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NATIONAL NUCLEAR SECURITY ADMINISTRATION

A Plan Incorporating Leading Practices Is Needed to Guide Cost Reporting Improvement Effort

GAO Highlights

Highlights of [GAO-17-141](#), a report to congressional committees

Why GAO Did This Study

Effective management and oversight of contracts, projects, and programs are dependent upon the availability of reliable enterprise-wide financial management information. Such information is also needed by Congress to carry out its oversight responsibilities and make budgetary decisions. However, meaningful cost analysis of NNSA programs, including comparisons across programs, contractors, and sites, is not possible because NNSA's contractors use different methods of accounting for and tracking costs.

The National Defense Authorization Act for Fiscal Year 2014 required NNSA to develop and submit to Congress a plan to improve and integrate its financial management. An explanatory statement accompanying the act included a provision for GAO to review the adequacy of NNSA's plan. This report evaluates the extent to which NNSA's plan (1) addresses the objectives of the act and (2) follows leading practices for planning. GAO reviewed NNSA's plan and compared it with legislative requirements and leading practices for planning and interviewed NNSA officials.

What GAO Recommends

To provide a road map to guide NNSA's financial management improvement effort, GAO recommends that the NNSA Administrator direct the Program Director of Financial Integration to develop a plan for producing cost information that fully incorporates leading planning practices. NNSA agreed to update its plan and address the items GAO identified.

View [GAO-17-141](#). For more information, contact David C. Trimble at (202) 512-3841 or trimbled@gao.gov.

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A Plan Incorporating Leading Practices Is Needed to Guide Cost Reporting Improvement Effort

What GAO Found

On February 5, 2016, more than 13 months after the statutory reporting deadline, the National Nuclear Security Administration (NNSA) submitted to Congress a plan for improving and integrating its financial management. The plan includes the four elements required by the National Defense Authorization Act for Fiscal Year 2014—a feasibility assessment, estimated costs, expected results, and an implementation timeline—but contains few details related to each of these elements. For example, NNSA's feasibility assessment includes a list of implementation concerns—including general concerns related to the availability of resources and to identifying and implementing an information technology solution—but does not provide any specific information regarding these concerns. In addition, NNSA's plan includes a cost estimate of between \$10 million and \$70 million but provides no details on how the estimate was developed beyond stating that it is based on professional judgment and input from NNSA's contractors. The plan also includes a "notional" implementation timeline that calls for the plan's core elements to be completed in 3 to 5 years but does not include details on which elements are considered core elements.

NNSA's financial integration plan does not fully incorporate leading strategic planning practices, which limits its usefulness as a planning tool as well as the effectiveness of NNSA's effort to provide meaningful financial information to Congress and other stakeholders. As GAO has reported previously, in developing plans for implementing new initiatives, agencies can benefit from following leading practices for strategic planning. These leading practices include (1) defining the missions and goals of a program or initiative, (2) defining strategies and identifying resources needed to achieve goals, (3) ensuring leadership involvement, and (4) involving stakeholders in planning. However, NNSA's plan does not fully incorporate any of these leading practices. For example, beyond the high-level cost estimate provided, NNSA's plan does not include a description of the specific resources needed to meet specific elements of the plan or define strategies that address management challenges, including the implementation concerns identified in the plan's feasibility assessment. In addition, NNSA did not involve key stakeholders in developing its plan. Because NNSA's plan does not incorporate leading strategic planning practices, it has not provided a useful road map for guiding NNSA's effort. NNSA officials told GAO that the plan they submitted to Congress was never intended to provide a road map to guide their efforts. Instead, they said the purpose of the plan was to identify general principles and a strategic vision for achieving financial integration. The NNSA official responsible for overseeing the plan's execution told GAO, he has begun to develop a more comprehensive and actionable plan to guide NNSA's effort. However, it is unclear when the new plan will be finalized or the extent to which it will incorporate leading practices. Until a plan is in place that incorporates leading strategic planning practices, NNSA cannot be assured that its efforts will result in a cost collection tool that produces reliable enterprise-wide information that satisfies the needs of Congress and program managers. Such information would better position NNSA to address long-standing contract and project management challenges. Without proper planning, NNSA could waste valuable resources, time, and effort on its financial integration effort.

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Abbreviations

| | |
|--------|--|
| CIO | chief information officer |
| DOE | Department of Energy |
| EPAT | Enterprise Portfolio Analysis Tool |
| GPRA | Government Performance and Results Act |
| GPRAMA | GPRA Modernization Act |
| NNSA | National Nuclear Security Administration |
| OMB | Office of Management and Budget |
| WBS | work breakdown structures |

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January 19, 2017

Congressional Committees

The Department of Energy's (DOE) National Nuclear Security Administration (NNSA) is charged with ensuring a safe, secure, and reliable nuclear deterrent; achieving designated reductions in the nuclear weapons stockpile; and supporting the nation's nuclear nonproliferation efforts. NNSA is responsible for activities in pursuit of these missions, which are largely executed at eight government-owned, contractor-operated sites that comprise the nuclear security enterprise. Since 1990, however, DOE's management of contracts and projects, including those executed by NNSA, has been on our list of areas at high risk for fraud, waste, abuse, and mismanagement.¹ As we have reported over the past several years, NNSA's efforts to modernize the nuclear security enterprise continue to involve cost overruns, schedule delays, and problems with contract management and oversight.² Effective management and oversight of the contracts, projects, and programs that support NNSA's mission are dependent upon the availability of reliable enterprise-wide management information. Such information is needed to, among other things, prepare budget requests, identify the costs of activities, and ensure the validity of cost estimates. Accurate and reliable information on costs is also needed by Congress so it can carry out its oversight responsibilities and make budgetary decisions.

