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United States Government **Department of Energy**

memorandum

DATE: May 17, 1993

REPLY TO
ATTN OF: IG-1

SUBJECT: INFORMATION: Report on "Audit of Mound Plant's Reduction in Force"

TO: The Secretary

BACKGROUND:

In September 1991, the Secretary of Energy proposed to consolidate the Department of Energy's nonnuclear production facilities to reduce overall costs. The Secretary's preferred alternative called for the Mound Plant to be phased out of production by Fiscal Year 1995. In response to Fiscal Year 1993 budget cuts, EG&G Mound submitted a reduction-in-force proposal to the Department on April 8, 1992. The reduction-in-force plan was designed by EG&G Mound to primarily benefit employees who were 50 to 54 years of age. The Department approved EG&G Mound's proposal on May 7, 1992. Participation in EG&G Mound's reduction in force exceeded the estimate by about 37 percent. The objective of the audit was to determine whether the Mound Plant's Fiscal Year 1992 reduction in force was effectively managed and implemented by the Department in a manner that protected the financial interests of the United States taxpayer.

DISCUSSION:

We found that the Department established policy to encourage contractors to reduce staffing by voluntary separations without unreasonably increasing separation costs. EG&G Mound's Fiscal Year 1992 reduction in force was accomplished by voluntary separations; however, its implementation unreasonably increased costs. This condition occurred because the Department did not have adequate criteria or guidelines for evaluating contractors' reduction-in-force proposals, and because EG&G Mound furnished inaccurate cost data to Department evaluators. As a result, the Department incurred unreasonable costs of at least $21 million.

MASTER

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Although the Director of the Office of Contractor Human Resource Management and the Manager of the Department's Albuquerque Operations Office did not agree with the report's conclusions, they have initiated actions to implement the recommendations in the report.

John C Layton

John C. Layton
Inspector General

Attachment

cc: Director, Office of Contractor Human Resource Management
Manager, Albuquerque Operations Office

U.S. DEPARTMENT OF ENERGY
OFFICE OF INSPECTOR GENERAL

AUDIT OF MOUND PLANT'S REDUCTION IN FORCE

Report Number: DOE/IG-0328
Date of Issue: May 17, 1993

Eastern Regional Audit Office
Oak Ridge, TN 37830

AUDIT OF MOUND PLANT'S REDUCTION IN FORCE

TABLE OF CONTENTS

U.S. DEPARTMENT OF ENERGY
OFFICE OF INSPECTOR GENERAL
OFFICE OF AUDITS

AUDIT OF MOUND PLANT'S REDUCTION IN FORCE

Audit Report Number: DOE/IG-0328

SUMMARY

EG&G Mound Applied Technologies, Inc., (EG&G Mound) manages and operates the Mound Plant, in Miamisburg, Ohio, under a cost-plus-award-fee contract administered by the Department of Energy (DOE) Albuquerque Operations Office. The objective of this audit was to determine whether the Mound Plant's Fiscal Year 1992 reduction in force (RIF) was effectively managed and implemented by DOE in a manner that protected the financial interests of the U.S. taxpayer.

DOE established policy to encourage contractors to reduce staffing by voluntary separations without unreasonably increasing separation costs. Mound Plant's Fiscal Year 1992 RIF was accomplished by voluntary separations; however, its implementation unreasonably increased costs. This condition occurred because DOE did not have adequate criteria or guidelines for evaluating contractors' RIF proposals, and because EG&G Mound furnished inaccurate cost data to DOE evaluators. As a result, DOE incurred unreasonable costs of at least $21 million. We recommended that DOE develop and implement guidelines to impose limitations on voluntary separation allowances, early retirement incentive payments, and inclusion of crucial employee classifications in voluntary RIFs. We also recommended that DOE determine the allowability of $21 million in unreasonable costs and modify EG&G Mound's contract to require compliance with DOE cost principles.

DOE management agreed with our recommendations. However, it disagreed with our conclusions that EG&G Mound RIF costs were excessive and unreasonable and that the lack of DOE guidelines contributed to the excessive costs and approval of inconsistent RIF plans among DOE sites. Management also disagreed with our conclusion that EG&G Mound furnished inaccurate information to DOE.

The lack of DOE guidelines contributed to the approval of inconsistent RIF plans among DOE sites and excessive costs for the Mound Plant RIF. With DOE facing significant cutbacks in nuclear weapon programs, future RIFs are likely. In this environment, the need for specific guidance in evaluating contractors' RIF plans is critical. The taxpayers cannot be expected to fund RIF plans that have not been adequately evaluated by DOE officials. DOE should develop a strategic approach to evaluating contractors' plans to ensure that future RIFs do not result in unreasonable costs or the loss of employees who are crucial to DOE's mission.

