

July 1, 1999

MEMORANDUM FOR ALL DEPARTMENTAL OFFICES

FROM: TJ Glauthier, Deputy Secretary and Chief Operating Officer

SUBJECT: Project Management Reform Initiative

To complete the Department of Energy's (DOE) many important projects successfully, safely and within budget, it is critical that we achieve excellent project management performance and results. This memo announces the beginning of a Department-wide initiative to increase accountability and performance and to stimulate a drive for excellence.

First, it is important to note that there are outstanding examples within DOE of first-rate facilities completed or under construction which have met, or are meeting, their project objectives, defined schedules and budgets. Recent examples include the *B-Factory*, the *Advanced Photon Source*, the *Relativistic Heavy Ion Collider*, the *Fermilab Main Injector*, the *PUREX*, the *Exploratory Studies Facility of Yucca Mountain*, the *SRS Engineering Support Facility*, the *SNL Power Systems Modifications*, the *Solar Energy Research Facility* and the *National Ignition Facility*. Many of these were completed for less than their budget or ahead of their schedule. As an example, *PUREX*, the Plutonium-Uranium Extraction Plant, was the first major cleanup facility to be deactivated--about 35 percent under cost and 15 months ahead of schedule. The *B-Plant* was deactivated four years ahead of schedule, at a savings of \$100 million.

Unfortunately, there are also many projects at DOE that have been managed poorly. Results from 33 Independent External Project Reviews, undertaken this past year, indicate serious systemic issues needing correction. Among the most prevalent problems are inadequacies in technical scope, schedule planning and control, cost estimating and lack of clarity on roles and responsibilities. Actions are underway to correct deficiencies in these projects.

A number of steps have been taken to strengthen the Department's project management efforts:

- \$ The Secretary's April 21 reorganization clarified the responsibility and accountability of line management for program and project performance.
- \$ The Department has initiated acquisition management reforms—for example, 28 of 34 Management & Operation (M&O) / Management & Integration (M&I) contracts (80 percent) have been converted to "performance-based approaches" over the past four years.
- \$ Thirty-three external independent project reviews have been completed during the past year with corrective action plans under development or initiated. An additional 26 internal independent program reviews have been completed on major projects.

Additionally, we have taken decisive actions to address poor project management. Recently, we removed our Savannah River M&O contractor from a key project due to poor project management and performance. Over the past two years, we also terminated the M&O contract at the Brookhaven National Laboratory for unsatisfactory performance and approved the decision of the M&O contractor at the Idaho National Engineering and Environmental Laboratory to terminate one of its major subcontracts for unsatisfactory performance. These are unprecedented actions taken in an effort to change the problems in DOE's culture for managing projects.

Now, we need to take a number of additional aggressive and comprehensive actions to achieve superior project management performance. To bring about constructive, lasting change, this effort will take time and sustained effort. To succeed, DOE will need the cooperation and assistance of our employees, contractors, stakeholders and Congress. As DOE's Chief Operating Officer and Acquisition Executive, I am directing the following actions be taken:

### **I. Establish a Strong Corporate Project Management Capability in the Office of the Chief Financial Officer (CFO)**

To lead this initiative, we will establish a strong project management organization in the CFO's office, where it will be co-located with the Department's control of its money. This new organization will be headed by a senior executive with strong project management experience and staffed with experts. Both this project management executive and the CFO will report directly to me on the status of this initiative.

The project management organization will be responsible for driving change in the Department's project management system, for providing a corporate oversight role and for supporting the Department's project managers. This organization will work closely with contract reform initiatives. At its core, this Department contracts for the vast majority of its required products and services. This means that the coordination of our "project" management and "contract" management functions must be improved. This integration, along with improvements in our financial reporting and control systems, will be crucial to our success.

*The CFO's Office will assess and restructure the Energy Systems Acquisition Advisory Board (ESAAB).* We will establish a process for evaluating projects prior to key critical decision points, e.g., approving a baseline and initiating construction. Information for critical decision points on projects and systems with total project costs over \$100 million will be submitted to the ESAAB for review prior to approval. The CFO's Office will also provide support to the Program Offices in establishing their decision processes on smaller projects.