As we have reported previously, however, NNSA and Congress have had difficulty understanding and comparing costs across programs, contractors, and sites because NNSA's contractors use different methods

¹GAO, *High-Risk Series: An Update*, [GAO-13-283](#) (Washington, D.C.: February 2013). In our 2013 High-Risk Update, to acknowledge progress DOE, including NNSA, had made in managing nonmajor projects (i.e., those costing less than \$750 million), we narrowed the focus of DOE's high-risk designation to major contracts and projects (i.e., those costing \$750 million or greater) but noted that we would continue to monitor nonmajor projects to ensure that progress in this area continues and is sustained.

²See, for example, GAO, *Nuclear Weapons: Factors Leading to Cost Increases with the Uranium Processing Facility*, [GAO-13-686R](#), (Washington, D.C.: July 12, 2013) and GAO, *Department of Energy: Observations on Project and Program Cost Estimating in NNSA and the Office of Environmental Management*, [GAO-13-510T](#) (Washington, D.C.: May 8, 2013).

of accounting for and tracking costs.³ For example, in 2010 we found that NNSA could not accurately identify the total costs to operate and maintain weapons facilities and infrastructure because of differences in sites' cost accounting practices. Specifically, our analysis of sites' responses to a data collection instrument showed that the total cost to operate and maintain weapons facilities and infrastructure likely significantly exceeded the budget request submitted to Congress for fiscal year 2009 for Readiness in Technical Base and Facilities—the program responsible for providing the underlying physical infrastructure and operational readiness for the nuclear security enterprise. We recommended that the Administrator of NNSA develop guidance for contractors to consistently collect information on the total costs to operate and maintain weapons activities facilities. In response to our recommendation, NNSA developed a tool to collect more consistent cost information. In 2013, however, we found that NNSA was uncertain how it would use the data gathered by its new cost collection tool and that data collected were reported at an aggregate level and were not useful for comparing detailed costs across contractors.⁴ We recommended, among other things, that NNSA clarify the uses of the data gathered through its cost collection tool. Although NNSA agreed to address our recommendation, NNSA officials have since concluded that the cost collection tool is not capable of providing enterprise-wide information in the way that NNSA had hoped.

Because the cost of activities at different NNSA sites cannot be easily compared and analyzed, it can be challenging for Congress to determine if NNSA is operating in an efficient, cost-effective manner and thereby to provide effective oversight. To address this issue, section 3128 of the National Defense Authorization Act for Fiscal Year 2014 required NNSA to develop and submit to Congress a plan for improving and integrating financial management of the nuclear security enterprise, including reporting program and project costs consistently, by no later than December 26, 2014.⁵ On February 8, 2016, more than 13 months after

³See, for example, GAO, *Department of Energy: Additional Opportunities Exist for Reducing Laboratory Contractors' Support Costs*, [GAO-05-897](#) (Washington, D.C.: Sept. 9, 2005) and GAO, *Nuclear Weapons: Actions Needed to Identify Total Costs of Weapons Complex Infrastructure and Research and Production Capabilities*, [GAO-10-582](#) (Washington, D.C.: June 21, 2010).

⁴GAO, *National Nuclear Security Administration: Laboratories' Indirect Cost Management Has Improved, but Additional Opportunities Exist*, [GAO-13-534](#) (Washington, D.C.: June 28, 2013).

⁵National Defense Authorization Act for Fiscal Year 2014, Pub. L. No. 113-66, div. C, title XXXI, subtitle B, § 3128, 127Stat.672,1065-66 (2013).

the statutory reporting deadline, NNSA submitted its Plan for Improvement and Integration of Financial Management of the Nuclear Security Enterprise.⁶ The Joint Explanatory Statement accompanying the act includes a provision for us to review the adequacy of NNSA's plan in meeting the objectives of the act and to offer recommendations for improvement. This report evaluates the extent to which NNSA's plan (1) addresses the objectives of the act and (2) follows leading practices for strategic planning.

To determine the extent to which NNSA's plan addresses the objectives of the act, we analyzed the statutory reporting requirements and compared these with the information contained in the plan NNSA provided to Congress in February 2016. To determine the extent to which NNSA's plan follows leading practices for strategic planning, we reviewed information contained in NNSA's financial integration plan and compared it with leading practices in federal strategic planning, including practices such as involving stakeholders in the development of mission, goals, and strategies and developing strategies to address challenges that may threaten an agency's ability to achieve its goal. We also interviewed NNSA officials in charge of developing and implementing the plan. In addition, we interviewed a non-generalizable sample of NNSA and contractor officials representing various program offices and sites to learn about (1) the extent to which they had a role in developing NNSA's financial integration plan and (2) the current condition of cost collection, including what systems are used to collect costs, what costs are collected, and how they are collected. We selected our sample from the program offices with the highest of fiscal year 2015 enacted appropriations. We also interviewed officials from the Department of Defense's Office of Cost Assessment and Program Evaluation regarding their experience in studying efforts to collect comparable contractor costs at NNSA. We analyzed NNSA program offices' documentation on systems the program offices were developing to collect common cost reporting data and reviewed our and the DOE Inspector General's reports on cost comparability at NNSA. We obtained written comments from the DOE chief information officer (CIO) and interviewed the NNSA CIO to understand their roles in developing the plan.

