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DEPARTMENT OF ENERGY

Value of Benefits Paid to Separated Contractor Workforce Varied Widely

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The Honorable Joseph McDade
Chairman
The Honorable Vic Fazio
Ranking Minority Member
Subcommittee on Energy and Water Development
Committee on Appropriations
House of Representatives

Since 1993, the Department of Energy has spent over $609 million to provide benefits to contractor employees separated in workforce restructuring and downsizing efforts at its facilities. Brought on by the end of the Cold War,[1] this downsizing has been carried out using the benefits provided by section 3161 of the National Defense Authorization Act for Fiscal Year 1993, which requires Energy to develop plans for minimizing the impact of downsizing on the workforce at affected facilities. The former Chairman and Ranking Minority Member, in a July 18, 1996, letter, expressed concern about the costs associated with Energy's implementation of these plans, particularly as the costs relate to workers hired after the end of the Cold War. We focused our analysis on the following questions:

- What types and amounts of benefits were provided to separated employees?
- What distinctions did Energy make in determining who should receive these benefits?
- To what extent did the contractors at Energy's facilities have to rehire workers or replace them with others having similar skills, because the downsizing was not targeted sufficiently to retain critically needed skills?
- What steps has Energy taken to oversee the implementation of the plans?

Results in Brief

The 23,800 contractor employees separated since 1993 under Energy's workforce restructuring plans have received an average of $25,600 in benefits.[2] About 88 percent of the costs were for enhanced retirement incentives or severance pay. Other benefits included extended medical insurance and help with retraining, relocating, and finding new jobs for the

[1]Energy recognizes September 27, 1991, the date of the first announcement of a unilateral reduction in the nation's nuclear stockpile, as the Cold War's end.

[2]During this same period, an additional 15,062 employees left who were not eligible for benefits under the plans, either because they worked for subcontractors or because they left through normal attrition.

affected employees. Although similar benefits were offered at most facilities, the value of these benefits varied considerably among locations, reflecting the considerable discretion given to each facility in determining how best to reduce its workforce. More than half of the workforce restructuring plans provided more generous severance pay than would have normally been provided by the contractors under existing contracts, and almost all plans provided other benefits not normally provided by the contractors, such as extended medical insurance. Moreover, the benefits provided under the plans exceeded those that would have been provided to federal employees in a reduction in force.

Energy's guidelines provide that the consideration of specific benefits for contractor employees should take into account both available funding and whether the employee was hired prior to the end of the Cold War. However, most plans made no distinction in the benefits provided to employees hired during the Cold War and those hired after the Cold War ended. Furthermore, although the act referred only to defense nuclear facilities, the Secretary of Energy directed that in the interest of fairness, workforce restructuring plans would be developed for all facilities.[3] However, most of the restructuring costs benefited Cold War workers at defense nuclear facilities.

The preliminary data for fiscal years 1995 and 1996 suggest that Energy's facilities have improved their ability to retain critically needed skills during downsizing. Early restructuring at some facilities resulted in subsequent hiring to fill vacated critical skill positions. For example, at the agency's Fernald, Ohio, facility, almost every position that was vacated had to be refilled within a year. To retain workers with the skills necessary to accomplish the new mission at its facilities, Energy subsequently revised its guidelines to emphasize the importance of workforce planning. While data are not available on the number of critical skill positions that were refilled during fiscal years 1993 and 1994, Energy's preliminary data for fiscal years 1995 and 1996 indicate that about 2 percent of the positions vacated had to be refilled. However, since this percentage does not reflect hiring done below the level of principal contractor, employees with critical skills may still be leaving the principal contractor and accepting employment with a subcontractor at the facility.

Energy provides limited oversight over how contractors implement workforce restructuring plans. According to agency officials, once the

[3]According to the Director, Office of Worker and Community Transition, the authority and funding for the implementation of nondefense facility plans is contained in Energy's general authority to reimburse the contractors for the costs incurred in operating its facilities.

workforce restructuring plans are approved, the responsibility for implementation is left with the contractors; furthermore, little monitoring is done by Energy program personnel. The reviews by Energy's Office of Inspector General and others of Energy's early restructuring efforts have identified problems with the awarding of benefits, including the construction of a training and outplacement facility that was not warranted, separated employees' receiving benefits for which they were not eligible, and retained employees' receiving educational reimbursements for training not relevant to the facility.

Background

To carry out its missions, Energy relies on contractors for the management, operation, maintenance, and support of its facilities. Since the end of the Cold War, the agency's mission at its defense nuclear facilities has changed from weapons production to cleanup and environmental restoration, thus necessitating a change in employees' skills. Energy's facilities have also had to reduce their workforce in response to overall cuts in the federal budget. At the end of fiscal year 1996, total employment by contractors at the facilities was estimated at about 110,000, down from a high of nearly 149,000 at the end of fiscal year 1992.

Section 3161 of the National Defense Authorization Act for Fiscal Year 1993 requires that when a change in the workforce at a defense nuclear facility is necessary, Energy must develop a plan for restructuring the contractor workforce. These plans are to be developed in consultation with the appropriate national and local stakeholders, including labor, government, education, and community groups. According to the act,

- changes in the workforce should be accomplished to minimize social and economic impacts, should be made only after 120 days' notice, and should be accomplished, when possible, through the use of retraining, early retirement, attrition, and other options to minimize layoffs;
- the Secretary shall submit to the Congress a plan for a defense nuclear facility within 90 days after the date of the 120-day notice, or 90 days after the enactment of the act, whichever is later;
- employees shall, to the extent practicable, be retrained for work in environmental restoration and waste management activities;
- employees whose employment is terminated shall, to the extent practicable, receive preference in hiring; and

- Energy should provide relocation assistance to transferred employees and should assist terminated employees in obtaining appropriate retraining, education, and reemployment.

