define NNSA's strategy for making these specifications:

- Federal officials determine requirements—what is needed.
- Laboratory, production plant, and other contractors deliver the product—the what—and manage how it is achieved.
- The lead role for each activity is performed in only one place.
- Place is determined by expertise.
- Direction is integrated across the organization before being delivered.

NNSA's tasking will be based on formal delegations and contracting procedures. Two rules will formally preclude staff or oversight components from tasking contractor personnel:

- $ Direction within the federal family will be delivered only through a program direction channel created by formal delegations of authority from me.
- $ Federal program direction to the laboratories, production plants, and test site will be delivered only by a warranted contracting officer (CO) or by a designated contracting officer's representative (COR).

NNSA has defined an operating model with two basic approaches for managing work. For weapons production and site management activities, day-to-day federal program management will be located close to the contractor. For research, development, and nonproliferation activities, federal responsibilities for program planning and management will, in most cases, be located at headquarters.

NNSA has defined specific roles for Site Offices and Service Centers. Each NNSA Site Office will have primary responsibility for day-to-day program and contract administration for its assigned facility. These duties include agreeing to the overall safety and security parameters within which the contractor is authorized to operate. Over the next year, current Operations Offices in Albuquerque, Las Vegas, and Oakland will be reengineered and transformed into Service Centers that will provide the support required to maintain the eight NNSA Site Offices. The functions of these centers will be consolidated as appropriate for ***effectiveness*** and ***efficiency***.

NNSA will redesign the federal-contractor relationship to improve accountability. Federal employees, with contractor input, will establish broad program objectives and goals. Contractors, in consultation with federal employees, will be given the flexibility to execute programs efficiently and will be held accountable for meeting those objectives and goals. Based on these principles, NNSA will develop and implement a simpler, less adversarial contracting model that capitalizes on the private-sector expertise and experience of its contractors while simultaneously increasing contractor accountability for high performance and responsiveness.

NNSA has adopted a two-phased approach to this effort. The first phase involves reducing requirements in excess of those mandated by law and regulation within the context of the existing contract for the management and operation of Sandia National Laboratories (SNL). The second phase will develop a "Model for Improving Management and Performance" that ultimately can be implemented across the complex.

2. Achieve Enterprise-Wide Integration

NNSA's approach to integration involves: (1) adopting the Planning, Programming, Budgeting, and Evaluation system as the core business process for managing the enterprise; (2) preparing integrated program plans through teamwork and coordination between program and support components; (3) empowering the NNSA Management Council to resolve disputes; (4) directing the Principal Deputy Administrator to devote significant management attention to dispute resolution and to clearing away administrative roadblocks; and (5) recognizing that I possesses the ultimate responsibility for integrating NNSA's activities.

NNSA will accomplish integrated planning through representation, communication, and teamwork. NNSA is establishing integrated planning groups tied to the Planning, Programming, Budgeting, and Evaluation system. Each Deputy and Associate Administrator will be responsible for preparing an integrated plan for the activities assigned to his or her organization, based on detailed plans developed, for the most part, by the laboratories, production plants, and test site.

NNSA has established a clear protocol for resolving the constructive tensions created by the organization plan. First, staffs from the program and support components work as a team to create integrated program plans. Program Deputies are responsible for resolving tensions within their components, and they work with their peers—primarily the Associate Administrators—on issues that cross component boundaries, such as personnel, infrastructure, and security. The next step is the Management Council. I am the ultimate arbiter of organizational tensions.

3. Lift Administrative Burdens through Streamlining Policies, Procedures, and Staffing

NNSA is seeking to enhance its overall ***effectiveness*** and ***efficiency*** by: (1) clarifying and simplifying requirements; (2) streamlining and reducing oversight with minimal workload impact; (3) empowering expertise in the laboratories and production plants; (4) holding site contractors accountable for performance in compliance with clear expectations; and (5) employing work processes that maximize individual and team productivity, consistent with mission focus, and environment, safety and health, and safeguards and security compliance.

NNSA is simplifying requirements and streamlining oversight. NNSA will simplify requirements by eliminating unnecessary details regarding how a task is to be accomplished from policy, guidance, orders, and other directions and by implementing contract reform that relies on commercial standards and external regulations, rather than self-generated burdens. NNSA will streamline oversight by clarifying NNSA authorities and responsibilities, coordinating with DOE and other external overseers, evaluating systems—not transactions, and redefining federal jobs.