⁶The plan was dated January 2016, but it was not delivered to congressional committees until February 8, 2016.

We conducted this performance audit from January 2015 to January 2017 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 objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Background

This background section discusses (1) NNSA's methods of accounting for and tracking costs, (2) the legislative requirement for NNSA to develop a plan to improve and integrate financial management, and (3) leading practices for strategic planning.

NNSA's Methods of Accounting for and Tracking Costs

NNSA contractors use different methods to account for costs, according to NNSA officials. In general, federal Cost Accounting Standards govern how federal contractors, including NNSA's contractors account for costs.⁷ Federal Cost Accounting Standards provide direction for the consistent and equitable distribution of contractors' costs to help federal agencies more accurately determine the actual costs of their contracts, projects, and programs. In particular, these standards establish requirements for the measurement, assignment, and allocation of costs to government contracts and provide criteria for the classification and allocation of indirect costs.

To allocate costs to programs, contractors are to classify costs as either direct or indirect. Direct costs, are assigned to the benefitting program or programs. Indirect costs—those costs that cannot be assigned to a particular program such as costs for administration and site support—are to be accumulated, or grouped, into indirect cost pools. The contractor is to estimate the amount of indirect costs (accumulated into indirect cost pools) that will need to be distributed to each program and adjust the

⁷The Cost Accounting Standards are a set of 19 standards promulgated by the U.S. Cost Accounting Standards Board, an independent and statutorily established board (41 U.S.C.ch.15) that is administratively part of the Office of Management and Budget's Office of Federal Procurement Policy. For current applicability, see 48 C.F.R. ch. 99. A different standard governs how federal agencies account for and track managerial cost accounting information. The Statement of Federal Financial Accounting Standards No. 4, *Managerial Cost Accounting Concepts and Standards for the Federal Government*, requires government agencies to, among other things, determine and report the full costs of government goods and services, including direct and indirect costs.

costs to actual costs by the end of the fiscal year. The contractor then is to distribute these costs based on a rate in accordance with the cost allocation model. The final program cost is the sum of the total direct costs plus the indirect costs distributed to the program.

In implementing this allocation process, federal Cost Accounting Standards provide contractors with flexibility regarding the extent to which they identify incurred costs directly with a specific program and how they collect similar costs into indirect cost pools and allocate them among programs. Therefore, similar costs may be allocated differently because contractors' cost allocation models differ.⁸ Specifically, cost models may differ in how they (1) classify costs as either direct or indirect, (2) accumulate these costs into indirect cost pools, and (3) distribute indirect costs to benefitting programs. Examples follow:

- **Classification.** Contractors may differ in how they classify costs as direct or indirect. For example, electricity and other utility costs are usually classified as indirect because they are not associated with a single program; however, electricity costs could be charged directly if, for example, a contractor installs a meter to track the electricity consumption in a building used solely by one program.
- **Accumulation.** Contractors may differ in how they accumulate indirect costs into indirect-cost pools. The number and type of cost pools used to accumulate indirect costs may vary.
- **Distribution.** Management and Operating (M&O) contractors may differ in how they distribute indirect costs accumulated into indirect-cost pools to programs.

Because similar indirect costs can be allocated differently by different contractors and contractors may change the way they allocate indirect costs over time, it is difficult to compare contractor costs among sites.

NNSA contractors also use different methods to track costs, according to NNSA officials. Specifically, NNSA contractors use different work breakdown structures (WBS) for tracking costs. A WBS is a method of deconstructing a program's end product into successive levels (of detail) with smaller specific elements until the work is subdivided to a level suitable for management control. Within WBSs, cost elements capture

⁸Cost allocation models outline the contractor's structure for identifying and allocating indirect costs.

discrete costs of a particular activity of work, such as labor, material, and fringe benefits. The use of different methods to track cost makes it difficult for NNSA and others to understand or compare costs for comparable activities across programs, contractors, and sites. For example, in 2011 we concluded that the cost savings that NNSA anticipated from the consolidation of the M&O contracts for two of its production sites were uncertain, in part, because historic cost data were not readily available for NNSA to use in its cost analysis.⁹ More specifically, we found that a key step in NNSA's process for estimating savings—developing a comparative baseline of historical site costs—is a difficult and inexact process because DOE and NNSA contractors use different methods for tracking costs, and DOE's cost data are of limited use in comparing sites.

To obtain more consistent information on costs, some program offices have developed customized contractor cost reporting requirements and designed various systems to collect the cost information needed to manage their programs. For example, NNSA's Office of Defense Programs began developing a data system in 2007—the Enterprise Portfolio Analysis Tool (EPAT)—to provide a consistent framework for managing the planning, programming, budgeting, and evaluation processes within Defense Programs. EPAT has evolved to incorporate a common WBS to allow managers to compare the budget estimates for analogous activities across the nuclear security enterprise regardless of which contractor or program is conducting them. However, NNSA officials told us that neither EPAT nor other customized, program-specific cost collection systems satisfy the section 3128 requirements for establishing an NNSA-wide approach to collecting cost information. According to NNSA officials, EPAT is not suitable because, among other reasons, it is not designed to reconcile with the DOE's official accounting system.