In addition to the act's specific requirements, Energy's guidelines provided that extended medical insurance should be offered to all separated contractor employees. Moreover, although the act refers only to defense nuclear facilities, the Secretary of Energy determined that in the interest of fairness, the workforce restructuring planning process would be applied at both defense nuclear facilities and nondefense facilities. Although Energy provided guidelines to the field offices, these guidelines were intended to be general and not prescriptive. In order to allow for consultation with local stakeholders and to incorporate the unique needs at each facility, field offices were responsible for developing workforce restructuring plans.

Energy's Office of Worker and Community Transition is responsible for coordinating restructuring efforts, reviewing and approving workforce restructuring plans, and reporting on the status of the plans. As of November 1996, a total of 35 workforce restructuring plans either had been approved or were in draft form. While restructuring occurred at 32 of Energy's facilities, some facilities had multiple restructuring plans; others had none because few employees were affected, and plans were not required if fewer than 100 employees would be involved. (App. I contains a list of the 32 facilities that reported costs associated with the restructuring.)

Similar Types of Benefits Offered, but Amounts Varied Among Locations

The workforce restructuring plans generally included similar types of separation payments and other benefits. Since 1993, the costs associated with these benefits have totaled about $609 million.[4] The value of separation payments varied among facilities due to such factors as differences in the method used to calculate severance pay. Other benefits, including extended medical insurance, educational/training assistance, relocation assistance, and outplacement assistance, were offered at most facilities, and the value of these benefits also varied. These differences in the value of benefits among facilities reflect the nonprescriptive nature of

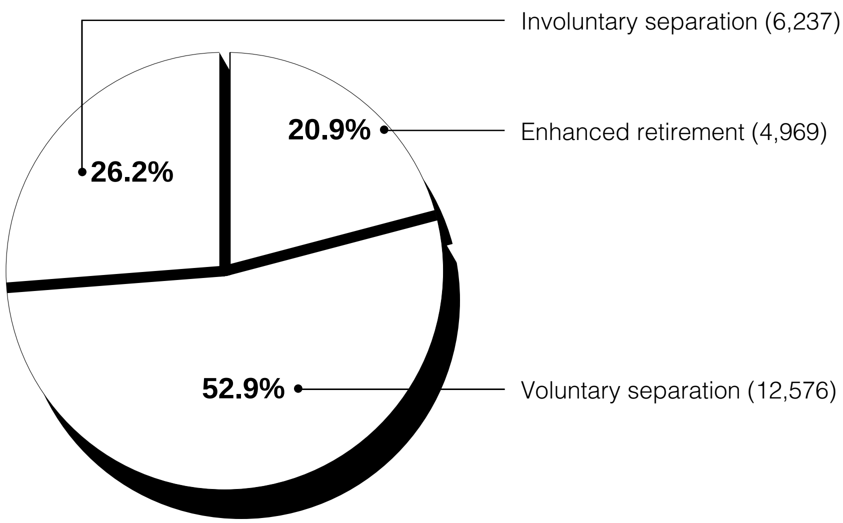
[4]Data on numbers of employees and costs were provided by the Office of Worker and Community Transition on the basis of preliminary data from Energy field offices and are subject to change. The Office also reported about $40 million for retraining or transfer of retained workers and about $6 million spent on severance payments for subcontractor employees, who were not eligible for benefits under the plans.

Energy's guidelines and the emphasis on developing plans at the local level.

Types and Amounts of Benefits Provided

The workforce restructuring plans included three types of separation programs: enhanced retirement, voluntary separations, and involuntary separations. Energy's goal in workforce restructuring was to encourage employees to leave through enhanced retirement or voluntary separation programs and to use involuntary separations only when necessary. The enhanced retirement programs typically added 3 years to age and service for the purpose of calculating pension benefits. Some enhanced retirement programs included an additional incentive payment. The voluntary and involuntary separation programs usually consisted of a severance payment based on length of service and base salary. In all, nearly 75 percent of the employees leaving under the three separation programs accepted enhanced retirement or voluntary separations (see fig. 1).