Office of Inspector General

Office of Inspector General

PART I

APPROACH AND OVERVIEW

PURPOSE AND OBJECTIVE

The purpose of the audit was to evaluate the Mound Plant's Fiscal Year (FY) 1992 RIF. The audit objective was to determine whether the Mound Plant's FY 1992 RIF was effectively managed and implemented by DOE in a manner that protected the financial interests of the U.S. taxpayer.

SCOPE AND METHODOLOGY

The audit was performed at EG&G Mound in Miamisburg, Ohio; EG&G Corporate Office in Boston, Massachusetts; DOE Albuquerque Operations Office in Albuquerque, New Mexico; and the DOE Office of Contractor Human Resource Management, in Washington, D.C. Audit field work was conducted from August 31 through November 17, 1992.

The audit was conducted in accordance with generally accepted Government auditing standards for performance audits, and included tests of internal controls and compliance with laws and regulations necessary to satisfy the audit objective. Accordingly, we assessed significant internal controls over DOE's RIF programs. The assessment included reviews of Federal and DOE policies and procedures for RIF programs. Because our review was limited, it would not necessarily have disclosed all internal control deficiencies that may have existed.

To achieve the objective for the audit, we relied extensively on computer-processed data contained in EG&G Mound's payroll and employee-benefits data bases. In a prior audit entitled EG&G Mound Applied Technologies Payroll System, audit report No. ER-B-92-02, dated February 7, 1992, we assessed the reliability of the payroll data base and determined that it generally produced reliable data. No major changes had been made to the computer hardware or operating systems since the prior audit. We performed additional tests of the reliability of the payroll and employee-benefits data bases used in this audit and found them to be adequate. Based on the results of the prior audit and tests of data bases in this audit, we concluded the data were sufficiently reliable to be used in meeting the audit objective.

We used the following methodologies in our audit to facilitate our evaluation of Mound Plant's RIF:

- o Review of Federal laws and regulations and DOE policies and procedures applicable to contractor RIF programs;

- o Review of contractual requirements and union agreements applicable to EG&G Mound's severance and early retirement benefits;

- o Analyses of EG&G Mound's early retirement incentive proposals, DOE's review and approval of the proposals, and related correspondence;

- o Analyses of estimated and actual costs of EG&G Mound's FY 1992 RIF;

- o Review of correspondence between EG&G Mound and its pension plan consultant relative to the FY 1992 RIF;

- o Evaluation of subcontracts and personal consultant agreements between EG&G Mound and its retirees; and

- o Review of RIF plans and costs for 11 other DOE facilities during FY 1992.

An exit conference was held on April 30, 1993, with the Director, Office of Contractor Human Resource Management. The Manager, DOE Albuquerque Operations Office, waived an exit conference.

BACKGROUND

The Mound Plant, located in Miamisburg, Ohio, is an integrated production and laboratory facility. Established in 1947, the Mound Plant emphasizes work in explosives technology, tritium technology, plutonium-238 isotopic heat source development, isotope separation, and fossil energy technology. It also conducts research and development for several DOE programs. In addition to its technological activities, the Mound Plant maintains a program planning, production planning and control system; a product quality control system; safeguards and security programs; and environment, safety, and health protection programs in support of its primary mission. Prior to the FY 1992 RIF, EG&G Mound employed 2,068 people and had an annual operating budget of $190 million.

EG&G Mound manages and operates this Government-owned, contractor-operated facility for DOE under cost-plus-award-fee contract No. DE-AC04-88DP43495, which the DOE Albuquerque Operations Office administers. The Dayton Area Office, in Miamisburg, Ohio, assists the DOE Albuquerque Operations Office in administering the contract.

EG&G Mound submitted a proposal to DOE in April 1992 to reduce the Mound Plant staff by 255 employees. The reduction was required in order to meet FY 1993 budget cuts for operation of the Mound Plant. The budget cuts were caused by cutbacks in nuclear weapon production and stockpiles. DOE announced its approval of EG&G Mound's RIF plan in May 1992. A total of 540 employees, or 26 percent of EG&G Mound's total employees, elected to retire or terminate under the plan between May and July 1992. Implementation of the plan will cost DOE a total of $33.6 million in early retirement and separation incentives.

