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UNITED STATES GENERAL ACCOUNTING OFFICE
WASHINGTON, D.C. 20548

ENERGY AND MINERALS
DIVISION

NOVEMBER 26, 1980

B-199916

The Honorable Charles W. Duncan, Jr.
The Secretary of Energy

Dear Mr. Secretary:

Subject: [Argonne National Laboratory
Early Retirement Program]
(EMD-81-33)

During our ongoing review of the Department of Energy's process for renewing the operating contract for the Argonne National Laboratory, we found a situation that we believe warrants your immediate attention. On June 15, 1979, the Department approved the operating contractor's proposed program to encourage senior laboratory scientists to retire earlier than the normal retirement age of 65 years. Through this early retirement program, the Laboratory and the Department were hoping to terminate the employment of older, less productive senior laboratory scientists who were engaged in less important work and who could not readily adapt to changing priorities. By so doing, vacancies would be created for younger, more adaptable scientists.

What warrants your immediate attention is the Department's acceptance of the proposal without any meaningful analysis by either the contractor or the Department. Specifically, the Department did not validate the program's objectives or determine that the early retirement program was appropriate for or was focused on achieving those objectives. Because the Department failed to make such an analysis, the program has resulted in:

- The expenditure of \$1.7 million in severance payments to 59 laboratory employees in violation of Department regulations.
- The inclusion of administrative employees in the program even though the program's objectives were not directed toward them. Twenty-three of the 59 employees who retired with severance pay were administrative employees.

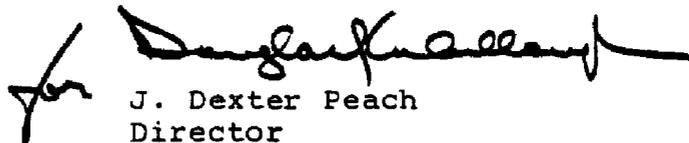
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--The loss of some senior laboratory scientists who were making valuable contributions. Had the Department considered other alternatives for creating openings for younger scientists through existing mechanisms such as identifying and terminating less productive employees regardless of age, these losses may have been avoided.

We did not attempt to determine if a problem existed with an aging scientific staff at the Laboratory or, if such a problem did indeed exist, whether the early retirement program was the best way to address the problem. As noted above, however, we identified a number of drawbacks to the program and therefore believe that other, more desirable alternatives may have existed. Because parts of this program are still continuing and because the program could serve as an incentive and precedent for other national laboratory contractors, we believe you should reevaluate in more detail the justification for, and the Department's approval of, the Argonne early retirement program. This reevaluation should provide the Department with a good basis for (1) terminating the subject program if you find that it is not in the Department's best interests, and (2) evaluating future contractor requests for early retirement programs.

Enclosed is a more detailed discussion of our findings. We would appreciate a response from you informing us of any actions you plan to take to review this matter, and the results of any such review.

Sincerely yours,

A handwritten signature in black ink, appearing to read "J. Dexter Peach". To the left of the signature is a small, stylized mark that looks like "for".

J. Dexter Peach
Director

Enclosure

DRAWBACKS TO THE
ARGONNE NATIONAL LABORATORY'S
EARLY RETIREMENT PROGRAM

BACKGROUND

The Argonne National Laboratory is a government-owned laboratory jointly operated for the Department of Energy by the University of Chicago and a consortium of midwest universities called the Argonne Universities Association. Day-to-day Laboratory operations are the University's responsibility. The Association is responsible for establishing basic laboratory policies. The Laboratory conducts energy and basic sciences-related research for the Department and to a limited extent for other Federal agencies. Technically, laboratory personnel are employed by the University of Chicago but their pay and personnel benefits differ and are separate from the mainstream University employees. Pay and personnel benefits are set out in an appendix to the Argonne National Laboratory contract.

On April 20, 1979, the contractor, through the Laboratory Director, asked the Department to approve a three-part early retirement program for Laboratory employees. Department approval was necessary because the proposed program represented a change to the contract which would require expenditures by the Department. The program consisted of:

- A voluntary separation plan. Under this plan any employee aged 60 or more with at least 20 years of service could receive a one-time lump-sum payment of 90 to 100 percent of his annual salary if the employee retired by March 31, 1980.
- An accelerated retirement plan. Employees over age 55 could elect to retire with full benefits at age 62 instead of age 65. For employees electing this option, employees and contractor retirement contributions would be adjusted and paid until the employee reached age 62. The contractor's contributions would cease when the employees reached age 62 even if the employee elected to work beyond that age.
- An improved medical plan. Medical plan premiums for qualifying employees would be reduced.

The Director, in justifying the program, said the program would enhance the Laboratory's flexibility to meet changing national priorities and would help accomplish the following interrelated laboratory objectives:

- Revitalize the scientific staff by retiring those who are not primary contributors.
- Infuse new ideas by bringing in new talent.
- Increase promotion opportunities for the present staff.
- Create more meaningful job opportunities for minorities and females.
- More effectively meet changing national priorities by maintaining a high percentage of top-quality professional staff.

The Laboratory Director said the program would provide a basis for terminating the employment of older, less productive, senior employees, many of whose services have become less important, and for whom internal transfer, retraining, or other alternatives were not feasible or were less desirable than retirement. He added that the program was intended for use where involuntary separation action was not a realistic alternative.