Figure 1: Distribution of Separated Employees by Program

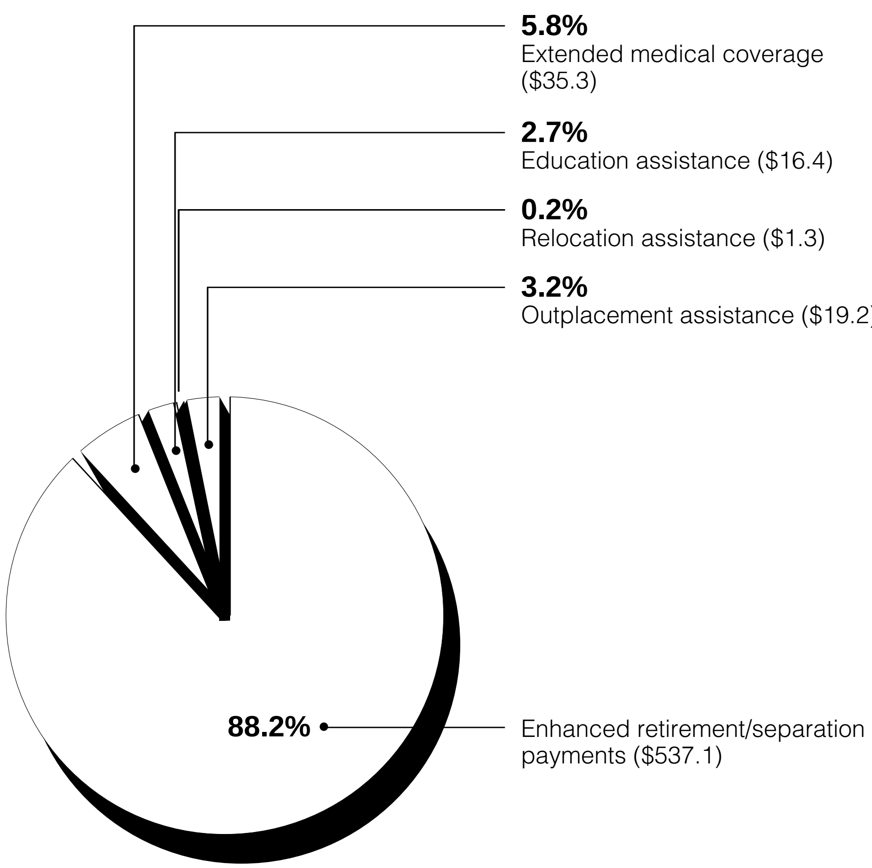


Note: For fiscal years 1993-96, there were a total of 23,782 voluntary and involuntary separations at Energy defense nuclear facilities and nondefense sites.

Source: Prepared by GAO using data provided by Energy.

Employees leaving under most voluntary and involuntary separation programs were eligible for additional benefits. These additional benefits included extended medical insurance, educational/training assistance, relocation assistance, and outplacement assistance. However, separation payments accounted for most of the total funds spent on workforce restructuring. Figure 2 shows that 88 percent of the $609 million in workforce restructuring costs consisted of separation and enhanced retirement payments.

Figure 2: Distribution of Workforce Restructuring Costs, in Millions of Dollars



Note: Total costs for fiscal years 1993 through 1996 were $609,274,911. Percentages do not total 100 percent due to rounding.

Source: Prepared by GAO using data provided by Energy.

As shown in table 1, the total average cost of benefits provided to the 23,782 separated employees was $25,619. Average separation payments ranged from about $37,400 for enhanced retirement to about $15,800 for involuntary separation.

Table 1: Total and Average Costs of Separation Payments and Other Benefits, Fiscal Years 1993 Through 1996

	Number of employees	Total costs	Average cost per employee
Costs for employees separated with benefits			
Separation payments			
Enhanced retirement	4,969	$185,988,167	$37,430
Voluntary separation	12,576	252,355,809	20,066
Involuntary separation	6,237	98,787,082	15,839
Total separation payments	23,782	537,131,058	22,586
Other benefits			
Extended medical coverage	10,652	$ 35,262,286	$ 3,310
Educational assistance	8,012	16,385,819	2,045
Relocation assistance	444	1,265,637	2,851
Outplacement assistance	[a]	19,230,111	[a]
Total other benefits	[a]	72,143,853	[a]
Total costs for employees separated with benefits	**23,782**	**$609,274,911**	**$25,619**

[a]Amounts cannot be calculated because the number of persons who received outplacement assistance is unknown; in addition, persons receiving a specific other benefit may be included in more than one category

Source: Data provided by Energy's Office of Worker and Community Transition..

Value of Benefits Varied Among Facilities

Although most facilities included similar benefits in their workforce restructuring plans, the value of these benefits varied considerably for several reasons. For separation payments, the variance was generally due to two factors: differences in the severance pay formula used and the characteristics of the workforce at a given facility. For example, the Fernald facility provided severance pay based on service up to a maximum of 24 weeks' pay, while Lawrence Livermore National Laboratory provided

2 weeks of pay per year of service to a maximum of 52 weeks. In addition, the value of severance payments at a location varied due to average salaries, length of employment, and the age of the workforce. For example, the average severance payment for voluntary separations ranged from $10,172 at Grand Junction to $42,855 at Portsmouth; for involuntary separations, the average payment ranged from $4,076 at Morgantown to $51,409 at the Naval Petroleum Reserve; and for enhanced retirement, the average benefit ranged from $10,000 at Grand Junction to $78,783 at Pinellas.

Similarly, the value of benefits other than separation payments generally varied for two reasons—either because Energy's guidelines specified a maximum amount for the benefit but allowed discretion in determining the appropriate amount for each facility or because of local variances in the costs of those benefits. For example, almost all plans provided educational and training assistance; the maximum benefit ranged from $2,500 to $10,000. In addition, relocation assistance was offered at most facilities; the maximum reimbursement ranged from $2,000 to $5,000. For extended medical coverage, Energy's costs included the contractors' full share of health insurance premiums for the first year following separation. The differences in the value of this benefit were due to the costs of coverage at different locations. For example, the average value of the extended medical coverage ranged from $194 at Grand Junction to $16,084 at Pinellas (the Pinellas costs included coverage for retired workers under the plant-closing provisions of the contract).

Appendix II summarizes the benefits provided in the 29 workforce restructuring plans at defense nuclear facilities, and appendix III summarizes the benefits provided in 6 workforce restructuring plans at nondefense facilities. Both tables show some of the differences in how these benefits were calculated.