NNSA is reengineering core business processes. Over the next year, NNSA is undertaking a systematic reengineering campaign. The intent is to eliminate unnecessary or overlapping work at federal headquarters and field elements. By combining the data from: (1) the most burdensome administrative requirements from the laboratories and facilities, (2) the best practices benchmarking study, (3) the new contracting strategy, and (4) the model for restructuring field operations, NNSA is prepared to systematically reengineer its business processes. To overcome resistance to reengineering, NNSA will complete the following prerequisites:

- Create a leadership coalition committed to bringing about the change.
- Develop an integrated reengineering plan for the next year.
- Recognize that institutional changes require time.
- Apply adequate resources.

$ Communicate with—and involve—employees.

NNSA will reinvigorate and rightsize federal staff. Our plan is to: (1) redeploy and retrain staffs that are not performing core functions defined by the reengineering; (2) encourage higher-than-average attrition in selected areas through targeted buyout and early retirement offerings; (3) employ incentives to encourage career development, training, and retention of highly skilled employees; and (3) provide the federal oversight mandated by Congress in specific areas such as nonproliferation.

Path Forward

Implementing the new initiatives outlined in the ***Organization Report*** is the task ahead, and NNSA leadership recognizes that implementation will require a change in the corporate culture. Behavior must line up with the new structure and procedures if the desired ***effectiveness*** and ***efficiency*** are to be obtained. Fundamentally, the path forward to a new organizational culture involves the following:

$ Communicating the importance of changing behavior to achieve the desired results.

$ Involving employees in the process of creating the desired future.

$ Leadership modeling the behavior desired from employees.

$ Clear, consistent accountability for both positive and negative behavior

Key Accomplishments since the *May Report*

As mentioned above, NNSA has achieved seven organizational milestones since submitting the ***May Report***. Our strategy for achieving an ***effective*** and ***efficient*** organization is summarized above. Summarized below are the other six achievements.

1. NNSA has implemented the new headquarters organization

The new organization consolidates NNSA support functions—previously located in the program components—with the goals of improving service and freeing program organizations to focus on mission performance. On August 2, 2001, I formally approved the high-level structural changes and identified the people to staff the new components of the NNSA. On October 7, more than 180 staff members were reassigned into these new components.

2. NNSA leadership is in place

With the Senate confirmation of Deputy Administrators for Defense Programs (DP) and Defense Nuclear Nonproliferation (NN), I have assembled a management team to drive mission performance and lead organizational improvement efforts. In May 2001, I appointed an acting Principal Deputy Administrator and acting heads of the two new components, Facilities and Operations (F&O) and Management and Administration (M&A). Leaders for each of the first-tier subcomponents of these support organizations were also identified.

3. NNSA Management Council is operating

The NNSA Management Council has been established and meets twice a week to deal promptly with crosscutting issues and to identify opportunities for synergy across NNSA components. It is the mechanism for high-level integration and dispute resolution, and it will approve all crosscutting policies and directives.

Since its inception last May, the Management Council has driven organizational restructuring; directed staff redeployment, based on the ***May Report***; approved new business processes; and established an independent federal human resource capability. The Management Council is currently and will continue to:

- Provide a forum for discussions and decisions regarding priorities among NNSA programs.
- Set staffing levels for each NNSA federal element.
- Review major crosscutting NNSA initiatives.
- Review and approve NNSA-wide policies, directives, guidance, and procedures.
- Coordinate NNSA responses to DOE taskings and directives.
- Provide leadership for, and track implementation of, the management initiatives contained in this ***Organization Report.***
- Integrate key issues between headquarters and field elements, and across NNSA sites, by including the eight NNSA Site Office managers in expanded Management Council meetings on a regular basis.

One of the key reasons for the initial success of the Management Council was the appointment of a Principal Deputy Administrator. As the chair of the Council, the Principal Deputy provides the impetus to find corporate solutions to problems that arrive at the Council's door. The Congress recognized the value of this role by establishing it as a statutory position requiring Presidential appointment and Senate confirmation in the National Defense Authorization Act for FY 2002.