Legislative Requirement for NNSA to Develop a Plan to Improve and Integrate Financial Management

Section 3128 of the National Defense Authorization Act for Fiscal Year 2014 requires NNSA to develop a plan for improving and integrating financial management of the nuclear security enterprise. The Joint Explanatory Statement accompanying the act states that NNSA is to develop a plan for a common cost structure for activities at different sites with the purpose of comparing how efficiently different sites within the NNSA complex are carrying out similar activities. According to the act,

⁹GAO, *Modernizing the Nuclear Security Enterprise: The National Nuclear Security Administration's Proposed Acquisition Strategy Needs Further Clarification and Assessment*, [GAO-11-848](#) (Washington, D.C.: Sep 20, 2011).

matters to be included in the plan are: (1) an assessment of the feasibility of the plan (2) the estimated costs of carrying out the plan, (3) an assessment of the expected results of the plan, and (4) a timeline for implementation of the plan.

In April 2014, to address the requirements of section 3128, NNSA formed a Lean Six Sigma team of 20 federal and contractor staff.¹⁰ In December 2014, the team produced a report that summarized the results of the team's effort and included a number of recommendations to NNSA.¹¹ According to the report, the team's work also addressed separate but related requirements contained in a different section of the National Defense Authorization Act for Fiscal Year 2014. Specifically, section 3112 requires the NNSA Administrator to establish a Director for Cost Estimation and Program Evaluation to serve as the principal advisor for cost estimation and program evaluation activities, including development of a cost data collection and reporting system for designated NNSA programs and projects. Therefore, according to the December 2014 report, the team focused on both the requirements of section 3128 and the development of a cost data collection and reporting system required by section 3112.

Leading Practices for Strategic Planning

We have previously reported that, in developing new initiatives, agencies can benefit from following leading practices for strategic planning.¹² Congress enacted the GPRA Modernization Act of 2010 (GPRAMA) to improve the efficiency and accountability of federal programs and, among other things, to update the requirement that federal agencies develop long-term strategic plans that include agencywide goals and strategies for achieving those goals.¹³ The Office of Management and Budget (OMB)

¹⁰Lean Six Sigma is a data-driven approach used in the private sector and government for analyzing work processes based on the idea of eliminating defects and errors that contribute to losses of time, money, opportunities, or business.

¹¹*National Defense Authorization Act for Fiscal Year 2014, Section 3128 Financial Management Improvement Team Report.* (Washington, D.C.: December 2014).

¹²GAO, *Environmental Protection: EPA Should Develop a Strategic Plan for Its New Compliance Initiative*, [GAO-13-115](#) (Washington, D.C.: Dec. 10, 2012) and; GAO, *Environmental Justice: EPA Needs to Take Additional Actions to Help Ensure Effective Implementation*, [GAO-12-77](#) (Washington, D.C.: Oct. 6, 2011).

¹³Pub. L. No. 111-352, § 2, 124 Stat. 3866, 3866-3867 (2011), *codified at* 5 U.S.C. § 306(a). GPRAMA updated the Government Performance and Results Act of 1993 (GPRA), Pub. L. No. 103-62, 107 Stat.285 (1993).

has provided guidance in Circular A-11 to agencies on how to prepare these plans in accordance with the GPRA Modernization Act of 2010 (GPRAMA) requirements. We have reported in the past that, taken together, the strategic planning elements established under the Government Performance and Results Act of 1993 (GPRA), as updated by GPRAMA, and associated OMB guidance, along with practices we have identified, provide a framework of leading practices that can be used for strategic planning at lower levels within federal agencies, such as planning for individual divisions, programs, or initiatives.¹⁴

NNSA's Financial Integration Plan Includes Required Elements but Contains Few Details Regarding Its Feasibility, Estimated Cost, Timelines, and Expected Result

In February 2016, more than 13 months after the statutory reporting deadline, NNSA produced a plan with the stated purpose of integrating and improving the financial management of the nuclear security enterprise. NNSA's plan includes the four elements required under section 3128—a feasibility assessment, estimated costs, expected results, and an implementation timeline—but contains few details related to each of these elements.