Benefits Exceeded Amounts That Would Have Been Awarded Under Existing Contracts

Section 3161 of the National Defense Authorization Act for Fiscal Year 1993 authorized benefits such as educational and relocation assistance that exceeded those that would have been provided under existing contracts at the facilities. In addition, the agency determined that all contractor employees, whether voluntarily or involuntarily separated, should be eligible for extended medical coverage (as shown in table 1, the cost of providing this benefit totaled $35.2 million). The contracts at Energy's facilities usually provide only severance payments and outplacement assistance; no other benefits are offered. As we reported in

March 1995, these limited benefits are consistent with both federal and private practices.[5] Our review of downsizing efforts at 22 private companies and state organizations and 3 foreign governments concluded that many of these organizations offered separation incentives more generous than those generally included in federal "buyout" legislation to encourage employees to resign or retire. The only other benefit frequently offered by these organizations was outplacement assistance. However, most of Energy's workforce restructuring plans included benefits, such as extended medical coverage and educational assistance, in addition to severance pay and outplacement assistance. In contrast, federal employees who are involuntarily terminated through a reduction in force receive only severance pay based on years of service and an additional 10 percent of basic severance for each year an employee is over age 40; the maximum lifetime benefit is 1 year's annual salary. Under the federal buyout legislation for voluntary separations, the maximum severance pay allowed was $25,000.

Although the act was silent on the issue of severance pay, Energy's guidance allowed the use of enhanced severance payments to encourage voluntary separations. The plans varied as to whether they provided severance payments in accordance with the existing contracts. Of the 35 plans reviewed, 9 conformed to existing contracts, 8 were unclear as to how severance payments compared to normal contract provisions, and 18 provided severance payments that exceeded those normally provided for in the contracts. For example, at Rocky Flats, the existing contractor policy allowed for a maximum of 15 weeks severance pay, while the plan provided a maximum of 52 weeks. At Elk Hills Naval Petroleum Reserve, the enhanced severance pay amounts exceeded the normal severance pay by 41 percent.

Similar Benefits Were Generally Provided to Cold War and Post-Cold War Workers at Defense and Nondefense Facilities

Although the act referred only to workforce restructuring at defense nuclear facilities, the Secretary of Energy determined that in the interests of fairness, the planning process included in the act would apply to all workforce restructuring. Therefore, the agency generally extended the same benefits to contractor employees at both defense nuclear and nondefense facilities. Workforce restructuring costs were reported for 15 nondefense facilities. However, the cost of benefits provided at these facilities accounted for about 7 percent of the total workforce

[5] Workforce Reductions: Downsizing Strategies Used in Selected Organizations (GGD-95-54, Mar. 13, 1995).

restructuring costs reported for fiscal years 1995 and 1996 and primarily included severance payments and medical coverage.

The act does not specifically mention employees who worked during the Cold War. However, in its March 1994 guidelines, the Office of Worker and Community Transition established a "job attachment test" that was to be used to determine whether an employee qualified as a Cold War worker and stated that only Cold War workers should be eligible for all benefits. In practice, most plans made little or no distinction in the benefits offered to those employees who worked during and after the Cold War. The largest benefit cost—for severance pay—depended on length of service and base salary rather than on whether the employee worked during the Cold War. The two facilities that did make a distinction—Hanford and Savannah River—provided a lump-sum payment option for voluntary separations, with larger payments for Cold War workers. For other benefits, most plans offered the same benefits to all workers regardless of when they were employed.

Although Energy does not routinely collect data separating costs between Cold War and post-Cold War workers, four facilities—Hanford, Savannah River, Oak Ridge, and Rocky Flats—did provide this breakdown of costs. However, since these data are not normally collected, the contractors at the facilities were not able in all cases to identify or separate all costs. According to the data available at these four locations, about 7 percent of the costs went to post-Cold War workers. Table 2 shows the number of employees and cost of benefits provided at the four facilities.

Table 2: Comparison of Benefits at Four Facilities for Cold War and Post-Cold War Workers

	Cold War workers		Post-Cold War workers	
	Number of employees	Costs	Number of employees	Costs
Hanford	2,921	$109,330,500	911	$ 8,333,000
Oak Ridge	1,916	36,930,025	72	282,714
Rocky Flats	2,493	50,905,742	704	7,253,710
Savannah River	3,639	59,833,357	507	4,731,752
Total	**10,969**	**$256,999,624**	**2,194**	**$20,601,176**

Source: Data provided by contractors at four facilities.

Efforts to Retain Critical Skills Have Improved

The limited data available for the early years of restructuring showed problems in retaining workers with critically needed skills. While Energy did not collect comprehensive information about rehiring rates during the early years, audits at three facilities indicated difficulties in maintaining the workforce necessary to accomplish the mission at the facilities. For example, the agency's Office of Inspector General reported that during the first restructuring at Fernald, of the 255 separations in fiscal year 1994, all but 14 of the positions had been refilled within 1 year by either the previous employees or ones with similar skills, representing a 95-percent rehire/backfill rate.[6] The report concluded that Energy did not (1) require the contractor to perform the skills analysis necessary to identify which employees were needed to perform the current mission and (2) effectively monitor the contractor's restructuring efforts. In addition, the report stated that continuing to separate and replace employees with critical skills was deemed a material internal control weakness. In response, Energy acknowledged that this restructuring did not accomplish its objectives.

Since these early efforts, Energy has taken steps to improve its ability to retain critically needed skills. The agency acknowledged in its report on the restructuring efforts in fiscal years 1993 and 1994 that it was essential for facilities to do more effective workforce planning to identify the critical skills necessary to carry out the new mission. After Energy revised its guidance to emphasize workforce planning, the facilities targeted voluntary separations to retain critical skills and established controls to restrict the rehiring of employees taking voluntary separations. For example, during the fiscal year 1995 restructuring at the Hanford facility, the employees with critical skills were excluded from the voluntary separation program.

