

Highlights of [GAO-13-510T](#), a testimony before the Subcommittee on Strategic Forces, Committee on Armed Services, U. S. Senate

Why GAO Did This Study

DOE's NNSA and EM ensure the safety, security, and reliability of the U.S. nuclear weapons stockpile and address environmental cleanup of Cold War sites. Together, NNSA and EM have outlined plans that could commit American taxpayers to \$450 billion in programs and projects over decades to address their missions. NNSA and EM oversee contracts for the execution of both projects, including capital asset acquisitions, and programs central to the achievement of their missions. GAO has reported on the status of DOE's projects and programs and has repeatedly identified cost overruns as compared with cost estimates. A realistic cost estimate provides a basis for both an accurate budget and effective resource allocation. In a time of fiscal constraint, Congress needs high-quality cost information upon which to make decisions about NNSA's and EM's projects and programs.

This testimony focuses on GAO's (1) prior findings and preliminary observations from ongoing work on cost-estimating practices for NNSA's and EM's capital asset projects, and (2) prior findings and preliminary observations from ongoing work on cost-estimating practices for NNSA's operating programs. It is largely based on prior GAO reports issued from January 2010 to February 2013. For its ongoing work, GAO reviewed DOE policies, orders, and guidance and interviewed DOE, NNSA, and contractor officials.

GAO is making no new recommendations. DOE continues to act on the recommendations GAO has made to improve cost estimating. GAO will continue to monitor implementation of these recommendations.

View [GAO-13-510T](#). For more information, contact David Trimble at (202) 512-3841 or trimbled@gao.gov.

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DEPARTMENT OF ENERGY

Observations on Project and Program Cost Estimating in NNSA and the Office of Environmental Management

What GAO Found

For more than a decade, GAO has reported on the challenges the Department of Energy's (DOE) National Nuclear Security Administration (NNSA) and the Office of Environmental Management (EM) have faced in meeting their projects' cost performance targets as developed in estimates and for ensuring that these cost estimates are based on sound assumptions. NNSA and EM are included on GAO's High-Risk List in recognition of the potential for vulnerabilities to fraud, waste, abuse, and mismanagement in contract administration and management of major projects. In January 2010, GAO reported on DOE's project cost-estimating practices and found that DOE did not have a cost-estimating policy and that cost-estimating guidance it had developed in the 1990s remained in effect but was out-of-date. GAO also found that DOE was taking steps to improve its cost-estimating practices, such as establishing the Office of Cost Analysis (OCA) in 2008 to improve cost-estimating capabilities and better ensure that project cost estimates are reliable by providing a new independent cost-estimating function. Both DOE's NNSA, a separately organized agency within the department, and EM adopted policies and practices to support cost estimating. GAO is conducting an ongoing review of DOE's and NNSA's cost-estimating practices for this Subcommittee. Its preliminary observations indicate that while DOE followed through on some of GAO's January 2010 recommendations to improve the department's cost-estimating practices—such as revising the department's project management order to better align it with some cost-estimating best practices—it has not addressed other recommendations with which it initially concurred. For example, GAO's preliminary observations indicate that OCA has been disbanded, and DOE may not have developed a cost-estimating policy.

To develop budget estimates for operating programs, NNSA has implemented a planning, programming, budgeting, and evaluation (PPBE) process, which provides a framework for the agency to plan, prioritize, fund, and evaluate program activities. In particular, NNSA's PPBE policy includes a process by which the agency reviews the cost-estimating practices used by its contractors and its program office to validate future budget requests. In June 2010, GAO reported on NNSA's program to operate and maintain weapons facilities and infrastructure and found that NNSA could not accurately identify the total costs of this program's activities. GAO determined that, for fiscal year 2009, the costs of the activities associated with this program totaled over \$500 million more than the budget request for it. Building on these findings, in July 2012, GAO reported on NNSA's implementation of its PPBE process, particularly in the area of validating programs' budget requests, and found deficiencies that GAO concluded effect the credibility and reliability of those estimates. For example, GAO found that NNSA officials conducted informal, undocumented reviews of budget estimates that contractors submitted because, according to agency officials, the agency's trust in its contractors minimized the need for formal review of budget estimates provided by them. Further, GAO found that NNSA's annual budget validation review process occurred too late in its budget cycle to inform agency or congressional budget development or appropriations decisions. GAO made recommendations to address these two deficiencies, and NNSA agreed with these recommendations. Preliminary observations from GAO's ongoing work for this Subcommittee on DOE cost estimating show that DOE and NNSA may not have specific cost-estimating requirements or guidance for programs to support the budget formulation process, an issue on which GAO did not make recommendations in its July 2012 report.

GAO plans to report on this ongoing work later this year.