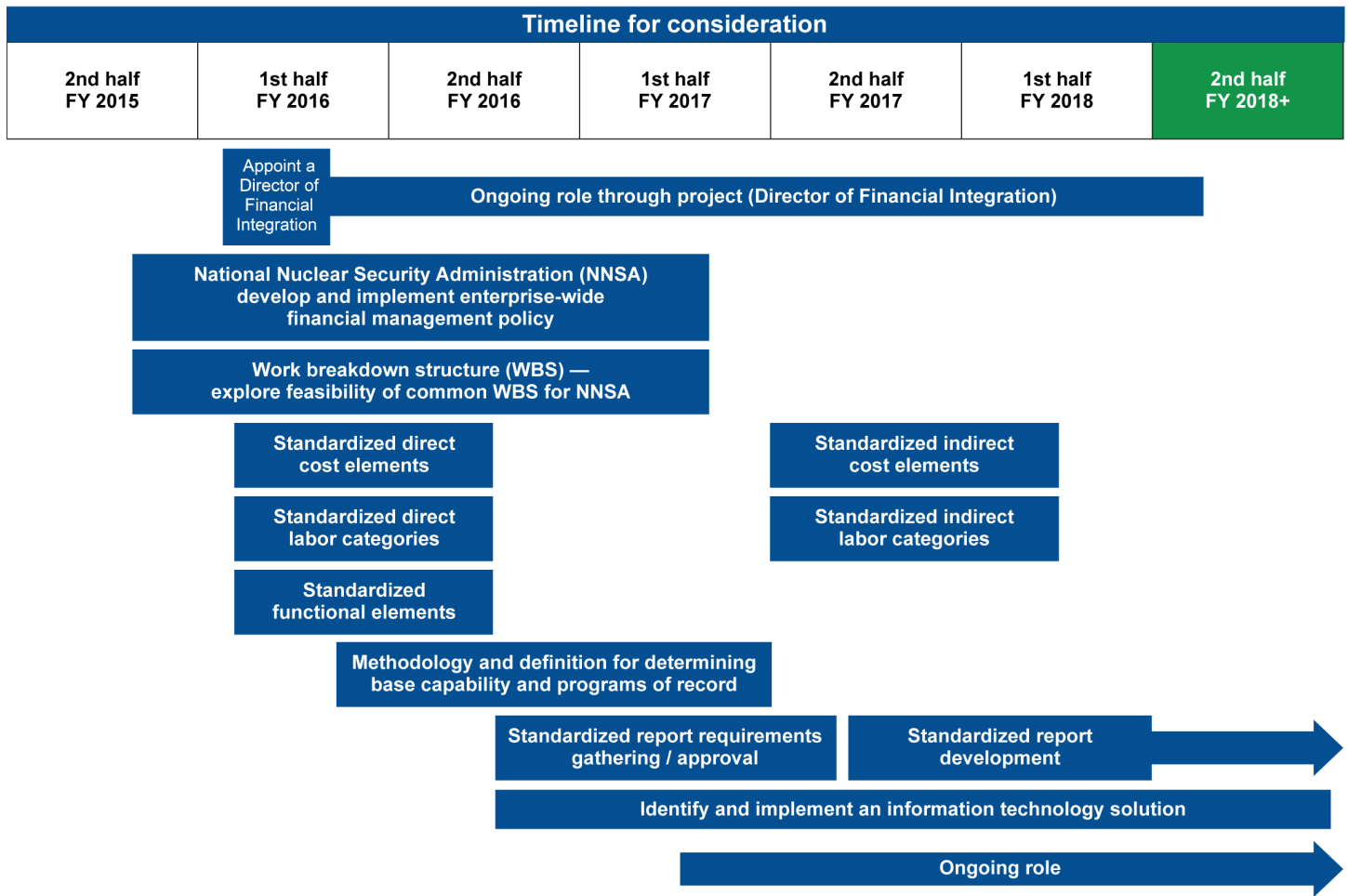
- Feasibility assessment. NNSA's plan includes a section entitled feasibility, which lists concerns regarding the feasibility of implementing the plan. The concerns listed are (1) the availability of resources, (2) the identification and implementation of an information technology solution, (3) the alignment of contractor systems and cost models with a new standardized reporting framework, and (4) that the use of the enterprise-wide approach may come at the expense of specific ad hoc reporting requests. NNSA's feasibility assessment does not provide any specific information regarding these concerns. In addition, it does not provide information on potential costs or benefits, which will be needed to determine if the planned investment of time and other resources will yield the desired results.
- Estimated cost. The plan includes information on the estimated cost of its implementation plan. It states that total federal and contractor implementation costs are estimated to be between \$10 million and

¹⁴For example, see GAO, *Veterans Health Care: Improvements Needed in Operationalizing Strategic Goals and Objectives*, GAO-17-50 (Washington, DC: October 2016); GAO, *Executive Guide: Effectively Implementing the Government Performance and Results Act*, GAO/GGD-96-118 (Washington, D.C.: June 1, 1996); GAO, *Tax Administration: IRS Needs to Further Refine Its Tax Filing Season Performance Measures*, GAO-03-143 (Washington, D.C.: Nov. 22, 2002); and GAO, *Managing for Results: Strengthening Regulatory Agencies' Performance Management Practices*, GAO/GGD-00-10 (Washington, D.C.: Oct. 28, 1999).

\$70 million, with the largest variable in the estimate being the cost of the information technology system requirements. NNSA's cost estimate, however, provides no details regarding how the estimate was developed, beyond stating that it is based on professional judgment and input from NNSA's contractors. Instead, the plan states that NNSA will provide a more precise estimate as the agency determines total staffing and information requirements.