According to preliminary data reported for all facilities for fiscal years 1995 and 1996, about 2 percent of separated employees have had to be rehired or have their positions backfilled by someone with similar skills. In the explanations accompanying these data, many of these rehires were either employees who had been involuntarily separated and qualified for preferential hiring or collective bargaining employees who had recall rights. However, Energy normally does not track contractor employees below the level of principal contractor and has no data available on hires at most subcontractors. Therefore, separated employees with critical skills

[6] Audit of Workforce Restructuring at Fernald Environmental Management Project (ER-B-96-01, Apr. 23, 1996).

could be rehired by subcontractors at the same facility and would not be reflected in the 2-percent rehire/backfill rate.

Energy Provides Limited Oversight of Plan Implementation

After Energy approves the workforce restructuring plans, it provides little oversight or monitoring of how contractors implement those plans. According to the Director of the Office of Worker and Community Transition, agency field offices are responsible for monitoring workforce restructuring efforts and for determining if benefits are applied appropriately. However, field offices at the four facilities we visited do little monitoring or oversight of the implementation of the facilities' plans. When monitoring has been done by either Energy's Office of Inspector General or internal audit personnel at field offices, their investigations have identified instances of excessive costs or inappropriate benefits.

The Office of Worker and Community Transition reviews all restructuring plans to ensure that they conform to Energy's policy before submitting the approved plans to the Congress. This Office also gathers data from the facilities on the costs of restructuring for annual reporting to the Congress. In addition, the office has revised program guidelines to incorporate lessons learned in early restructuring efforts.

At the four facilities we visited, field office personnel told us that the contractor was primarily responsible for implementing the workforce restructuring plan. However, agency personnel do review the contractors' separation programs to ensure consistency with the plan and respond to the contractors' questions about specific benefit determinations. At one facility, the rehiring of the individuals who accepted enhanced retirement requires approval by the field office manager. However, according to the agency officials responsible for workforce restructuring at the four facilities, they do no detailed review of the costs submitted by the contractors for workforce restructuring.

Independent reviews of early restructuring efforts by Energy audit staff have raised questions about the impact of limited monitoring. The Inspector General has issued four reports on workforce restructuring problems and has two ongoing reviews. For example, an August 1995 report at Oak Ridge found that the contractor established training programs and an outplacement center that provided few benefits to separated employees, yet cost Energy $8.2 million in fiscal years 1993 and 1994 and would cost an additional $15.6 million through fiscal year 1997.[7]

[7]Audit of Workforce Restructuring at the Oak Ridge Operations Office (ER-B-95-06, Aug. 3, 1995).

The report recommended that Energy officials at Oak Ridge evaluate and monitor the implementation of the plan to preclude unnecessary expenditures.

In addition, the reviews by an internal audit organization at one facility have identified problems and excessive costs associated with workforce restructuring. The reviews of restructurings at Rocky Flats that occurred in fiscal years 1993 through 1995 identified problems with both separation payments and educational and training assistance. For example, one review noted that the contractor paid out $0.8 million for voluntary separations and then hired workers to fill the vacated positions. In addition, another review found voluntary separation payments made to ineligible employees that totaled over $93,000. Internal audits also found that retained employees were reimbursed for training courses that were not relevant to the skills needed at the facility; $200,000 in questionable expenses were identified, including $25,000 for helicopter pilot training for a retained employee.

We discussed these concerns with the Director of Energy's Office of Worker and Community Transition. According to the Director, the agency shares these concerns and acknowledges that early restructuring efforts could have been more effective. The Director added that the Office has learned from these experiences and has a two-part strategy in place to address these issues. First, to increase the effectiveness of workforce restructuring efforts, the Office revises the guidelines annually to reflect lessons learned and holds annual meetings to share experiences with field office personnel responsible for workforce restructuring plans. In addition, although the agency provides limited oversight of the implementation of the plans, the Director believes that contract reform efforts, including the change to performance-based contracts, will provide the appropriate incentives for the contractors to implement the workforce plans more effectively.

Conclusions

Energy has exercised wide discretion in restructuring its contractor workforce, defining the types and amounts of benefits and who should receive those benefits at its defense nuclear facilities and nondefense facilities. Through improved guidance and emphasis on workforce planning, the agency has taken steps to improve its ability to conduct restructuring while meeting critical skill needs at its facilities. However, given the lack of tracking of employees below the level of principal contractor, it is difficult to determine how effective these steps have been.

In addition, given Energy's limited oversight of the implementation of restructuring plans, problems with excessive costs or inappropriate benefits, such as those identified by audit organizations, could occur in future restructurings. To address these concerns, Energy has developed a strategy to incorporate lessons learned and to provide incentives for contractors to implement the plans in a cost-effective manner. Since workforce restructuring will continue, the agency needs to ensure that this strategy will be effective in preventing similar problems in the future.

Agency Comments

We sent a draft of this report to the Department of Energy for its review and comment. (Energy's comments appear in app. IV.) Energy generally agreed with the report's findings and conclusions; however, the agency had two concerns. First, Energy did not agree with the characterization of its workforce restructuring program in the title of the report, stating that similar types of benefits were offered at most facilities. While similar types of benefits were offered at most facilities, the formulas used to calculate severance pay combined with the differences in length of service and base salaries among the facilities resulted in a wide range for the value of these benefits.

Second, in connection with the rehiring of separated employees, Energy acknowledged that it does not normally track employees below the level of principal contractor. Furthermore, the agency believes that the reduction in both its overall budget and the number of principal contractor employees would not have occurred if subcontractors were hiring employees separated under the programs. However, reductions in budgets and employment levels are not necessarily good indicators. While reductions in budgets and employment levels have occurred, hiring has continued at most facilities.