4. NNSA has begun using an integrated Planning, Programming, Budgeting, and Evaluation (PPBE) system

Over the next year, the PPBE system will become the core business process for managing the NNSA. Decisions about resources must be made in an integrated manner, taking into account Administration policy and the needs of the entire complex. To support timely, accountable, and integrated program and resource decisions, NNSA is deploying a new Planning, Programming, Budgeting, and Evaluation process.

This decision-making tool will link long-range planning (*what* NNSA needs to do) with programming (*how* NNSA will accomplish it), with budgeting (obtaining *resources* and applying

fiscal *constraints*), and with evaluation (*verifying* that the mission has been accomplished as planned). NNSA expects that documents generated in the PPBE system will meet some existing legislative requirements, such as the Stockpile Stewardship Management Plan and the Future Years Nuclear Security Program Plan. Key features of the system include:

- **Multiyear planning and budgeting system**. The PPBE system allows NNSA managers to evaluate trade-offs between activities over a five-year period.
- **Documented planning hierarchy**. NNSA will connect strategic planning to execution through integrated program plans, five-year budget plans, and annual operating plans.
- **Appropriate use of field, laboratory, and plant expertise in planning**. The PPBE process requires extensive involvement of field, laboratory, and facility organizations, with added emphasis on program execution and evaluation.

NNSA has begun using the PPBE system for each of the three budget years currently in execution or preparation:

- For FY 2002, the plan for managing enacted appropriations reflects integrated NNSA PPBE processes for financial execution, closely tied to milestones and deliverables contained in work authorizations. NNSA has also begun to implement an automated system to streamline budget execution record keeping.
- The FY 2003 budget was developed in a unified manner, involving a review by the Office of Management and Budget (OMB), with input from Department of Defense (DoD) regarding NNSA's weapons-related requirements and associated budgets.
- The FY 2004 budget cycle is under way. NNSA generated draft strategic guidance in October, and each program component is currently developing an integrated plan. Five-Year Program and Fiscal Guidance will be issued in February, beginning the "programming" step in the NNSA PPBE process.

NNSA is on track to deliver an FY 2004 budget to the Congress that fully meets the congressional intent of having a PPBE system driving the resource decision process.

5. NNSA's "semiautonomous" relationship with DOE is being clarified

Since May, the Management Council has taken steps to implement NNSA's statutory status as a "separately organized agency."[1] The Council has adopted a phased approach that involves assessment of the status of each NNSA function and the costs and benefits of continued reliance on the DOE for service.

The federal human resource function is one area in which I decided that NNSA should develop an independent capability. With the approval of the Secretary, an Executive Resource Board was established to provide for the selection, promotion, and development of the executive workforce and leadership of the NNSA. The management of the remainder of the NNSA's

[1] 50 U.S.C. § 2401.

federal staff is evolving, with emphasis on effective use of excepted service positions. Staffing of field elements with the required technical capability and capacity has the highest priority so that responsibility can be assigned to employees close to the work.

Similarly, at my initiative, NNSA worked with DOE to reach agreement that the Office of Independent Oversight and Performance Assurance (OA) will consolidate DOE's independent oversight of the NNSA and support me in the areas of environment, safety, and health, as well as safeguards, security, cyber security, and emergency management. These independent oversight activities will be conducted to a schedule and standards consistent with NNSA policies and priorities. NNSA line managers retain primary responsibility for performance in the areas that OA will assess. NNSA will maintain the ability to conduct self-assessments that will be the mechanism for assuring safe performance of the mission.

The Management Council's evaluations found that in certain circumstances, it would be to NNSA's advantage to continue using the Department's assets. For example, Price-Anderson enforcement has functioned effectively. NNSA has negotiated a memorandum of understanding outlining how the Office of Enforcement and Investigation will provide the same services to me for matters involving the NNSA's operations as are provided to the Secretary for the DOE.

Another area in which NNSA will continue to rely on assistance from the DOE is the investigation of serious accidents. The services of the Department will continue to be used with full participation by the NNSA technical staff. This has worked effectively over the past two years. The arrangement will be formalized to assure that I have a key role in the investigatory process.

Where appropriate, NNSA is seeking autonomy, but it has negotiated—and will continue to negotiate—the use of the Department's staff to address NNSA needs, with the proviso that DOE support staff function in accordance with an agreement that ensures that NNSA priorities and standards are the basis of the service.