- Expected results. The plan does not explicitly include a discussion of the expected results. However, the plan concludes that the collection of standard performance and cost data will improve both program and financial management through improved cost analysis, cost estimating, and program evaluation. The language in the conclusion, however, provides no details regarding the ways in which cost analysis, cost estimating, and program evaluation will be improved.
- Implementation timeline. The plan states that contractors will begin reporting detailed cost data into a common NNSA system in fiscal year 2019 and includes an implementation timeline for meeting this goal. (see fig. 1). Elements of the timeline include developing and implementing an enterprise-wide financial management policy, exploring the feasibility of a common WBS for NNSA, and standardizing direct and indirect cost elements. While NNSA's plan says its timeline is "notional," the plan provides a specific time frame of 3 to 5 years during which the core elements are expected to be completed. Moreover, the plan does not identify which elements are considered the "core elements" or explain the reasoning behind the implementation timeframe of 3 to 5 years.

Figure 1: NNSA's Financial Integration Plan Implementation Timeline



Source: Department of Energy/National Nuclear Security Administration. | GAO-17-141

As of December 2016, NNSA has fully implemented one of the elements included in the timeline by creating and filling the position of Program Director of Financial Integration. Other elements that were scheduled under NNSA's implementation timeline to begin in fiscal year 2015 and early fiscal year 2016 were not started according to the timeline but are now underway. For example, the timeline indicates that NNSA will begin developing and implementing an enterprise-wide financial management policy during the second half of fiscal year 2015 but this effort was not initiated until October 2016.

The elements listed in NNSA’s timeline correspond with the recommendations included in the December 2014 internal NNSA report¹⁵. The report recommended that NNSA:

- establish a clear and consistent program management policy addressing common program management data reporting requirements for all work performed with NNSA funding;
- establish a standard WBS for all work performed within the nuclear security enterprise;
- establish a clear and consistent policy and methodology for identifying base capabilities and programs of record that is systematically applied;
- report financial data by standardized labor categories, labor hours, functional elements, and cost elements;
- enhance or develop an agency data Warehouse and analytical tools;
- establish a knowledge management function; and
- appoint an “Executive Champion” to implement the recommendations and plan.

However, NNSA’s plan does not include additional details regarding each of the elements listed in its timeline or contain many of the details included in its internal agency report. Instead of using the information and recommendations from the December 2014 report as a basis for developing an actionable implementation plan, NNSA summarized portions of the report and issued the summary document as its official plan. Moreover, differences between the internal report and the published plan are not discussed or explained—potentially creating ambiguity as to NNSA’s planned approach. For example, the internal agency report recommends that NNSA establish a standard WBS for all work performed within the nuclear security enterprise. NNSA’s plan, however, states that NNSA will explore the feasibility of a common WBS—which leaves open the option of not creating a common WBS.

¹⁵Section 3128 Financial Management Improvement Team Report.

NNSA's Plan Does Not Fully Follow Leading Practices for Planning, Limiting Its Usefulness As a Road Map for Guiding NNSA's Effort

NNSA's plan does not fully incorporate leading practices, which limits its usefulness as a planning tool and limits the effectiveness of NNSA's effort to provide meaningful financial information to Congress and other stakeholders. Reliable financial information is important for making programmatic and budgetary decisions and providing appropriate oversight. To improve the consistency of this information, as discussed previously, Congress directed NNSA to develop a financial integration plan. In developing plans for implementing new initiatives, agencies—including NNSA—can benefit from following leading practices for strategic planning. These leading practices include (1) defining the mission and goals of a program or initiative, (2) defining strategies and identifying resources needed to achieve goals, (3) ensuring leadership involvement and accountability, and (4) involving stakeholders in planning. We highlight these four practices because NNSA's financial improvement and integration initiative is still being developed, and these practices are particularly relevant to the early stages of developing a strategic plan. NNSA's plan, however, does not fully incorporate any of these leading practices. Table 1 shows our assessment of the extent to which NNSA used these practices in developing its plan for improving and integrating its financial management.

Table 1: Selected Leading Practices in Federal Strategic Planning, Their Characteristics, and the Extent to Which NNSA Used Them in Developing Its Plan

| Selected leading practice | Characteristics | Extent used |
|--|--|-------------|
| Define the mission and goals | A mission statement explains why the agency—or a specific program—exists, what it does, and how it does it. Strategic goals explain the purpose of agency programs and the results—including outcomes—that they intend to achieve. | ● |
| Define strategies and identify resources needed to achieve goals (and address management challenges) | Strategies should be designed to align activities, core processes, and resources to support the mission and help the agency meet long-term strategic goals. Strategies should also address management challenges that threaten an agency's ability to meet its long-term strategic goals. Strategies should include milestones for significant actions to be taken, as well as a description of the resources needed to meet established goals. | ○ |
| Ensure leadership involvement and accountability | Involvement of an agency's senior leadership is key to ensuring that strategic planning becomes the basis for day-to-day operations. Successful organizations use formal and informal practices to hold managers accountable and create incentives for working to achieve the agency's goals. | ● |
| Involve stakeholders | Successful organizations involve stakeholders in developing their mission, goals, and strategies to help ensure that they target the highest priorities. Stakeholders include: Congress and the administration; state and local governments; agency staff; and agency customers, interest groups, and the public. Stakeholders can influence the success or failure of agencies' programs. | ● |

Legend: ● Partially Used, ○ Did Not Use

Sources: GAO analysis of GPRA as updated by GPRAMA and OMB guidance and prior GAO work. GAO-17-141