### **II. Establish Project Management Tracking and Control Systems**

*The CFO's Office will establish a project management tracking and control system to include cost and schedule performance (planned versus actual) information.* In the first 60 days, the system will be implemented with data for the 33 projects that have had external independent reviews and for the 26 internal review of nine projects. In the following 90 days, all projects

valued at \$20 million or more in total costs (an estimated 200 projects) will be added. We will also establish a tracking system for corrective actions related to these projects.

### **III. Establish the Chief Operating Officer's (COO) "Watch List"**

***Projects with significant issues or emerging problems will be placed on the COO "Watch List" with potential funding consequences.*** Once placed on this list, these projects will be subject to more stringent financial controls and new corporate reporting requirements. These projects will only be released from the list as progress on corrective actions warrants. For projects where corrective actions are not being made in a timely fashion, the Department may withhold, redirect, or withdraw funding, or initiate other contractual actions which may include key personnel changes, fee reductions, and/or contract scope reductions. Also, DOE personnel responsible for ***the project may be subject to disciplinary action.***

Based on the results from external and internal project reviews already completed, the following projects are being placed on the initial "Watch List":

- Savannah River B In-Tank Precipitation
- Hanford B K Basins Spent Nuclear Fuels
- Los Alamos B Chemistry and Metallurgy Research Facilities Upgrades
- Los Alamos B Nuclear Materials Security & Safeguards Upgrades

### **IV. Strengthen Line Management Accountability for Project Management Results**

Each Program Secretarial Officer (PSO) ultimately is responsible for the success of projects within his or her programs. This has been made clear by the recent restructuring of the Department. Successful performance of a project depends on skillful DOE and contractor project management. Roles and responsibilities of the DOE project management team must be clearly defined relative to the contractor management team.

Line managers, extending from the Secretary to the PSO, the field manager and contractor executives, will be held responsible and accountable for successfully developing, executing, and managing our projects within cost, schedule, and scope commitments. They will ensure that project management will be streamlined, and incorporate integrated safety management principles and functions. The initiatives in this memo are intended to strengthen the PSO's ability to manage projects without calling into question their authority or ultimate responsibility.

***Each Lead Program Secretarial Officer (LPSO) will establish a project management capability within his or her organization reporting directly to them.*** Each office will be staffed by appropriately skilled personnel who will keep the PSO fully informed on project management performance, including implementation of corrective actions. Each office will coordinate with the Corporate project management development team to ensure effective and consistent development and implementation of Department policies throughout the line.

***In coordination with the CFO's Office, each PSO will assess their organization's project***

*management system, along with their plan to correct identified deficiencies and establish management improvements.* These assessments and action plans will be compiled and evaluated in the context of a working management system for the Department by the CFO's office. This will incorporate reviews of project management issues and the status of corrective action plans, to ensure that accountability is maintained.

#### **V. Establish Greater Contractor Accountability for Project Management**

The Offices of Contract Reform and Privatization, Procurement, and the CFO will assess the issues involved in contractor project management and identify the steps required to improve performance in acquisition and contracting. Contractor performance measures and incentives must be enhanced to focus on key project success factors, not the process itself. Roles and responsibilities of the DOE project management team must also be clearly defined relative to the contractor project management team. By October 1, a plan establishing priorities and steps to strengthen the Department's contract reform efforts will be completed.

#### **VI. Revise the Criteria and Processes Involved Before a DOE Project Can be Funded**

The CFO will continue to work with OMB and Congressional Committees to find ways to improve project management such as the following:

- \$ Establish project baselines after 25% to 35% of the design is completed to ensure higher accuracy and credibility;
- \$ Establish a design pool funding process similar to DOD's to avoid costly delays.

Working with the CFO and Program Secretarial Officers, the Office of Contract Reform and Privatization will institutionalize the criteria and selection process for privatization projects.

#### **VII. Develop a Long Term Program for Institutional Capacity Building**

The CFO's Office, with support from Program Offices and the Offices of Management and Administration, and Contract Reform and Privatization, will be responsible for strengthening DOE's project management capabilities, including both Federal and contractor staff. We will develop a plan to address role definition, qualifications and skills required of its project managers, and to assess the Department's current capabilities. The Project Management training program will be developed within fiscal year 2000. The plan will also address methods and systems needed for project planning, controls and reporting, and will help determine the longer term structure and staffing requirements for the Department. *This plan will be delivered to me by October 31.*

Attachment