The Laboratory submitted the proposal to the Manager of the Department's Chicago Operations Office. This Office initially had misgivings about the program because of its estimated cost and because the contractor already had involuntary separation procedures which could be used to terminate the employment of unproductive employees. On May 23, 1979, however, the Operations Office Manager recommended that the Department's Office of Industrial Relations approve the program because it was a reasonable approach to accomplish the contractor's objectives. Without further analysis, on June 15, 1979, the Office of Industrial Relations approved the program effective July 1, 1979. Since then, the voluntary separation plan has ended as planned but the accelerated retirement plan and improved medical plan continue to be available to Laboratory employees.

THE DEPARTMENT APPROVED THE
PROGRAM WITHOUT MEANINGFUL
ANALYSIS

The Department agreed to the proposed early retirement program without questioning its fundamental premise: the Laboratory's overall performance was impaired because many senior scientists were engaged in less important work and could not adapt to new work priorities. The Department then compounded this failure by making no effort to determine if the program was the appropriate mechanism to address the perceived problem or if other, less expensive and more effective alternatives existed.

Some obvious questions about the need for and details of the early retirement program which the Department did not answer before approving it included:

- What are "less important services," and which Laboratory scientists are engaged in them? What specific services does the contractor consider less important, and does the Department agree? Are there less important services being performed at the Laboratory by scientists other than the senior scientists that might qualify for an early retirement program?
- Are less important services important enough for continued Department funding? If so, is it appropriate to encourage scientists providing these services to retire early? If not, should these scientists be transferred or released?
- Are there more effective and less expensive mechanisms available to improve the Laboratory's overall performance? Was the contractor's contention that these scientists could not be transferred or retrained correct? Would the contractor lose senior scientists making important contributions in addition to those making lesser contributions? Should the contractor concentrate instead on identifying and releasing less productive scientists of all ages? Is it appropriate to include administrative personnel in a program aimed exclusively at improving the Laboratory's scientific staff?

RESULTS OF THE EARLY
RETIREMENT PROGRAM

Because the Department did not seek answers to the questions listed above, it approved a program without having a basis for knowing whether it had a good chance of achieving the laboratory's personnel objectives without adversely affecting the Laboratory's overall operation. This failure to make a detailed analysis of the proposal has led to a program which thus far has resulted in:

- The expenditure of about \$1.7 million of the Department's funds for severance payments in violation of Department regulations.
- The inclusion of administrative personnel in the program even though the program's objectives were not directed towards them. Twenty-three administrative employees retired with severance pay.
- The early loss of some senior scientists who, according to the contractor, were making valuable contributions.

Severance pay is a payment, in addition to regular salary and wages, by an organization to personnel whose employment is terminated. The Department's procurement regulations permit the use of severance pay by Department contractors for involuntary separations by reduction-in-force but not for early or normal retirement programs.

While the Argonne National Laboratory contract permits the contractor to make severance payments to qualifying employees under involuntary separation conditions, the early retirement program approved by the Department allowed the contractor to pay employees volunteering to retire a lump-sum separation payment of from 90 to 100 percent of annual salary. The contractor paid 59 of 138 eligible employees a total of about \$1.7 million in separation payments. These payments clearly represent severance payments for early retirements in violation of the procurement regulation.

Twenty-three of the 59 employees who retired were administrative personnel. The contractor decided to include these employees in the program, even though their retirement would not contribute to the program's objectives and, in fact, could adversely affect the operation of the Laboratory. Again, the Department approved the contractor's decision without further analysis.

Finally, contractor officials told us that none of the retirees were poor performers; rather, most were average while some were outstanding. They also told us that they lost some scientists in high-demand disciplines who have not been replaced. For example, only 10 of the 36 scientific positions have been filled--3 by new hires and 7 by promotions--and Laboratory managers told us they have no plans to fill the remaining 26 positions.

CONCLUSIONS

The Argonne National Laboratory early retirement program was developed by the contractor as a way of terminating scientists who, it said, were providing "less important services," were decreasing in productivity, and could not readily adapt to changing priorities. The Department approved the program without any meaningful analysis of the need for the program and without determining if it was the best way to achieve the contractor's objectives. Because of this, the Department has paid out about \$1.7 million in severance payments in violation of its own regulations and approved a program which has not accomplished what it set out to do. Administrative staff as well as scientists have retired early, positions vacated by early retirees have not been filled, and the services of some outstanding scientists have been lost.

We did not attempt to determine if a problem existed with an aging scientific staff at the Laboratory or, if such a problem did indeed exist, whether an early retirement program was the best way to address the problem. There are a number of drawbacks to the subject program, however, and in view of these drawbacks, we believe a better alternative may have existed. For example, a good rating and counseling program should have identified and targeted for dismissal those employees who are not productive, regardless of age. Terminating these employees to create vacancies for younger, talented scientists is a much better approach in our view and would have avoided the drawbacks of the retirement program. If no such employees exist, we fail to see why a program to terminate the employment of any scientist is needed unless there is a need for a reduction-in-force. The Argonne contract already included a mechanism for implementing a reduction in force.

Because parts of the early retirement program are continuing at the Laboratory and because this program could serve as a precedent and incentive for other national laboratory contractors, we believe the Department should reevaluate

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in more detail the basis for and approval of the Argonne early retirement program.

The reevaluation should provide the Department with a good basis for (1) terminating the subject program if the Department finds that the program is not in its best interest, and (2) evaluating future contractor requests for early retirement programs.