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- Mission and goals. NNSA’s plan does not explicitly include a mission statement or strategic goals; as a result, it is difficult to understand fully what NNSA’s plan is intended to do and how it will do it. More specifically, it’s unclear if the sole purpose of the plan is to satisfy section 3128 requirements and the information needs of Congress or if it is also intended to satisfy the information needs of NNSA decision makers. For example, the plan’s executive summary states that NNSA developed the plan to address specific requirements set forth in section 3128 of the National Defense Authorization Act for Fiscal Year 2014; however, information presented in the plan’s conclusions suggests that the plan may also be intended to satisfy the information needs of NNSA decision makers. In addition, while the plan concludes that the collection of standard performance and cost data will improve both program and financial management through improved cost analysis, cost estimating, and program evaluation, it does not explicitly present this as a goal either in the conclusions or earlier in the plan.
 - Strategies and resources needed to achieve goals. NNSA’s plan does not include strategies to address management challenges or describe the specific resources needed to meet goals. We have previously reported that when developing a strategic plan, it is particularly important for agencies to define strategies that address management challenges that threaten their ability to meet long-term strategic goals and include a description of the resources, actions, time frames, roles, and responsibilities needed to meet established goals.¹⁶ NNSA’s plan includes a list of the challenges NNSA will face during implementation of the plan—including challenges related to the availability of resources and identifying and implementing an information technology solution—and provides a “notional” implementation timeline with milestones for certain significant actions. However, beyond the high-level cost estimate provided, NNSA’s plan does not include a description of the specific resources needed to meet specific elements of the plan or define strategies that address these management challenges.
 - Leadership involvement and accountability. The CIOs for NNSA and DOE were not involved in developing the NNSA financial integration plan. An agency’s senior leadership is key to ensuring that strategic planning becomes the basis for day-to-day operations. The NNSA CIO told us that he was aware of Section 3128 but was not involved in

¹⁶[GAO-13-115](#), [GAO-12-77](#), [GAO/GGD-96-118](#), [GAO-03-143](#), and [GAO/GGD-00-10](#).

developing the plan or determining how to identify a system to meet the section 3128 requirements. NNSA officials told us that they did not think it was necessary to get the NNSA or DOE CIOs involved with the team because the agency had yet to identify the requirements for a new information technology system. However, this assertion is inconsistent with information contained in NNSA's December 2014 Lean Six Sigma report which states that a sub-team was formed to determine the data system requirements for collecting and reporting costs that would satisfy sections 3128 and 3112 of the National Defense Authorization Act for Fiscal Year 2014.

- Stakeholder involvement. Key stakeholders, such as program managers were not involved in developing the mission, goals, or strategies associated with the plan. We have previously reported that it is important for agencies to involve stakeholders in developing their mission, goals, and strategies to help ensure that the highest priorities are targeted. However, NNSA did not involve key stakeholders in the development of its financial integration plan. The Lean Six Sigma team that NNSA formed to develop the plan was widely represented in terms of geographic location and included representatives from NNSA's budget, financial management, information technology, and cost-estimating communities, but key stakeholders, such as federal program managers were not included in the effort. NNSA officials told us that the biggest challenge NNSA will face in implementing the plan will be overcoming cultural resistance to change and the parochial interests of different program offices—particularly for program offices that have developed their own independent technology solutions for collecting the cost data they need to manage. Yet, the involvement from NNSA program management offices was limited to budget and finance staff. According to NNSA officials, program managers were invited to participate in the Lean Six Sigma team but none volunteered. Moreover, the federal program manager from one of NNSA's largest programs—the B-61 Life Extension Program—told us that he was not involved in the team and was only vaguely aware of the section 3128 requirement for NNSA to develop a financial integration plan. Given that program managers are a primary user of managerial cost information, obtaining their perspectives and getting their buy-in is important. NNSA also did not solicit input from congressional staff in the development of the plan. NNSA officials told us that the only time they met with congressional staff regarding Section 3128 was in May 2015 to brief staff on their progress, but this was after they were done studying the issue.

Because NNSA's plan does not fully incorporate leading strategic planning practices, such as those included in table 1, it has not provided a

useful road map for guiding NNSA's effort. According to the NNSA official who is responsible for overseeing the execution of the plan—the Director of Financial Integration—the plan NNSA submitted to Congress was not a comprehensive or actionable plan. In addition, other NNSA officials told us that the plan they submitted to Congress was never intended to provide a road map to guide their efforts. More specifically, they said that they disagree with the premise that the plan submitted to Congress should have been a detailed, operational plan with specific milestones and extensive information about costs, schedule, and risks. Instead, according to these NNSA officials, the purpose of the plan was to identify general principles and a strategic vision for achieving financial integration. The Director of Financial Integration, who accepted this position in January 2016 shortly before NNSA issued its plan, told us in July and in November 2016 that he was in the process of developing an actionable plan with specific goals, objectives, and milestones and acknowledged that key stakeholders, such as program managers, would need to be involved in the process. However, he did not tell us when the more detailed, actionable plan would be finalized and, on the basis of planning documents he provided us; it is unclear if the new plan will incorporate leading practices. Until an actionable plan is in place that incorporates leading strategic planning practices, NNSA cannot be assured that it has established a roadmap to effectively guide and assess the success of this initiative.