6. NNSA resolved key issues left unanswered in the *May Report*

NNSA committed to "assemble an expert group to review and make recommendations or provide options for resolving long-standing, very complex issues concerning roles and responsibilities—particularly in the relationship between headquarters and field elements." NNSA committed to reviewing these four issues:

- The line of authority and accountability for managing programs.
- The roles and responsibilities for safety, security, and funding for NNSA facilities.
- The structure of NNSA's field elements (including Operations and Area Offices) and the reporting relationships to headquarters program and support components.
- The powers invested in line functions versus staff functions.

As the Management Council began operating, NNSA's new leadership focused on resolving these issues within the organization ***before*** submitting them to the "expert group" for

external review. Under the direction of the Principal Deputy Administrator, key NNSA managers developed options for addressing these issues during the summer. These options were discussed individually with senior managers from across the NNSA complex and then collectively in a meeting held on August 30, 2001, in Albuquerque, New Mexico. From those discussions, the options were refined and discussed with five senior external advisors[2] on the morning of September 11, 2001, and then with a subset of that group for most of the following day. Since then, consultations with these advisors and others have continued, and the NNSA Management Council has considered and agreed on the following decisions and actions that will resolve the four issues and improve both mission ***effectiveness*** and organizational ***efficiency***:

- $ NNSA has chosen a model for organizing its field structure that ***eliminates a layer of management and provides criteria for redeploying federal staff***.
- $ NNSA has defined key reporting relationships. Fundamentally, the laboratories, production plants, and test site contractors report to me through a contracting officer who is also an NNSA Site Office manager.
- $ NNSA has defined the lines of authority for managing programs by delegating responsibility to the Program Deputy Administrators (DP and NN) for integrating all aspects of their assigned missions.
- $ NNSA has clarified the roles of headquarters organizations, particularly in regard to facilities. The Associate Administrators tasked with key support functions will be empowered advocates for weapons complex stewardship and business improvement, not line managers.
- $ NNSA has resolved the so-called "two headquarters" problem by adopting guidelines for activities that will be performed by headquarters and field elements (federal and contractor).
- $ I will issue written delegations and defined tasking protocols outlining the powers invested in federal line and staff officers.

NNSA Established the Role of Facilities and Operations. The Associate Administrator for Facilities and Operations (F&O) will be the empowered advocate for the stewardship of the nuclear weapons complex and is an equal member of the NNSA Management Council. In addition, F&O will measure and assist in improving operational performance. Specifically, this component will:

- $ Set policy and guidance for facilities management; project management; environment, safety, and health; and safeguards and security.
- $ Provide policy, guidance and assessment of the NNSA ten-year site plans prepared by each facility contractor and assist the Program Deputy Administrators in the integration of these plans across the complex.
- $ Provide technical assistance to federal field offices.

[2] Don Pearman, Troy Wade, Nick Aquilina, Thomas Seitz, and Rush Inlow.

- $ Monitor performance and outcomes.
- $ Assess oversight systems.
- $ Assist program components to integrate operational considerations into resource and budget planning.
- $ Integrate and defend budgets for the Safeguards and Security and the Facilities and Infrastructure Recapitalization Program line items, to ensure that program components can achieve mission objectives. I will formally delegate to F&O line authority for managing these line-item functions.

F&O will perform these functions in coordination with the program organizations and will only task federal field elements as defined in formal delegations from me, to avoid creation of separate functional lines of command for facilities, safety, and security.

Conclusion

Mr. Chairman, our objectives are clear – we must effectively and efficiently perform our nuclear security missions for the nation. Today, our nuclear stockpile is safe, secure, and reliable. We are actively engaged in efforts to assist in detecting, deterring, and reversing proliferation and terrorism involving weapons of mass destruction. And we continue to supply the Navy with safe, militarily effective nuclear propulsion systems. Achieving these goals will require a strong commitment to the recapitalization of the nuclear weapons infrastructure—a smaller infrastructure, to be sure, but one that is sufficiently modern and capable to fully support the Administration's Nuclear Posture Review and, more broadly, our nation's defense. I believe that the organizational enhancements we have discussed today put us on the right path to maintaining mission effectiveness and improving organizational efficiency.