In addition, Energy forwarded a copy of our draft report to the four sites that we visited. The Richland and Savannah River Operations Offices said that our characterization of Energy's limited oversight of the implementation of restructuring plans did not apply to them. Both offices believe that they are involved in providing direction to the contractors and then monitoring the results. For example, Savannah River indicated that they closely monitor the cost reports and other data submitted by the contractors. However, as noted in our draft report, the activities performed by these offices did not include detailed reviews of the costs submitted by contractors. The other two facilities had only clarifying comments that we incorporated as appropriate.

Scope and Methodology

To determine the types and amounts of benefits provided to separated employees as well as to determine what distinctions Energy made in determining who should receive these benefits, we relied primarily on data provided by the agency's Office of Worker and Community Transition. The data provided by this office relating to the detailed results of workforce restructuring at Energy's facilities for fiscal years 1995 and 1996 were preliminary and subject to change, and we did not independently verify the data's accuracy. The data for fiscal years 1993 and 1994 were obtained from the first report on workforce restructuring efforts. We reviewed section 3161 of the National Defense Authorization Act for Fiscal Year 1993 and Energy's guidelines for implementing this legislation. We also discussed policies, procedures, and data with officials from the Office of Worker and Community Transition. We reviewed 35 final and draft workforce restructuring plans covering the restructuring activities at 32 of Energy's facilities. Our summaries of these plans are included in apps. II and III and are based on our understanding of the language included in the plans; we did not contact the Energy field offices for clarification. At the four facilities we visited—Hanford, Oak Ridge, Rocky Flats, and Savannah River—contractors provided a breakdown of costs between Cold War and post-Cold War workers.

To determine the extent to which the contractors at Energy's facilities had to rehire or replace workers, and to determine the steps that the agency has taken to oversee the implementation of the plans, we interviewed the officials responsible for restructuring at the four facilities we visited and officials in the Office of Worker and Community Transition. We also reviewed narrative explanations accompanying the fiscal years 1995 and 1996 data provided by that Office, which identified the extent of rehires and backfills. We also reviewed reports by Energy's Office of Inspector General and the results of reviews by the Chief Financial Officer at the Rocky Flats facility.

Our review was performed from August through December 1996 in accordance with generally accepted government auditing standards.

As arranged with your office, unless you publicly announce its contents earlier, we plan no further distribution of this report for 7 days after the date of this letter. At that time, we will send copies to the Secretary of Energy. We will also make copies available to others on request.

Please call me at (202) 512-3600 if you or your staff have any further questions. Major contributors to this report were Jeffrey E. Heil, Carole J. Blackwell, Gene M. Barnes, William K. Garber, Robert E. Sanchez, Stan G. Stenersen, and Carrie M. Stevens.

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Associate Director, Energy,
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Abbreviations

COBRA	Consolidated Omnibus Budget Reconciliation Act of 1985
GAO	General Accounting Office

Energy Facilities Reporting Workforce Restructuring Costs

Defense Facilities

Argonne National Laboratory
Brookhaven National Laboratory
Fernald Environmental Management Project Site [8]
Hanford Site[8]
Idaho National Engineering Laboratory[8]
Kansas City Plant[8]
Lawrence Livermore National Laboratory[8]
Los Alamos National Laboratory[8]
Mound Facility[8]
Nevada Test Site[8]
Oak Ridge Site (Oak Ridge National Laboratory, Y-12 Plant, K-25 Site)[8]
Pinellas Plant[8]
Portsmouth Gaseous Diffusion Plant
Rocky Flats Plant[8]
Ross Aviation[8]
Sandia National Laboratory
Savannah River Site[8]

Nondefense Facilities

Ames Laboratory
Bettis Atomic Power Laboratory
Fermi National Accelerator Laboratory
General Atomics
Grand Junction Site[8]
Knolls Atomic Power Laboratory
Lawrence Berkeley National Laboratory[8]
Morgantown Energy Technology Center
National Renewable Energy Laboratory
Naval Petroleum Reserve[8]
Pittsburgh Energy Technology Center
Princeton Plasma Physics Laboratory[8]
Strategic Petroleum Reserve[8]
Western Environmental Technology Center
Yucca Mountain

[8]Facilities with one or more workforce restructuring plans.

Summary of Benefits Provided Under Section 3161 in 29 Workforce Restructuring Plans for Defense Nuclear Facilities

Benefit/number of plans	Examples of range of benefit	Distinctions made
Separation payments		
Enhanced retirement— 18 plans	Typical enhanced retirement programs added 3 years to age and pension credited service for calculating pension benefits. Oak Ridge allowed the addition of only 2 years to both age and pension credited service. The Mound plan allowed an employee, if at least age 49, to retire with an unreduced pension if age and years of service totaled 80. In addition, there was a one-time payment of 3 months of current base pay plus 1.25 percent of base pay for each year of service.	None. Most enhanced retirement offerings would not be available to employees hired after 9/27/91 because of minimum years of service requirements.
Voluntary separation— 26 plans	Severance pay calculations were usually based on length of service and base salary. A limited number of plans provided payments in addition to severance pay. Examples include 60 days' notice pay (Kansas City), $3,500 termination bonus (Idaho Protection Technology), and transition assistance equal to 3 months base salary (Mound). Fernald's fiscal year (FY) 1994 plan provided severance pay up to a maximum of 24 weeks of pay for employees with 15 or more years of service. Fernald's FY 1995 plan provided separation pay based on length of service up to 50 weeks of pay for employees with 35 or more years of service. Employees also received a lump-sum payment of $15,000. Lawrence Livermore National Laboratory provided 2 weeks of pay for each year of service up to a maximum of 52 weeks pay.	Three plans had lump-sum payment options that varied on the basis of whether employees were hired before or after 9/27/91. For example, two plans provided employees hired prior to this date with the option of a $15,000 payment, while employees hired after this date received $7,500. The remaining plans made no distinction.