Conclusions

Effective management and oversight of the contracts, projects, and programs that support NNSA's mission are dependent upon the availability of reliable enterprise-wide management information and, as required, NNSA has provided Congress with a plan for improving and integrating its financial management. Although NNSA's plan includes the elements required under section 3128, details are limited, and it appears that this plan will not provide the framework needed to guide NNSA's efforts and ensure that Congress and other stakeholders have accurate, reliable cost information that can be compared across programs, contractors, and sites. In particular, NNSA's plan has not provided an effective framework for guiding NNSA's effort because it does not incorporate leading planning practices including (1) defining the missions and goals of a program or initiative, (2) defining strategies and identifying resources needed to achieve goals, (3) ensuring leadership involvement, and (4) involving stakeholders in planning. In addition, differences between NNSA's internal report and the published plan are not discussed or explained—potentially creating ambiguity as to NNSA's planned approach. NNSA officials have acknowledged that the plan they

submitted to Congress is not a comprehensive or actionable plan. The Director of Financial Integration has taken steps to develop an actionable plan, but it is unclear when the plan will be finalized or the extent to which it will incorporate leading practices. Until a plan that incorporates leading practices is in place, NNSA cannot be assured that its efforts will result in a cost collection model that satisfies the information needs of Congress or improves program and financial management through improved cost analysis, cost estimating, and program evaluation. Such information would better position NNSA to address longstanding contract and project management challenges. Without proper planning NNSA could waste valuable resources, time, and effort in its financial management improvement and integration process.

Recommendation for Executive Action

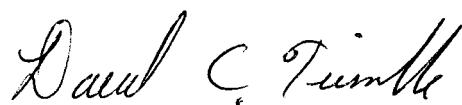
To help provide a roadmap to effectively guide NNSA's effort to integrate and improve its financial management, we recommend that the NNSA Administrator direct the Program Director of Financial Integration to develop a plan for producing cost information that fully incorporates leading practices.

Agency Comments and Our Evaluation

We provided a draft of this report to NNSA for its review and comment. NNSA provided written comments, which are reproduced in appendix I, and technical comments that were incorporated as appropriate. In its written comments, NNSA stated that it will update the plan and address the items GAO identified. Although NNSA has agreed to implement our recommendation, in its written comments, NNSA states that given the plan's "early level of maturity" GAO's evaluation of the plan against leading practices resulted in a somewhat misleading conclusion. We disagree. The purpose of a plan is to provide a roadmap to guide the agency's effort. Regardless of the plan's maturity, incorporating leading practices for strategic planning can improve its utility.

We are sending copies of this report to the appropriate congressional committees, the Secretary of Energy, the Administrator of NNSA, and other interested parties. In addition, the report is available at no charge on the GAO website at <http://www.gao.gov>.

If you or your staff members have any questions about this report, please contact me at (202) 512-3841 or trimbled@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. GAO staff who made major contributions to this report are listed in appendix II.



David C. Trimble
Director, Natural Resources and Environment

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Subcommittee on Energy and Water Development
Committee on Appropriations
House of Representatives

Appendix I: Comments from the National Nuclear Security Administration



Department of Energy
Under Secretary for Nuclear Security
Administrator, National Nuclear Security Administration
Washington, DC 20585



December 20, 2016

Mr. David C. Trimble
Director, Natural Resources
and Environment
U.S. Government Accountability Office
Washington, DC 20548

Dear Mr. Trimble:

Thank you for the opportunity to review the Government Accountability Office (GAO) draft report "National Nuclear Security Administration: A Plan Incorporating Leading Practices is Needed to Guide Cost Reporting" (GAO-17-141). As noted in the report, the National Nuclear Security Administration (NNSA) provided an initial financial integration plan to Congress in February 2016 that includes all of the elements required by Section 3128 of the National Defense Authorization Act for Fiscal Year (FY) 2014. The 2016 plan identified the general principles and notional timeline needed to achieve financial integration, while establishing the Director of Financial Integration position to develop and execute a more detailed implementation strategy. This approach was a necessary starting point for an activity as complex as financial integration across the Nuclear Security Enterprise.

GAO's evaluation against leading practices at that early level of maturity resulted in a somewhat misleading conclusion. Since the February 2016 plan was submitted, NNSA has made critical decisions and further defined key actions to move the initiative forward, including development of an integrated cost data collection methodology for several programs and a common Work Breakdown Structure (WBS). We expect to fully implement the common WBS in FY 2018.

Required annual reporting on the financial integration initiative will serve as an opportunity to formally document adjustments to our plans. In our next annual report to Congress, due in March 2017, we will update the plan and address the items GAO identified. Our planning and implementation practices will continue to evolve, and we will incorporate industry and government leading practices as appropriate.



We appreciate GAO's efforts on this review and recognize the challenges of auditing NNSA's plan at such an early stage. For your consideration, general and technical comments have been provided under separate cover to enhance the clarity and accuracy of the report. If you have any questions, regarding this response, please contact Dean Childs, Director, Audits and Internal Affairs, at (301) 903-1341.

Sincerely,


Frank G. Klotz

Appendix II: GAO Contact and Staff Acknowledgments

GAO Contact

David C. Trimble, (202) 512-3841 or trimbled@gao.gov

Staff Acknowledgments

In addition to the contact named above, Diane LoFaro (Assistant Director), Mike LaForge (Assistant Director), Cheryl Harris; Charles Jones, and Mark Keenan made key contributions to this report.

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