(continued)

Benefit/number of plans	Examples of range of benefit	Distinctions made
Involuntary separation— 27 plans	Most severance pay calculations were based on years of service and base salary. In 10 plans, severance pay was the same as for voluntary separations. Ross Aviation allowed only 2 weeks of pay in lieu of notice for involuntary separations. Los Alamos National Laboratory used two severance schedules, depending on overall length of service. One provided from 1 week of pay for employees with less than 1.5 years of service up to a maximum of 52 weeks of pay. The other provided from 2 weeks of pay for employees with less than 2 years of service up to a maximum of 39 weeks.	In one plan, employees hired after 9/27/91 were not eligible to receive separation payments. The remaining plans made no distinction.
Other 3161 benefits		
Medical benefits—25 plans	All plans that included extended medical coverage used the Displaced Workers Medical Benefits program. For the first year, the company continues to pay its normal contribution to health insurance; for the second year, the separated worker pays one-half the Consolidated Omnibus Budget Reconciliation Act of 1985 (COBRA) rate and for the third and subsequent years, the full COBRA rate. The COBRA rate is equal to the full premium for group insurance plus an administrative surcharge. All but one plan provided this coverage to both voluntary and involuntary separations, provided the employee had no alternate coverage through other employment or a spouse's medical plan. Two plans—Pinellas and Kansas City—provided coverage for up to a year at no cost, in accordance with existing agreements.	In six of the plans, employees hired after 9/27/91 were not eligible for extended medical coverage. The remaining plans made no distinction.

(continued)

Benefit/number of plans	Examples of range of benefit	Distinctions made
Educational/training—28 plans	Most of the plans provided for up to $10,000 in educational assistance over a period of 4 years for both voluntary and involuntary separations. Mound provided the maximum for degree programs and up to $5,000 for job-specific programs. Fernald provided different benefits for voluntary and involuntary separations—$10,000 for voluntary and $5,000 for involuntary. In addition, Lawrence Livermore National Laboratory restricted these benefits to voluntary separations only.	In five of the plans, employees hired after 9/27/91 were not eligible for educational assistance. In three additional plans, employees who were involuntarily separated and hired after 9/27/91 were not eligible for this benefit.
Relocation—28 plans	All but one plan (Los Alamos Cafeteria) provided relocation assistance. The amount provided ranged from $2,000 to $5,000; the Kansas City plan provided reimbursement for “reasonable and actual” relocation expenses.	Four plans provided relocation assistance only to employees hired before 9/27/91. Three additional plans provided relocation assistance for involuntary separations only to employees hired before 9/27/91. The remaining plans made no distinction.
Outplacement assistance—29 plans	All of the plans included a provision for outplacement assistance, which was available for both voluntary and involuntary separations. At most sites, an outplacement resource center was established to provide assistance to workers of all contractors on the site.	One plan restricted outplacement assistance to those employed as of 9/27/91, and one plan restricted this benefit for involuntary separations of those employed as of 9/27/91. The remaining plans made no distinction.

Note: In addition to these benefits, certain plans provided other benefits such as child care assistance (Fernald), subsistence grants of up to $500 per month while attending school (Rocky Flats), or 1 year’s life insurance (Idaho Protection Technology).

Summary of Benefits Provided in Six Workforce Restructuring Plans for Nondefense Facilities

Benefit/number of plans	Examples of range of benefit
Separation payments	
Enhanced retirement— 1 plan	Princeton Plasma Physics Laboratory provided, for those eligible for retirement (age 55 with at least 10 years service), a one-time incentive payment based on length of service up to 11 months of pay—no years were added to age and service for pension calculation.
Voluntary separation—5 plans	Severance pay normally calculated on the basis of base pay and length of service. Strategic Petroleum Reserve offered 2 weeks of base pay per year of service with a maximum payment of $25,000. Princeton Plasma Physics Laboratory included severance pay for nonexempt employees from 2 to 30 weeks for 25 years; exempt employees received from 1 to 15 months of pay for 25 years.
Involuntary separation— 4 plans	Severance pay normally calculated on the basis of base pay and length of service. National Institute for Petroleum and Energy Research allowed 20 percent of base salary with all benefits or 25 percent of base salary with medical coverage only. Princeton Plasma Physics Laboratory included severance pay for nonexempt employees of 2 to 30 weeks for 25 years; exempt employees received from 1 to 15 months of pay for 25 years.
Other benefits	
Medical benefits—4 plans	All plans that offered extended medical coverage did so using Displaced Workers Medical Benefits: employee pays share of premium as if active employee for first year; one-half Consolidated Omnibus Budget Reconciliation Act of 1985 (COBRA) rate for second year; and full COBRA rate for third and subsequent years.
Educational/training—3 plans	Maximum benefit ranges from $3,000 to $10,000 over maximum of 4 years.
Relocation—2 plans	Maximum of $5,000, if relocation costs not reimbursed by receiving employer.
Outplacement assistance—5 plans	Resource center established to provide outplacement assistance to all separated employees.

Note: Includes Elk Hills Naval Petroleum Reserve, Princeton Plasma Physics Laboratory, Grand Junction Site, Strategic Petroleum Reserve, National Institute for Petroleum and Energy Research, and West Valley Demonstration Project.

Comments From the Department of Energy

Department of Energy
Washington, DC 20585

December 18, 1996

MEMORANDUM

TO : Allen Li, Associate Director, Energy Resources and Science Issues
Resources, Community, and Economic Development Division
General Accounting Office

FROM : Robert W. DeGrasse, Director Bob DeG
Office of Worker and Community Transition
Department of Energy

SUBJECT : AGENCY COMMENTS FROM THE OFFICE OF WORKER AND COMMUNITY TRANSITION
PROPOSED GAO REPORT (GAO/RCED-97-33, CODE 308688)
DEPARTMENT OF ENERGY: VALUE OF BENEFITS PAID TO SEPARATED CONTRACTOR WORKFORCE VARIED WIDELY

OVERVIEW

The Office of Worker and Community Transition (Office) concurs with the conclusion of the report that it has exercised discretion in developing contractor work force restructuring strategies at sites managed by the Department in recognition of different circumstances, consistent with the requirement in section 3161 of the National Defense Authorization Act for Fiscal Year (FY) 1993 to provide work force restructuring plans for individual sites. The Office has placed a high priority on improving guidance to field offices for implementing work force restructuring and to improve the work force planning process as recognized in the report. In addition, the Department is committed to applying lessons learned from initial efforts at restructuring and providing incentives for contractors to implement the plans in a cost-effective manner.

BENEFITS PROVIDED TO MOST SEPARATED CONTRACTOR WORKERS DID NOT VARY WIDELY

The Office ***does not*** concur with the characterization of the program implied by the title of the report, "Value of Benefits Paid to Separated Contractor Workforce Varied Widely." "Considerable Consistency in Separation Enhancements Paid to Contractor Workers" would be a more appropriate summary of the Department's experience. Data included in the report indicates that similar types of benefits were offered at most sites. For example, most management contracts provide one week's pay per year of service as the basis for severance, and most enhanced voluntary separation programs were based on providing one and one-half week's pay for each year of service. While there is some variation in the value of benefits, that variation is primarily driven by differences in existing contract provisions that must serve as a base for any enhanced separation program, and variations in base salary for sites which have different mixes of employee skills. This is especially the case at DOE laboratories that have a higher concentration of highly compensated scientists and related technical professions.

Appendix II of the GAO report illustrates the considerable consistency across the complex in medical, education/training, and relocation benefits as well as outplacement assistance.

The report notes extreme cases in average separation costs at some smaller sites that are driven by unique aspects of the management contracts, or the number of separations involved. The two ranges for voluntary separations included in the report at Grand Junction and Portsmouth involved only 70 and 31 workers, respectively. The cited ranges for involuntary separation benefits at Morgantown and the Naval Petroleum Reserve involve an even smaller base, 17 and 2 workers, respectively.

For voluntary separations in FY 1995-1996, 70 percent were within a site average of $15,000 and $26,000. Enhanced retirement programs have been primarily based on adding three years of service and three years of age, with variations driven by differences in the retirement programs being enhanced. In this case as well, the extremes noted in the report involve small numbers of employees (3 early retirees at Grand Junction) or inaccurate data originally provided by the Department to the GAO, (Pinellas' early retirement costs had mistakenly been applied only in FY 1995, when funding was provided to the site to cover anticipated early retirements over two years. Based on the total early retirements over those two years, the average cost should be $65,000 rather than the $90,000 reported earlier.) Overall, more than 80 percent of enhanced retirement separations in FY 1995-1996 had an average site value between $38,000 and $48,000.

VALUE OF BENEFITS PROVIDED TO "COLD WAR WORKERS" HAS BEEN GREATER THAN "NON-COLD WAR WORKERS"

The report notes that, at many sites, specific distinction was not made for determining the benefits provided those workers hired before September 27, 1991 ("Cold War Workers"), and those hired after that date. However, at all major sites where no specific distinction was made, benefits were based on seniority which inherently provided higher levels of benefits to "Cold War Workers." Average benefits for "Cold War Workers" at the four major sites included in Table 2 were $22,304, two and one-half times the average of $8,893 provided to more recently hired workers.

AVAILABLE EVIDENCE INDICATES THAT VOLUNTARILY SEPARATED WORKERS ARE NOT BEING REHIRED BY SITE SUBCONTRACTORS

Departmental guidance calls for all contractor employees who separate under an enhanced voluntary separation program to sign a waiver acknowledging that any rehiring at the site, with prime or subcontractors, for a period of typically one year for voluntary separations and three years for early retirees, can require them to pay back all or part of their separation benefits. Contractors and subcontractors are aware of this restriction, and are required to give preference to involuntarily separated workers, consistent with the provisions of section 3161.

Comparisons between reductions in inflation-adjusted budgets and changes in the reported contractor work force demonstrate a very close correlation over the period since FY 1993, which would not be the case if there were widespread hiring of separated workers by subcontractors. The following table compares percentage changes in inflation adjusted budgets for the Department and at selected individual sites for the period between FY 1993 and 1996, as well as percentage reductions in prime contractor employment over the same period.

	% Real Budget Change 1993-96	Prime Contractor Employment Change 1993-96
Department wide	- 22%	- 22%
Savannah River	- 34%	- 31%
Nevada	- 54%	- 50%
Richland*	- 29%	- 35%

* Richland figures are FY 1993-97 reflecting 4 year change from peak budget and employment

In addition, data from Richland and Savannah River indicate that funding for subcontracting has been declining over this period as well, by 40 percent at Richland and 25 percent at Savannah River. At Oak Ridge, prime contractor employment declined by 11 percent during this period, while subcontractor employment declined by approximately 18 percent.

Finally, I would like to thank you and your staff for performing a careful and professional review of these issues. While few program managers enjoy being audited, it has been a pleasure working with your staff.

FIELD SITE COMMENTS

To facilitate our review of the draft report, I forwarded a copy to the four sites visited by the GAO; Oak Ridge, Richland, Rocky Flats and Savannah River. I have attached all comments received from the field.

Attachment (attachments not printed in this report.)

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