EG&G Mound was one of 12 contractors to submit RIF proposals to DOE in FY 1992. DOE expects other contractors to submit RIF proposals in FY 1993, as the mission of some of its facilities moves from production of nuclear weapons to environmental restoration and waste management. Of the 12 contractors who proposed RIFs in FY 1992, 6 proposed to provide employees severance benefits according to the terms of their contracts with DOE, with no special separation or early retirement incentives. The other six contractors, including EG&G Mound, requested approval of special incentives to supplement contractual provisions for employee severance pay. The special incentives included items such as lump-sum payments for early retirement and voluntary separation, age credits to increase retirement eligibility, outplacement assistance, and extension of medical benefits. Specifics of each proposal is presented in the exhibit to this report.

The Office of Contractor Human Resource Management, DOE Headquarters, is responsible for approving contractors' requests for special RIF incentive programs. Approvals are coordinated with applicable DOE operations office, program office, and contracting office personnel.

OBSERVATIONS AND CONCLUSIONS

Mound Plant's RIF was not managed and implemented cost-effectively as required by DOE policy. DOE developed policy to encourage contractors to reduce staffing levels by voluntary separations without unreasonably increasing separation costs. Mound Plant's FY 1992 staff reduction was accomplished by voluntary separations; however, its implementation unreasonably increased costs. The Mound Plant RIF was by far the most generous and costly RIF approved by DOE in FY 1992, almost doubling the cost-per-employee of the next most expensive RIF plan. This condition occurred because DOE did not have adequate guidelines for evaluating contractors' RIF proposals, and because EG&G Mound furnished inaccurate data to DOE evaluators. As a result, DOE incurred unreasonable costs of at least $21 million.

The lack of DOE guidelines contributed to the approval of inconsistent RIF plans among DOE sites and excessive costs for the Mound Plant RIF. With DOE facing significant cutbacks in its nuclear weapon programs, future RIFs are likely. In this environment, the need for specific guidance in evaluating contractors' RIF plans is critical. The taxpayers cannot be expected to fund RIF plans that have not been adequately evaluated by DOE officials. DOE should develop a strategic approach to evaluating contractors' plans to ensure that future RIFs do not result in unreasonable costs or the loss of employees who are crucial to DOE's mission.

Part II contains details of these observations, along with appropriate recommendations. The matters described in part II of this report involve significant internal control weaknesses that should be considered when preparing the yearend assurance memorandum.

PART II

FINDING AND RECOMMENDATIONS

Reasonableness of Cost Increase

FINDING

DOE established policy to encourage contractors to reduce staffing levels by voluntary separations without unreasonably increasing separation costs. Mound Plant's FY 1992 staff reduction was accomplished by voluntary separations; however, its implementation unreasonably increased costs. This condition occurred because DOE did not have adequate guidelines for evaluating contractors' RIF proposals, and because EG&G Mound furnished inaccurate data to DOE evaluators. As a result, DOE incurred unreasonable costs of at least $21 million.

RECOMMENDATIONS

We recommend the following corrective actions:

1. The Director, Office of Contractor Human Resource Management, develop and implement guidelines to include requirements that:

    a. Costs for voluntary separation allowances do not exceed contractual provisions for involuntary separation allowances, except in unusual circumstances;

    b. Early retirement incentive payments do not exceed retirees' previous fiscal year salaries, as required by the Department of Energy Acquisition Regulation; and

    c. Crucial employee classifications or positions are excluded from voluntary separation allowances.

2. The Manager, DOE Albuquerque Operations Office, advise the contracting officer to:

    a. Determine the allowability of the unreasonable costs that directly resulted from inaccurate information furnished to DOE by EG&G Mound Applied Technologies, Inc.; and

    b. Modify EG&G Mound's contract to require compliance with Department of Energy Acquisition Regulation cost principles.

MANAGEMENT REACTION

DOE management agreed with our recommendations. However, it disagreed with our conclusions that EG&G Mound RIF costs were excessive and unreasonable and that the lack of DOE guidelines contributed to the excessive costs and approval of inconsistent RIF plans among DOE sites. Management also disagreed with our conclusion that EG&G Mound furnished inaccurate information to DOE. Management comments and our response are summarized in part III and detailed in part II of this report.

DETAILS OF FINDING

DEPARTMENT OF ENERGY'S REDUCTION-IN-FORCE POLICY

The Under Secretary of Energy established current guidance for DOE contractors' RIFs in a memorandum to heads of field organizations, dated April 10, 1991. He encouraged DOE contractors to provide voluntary separation incentives, if necessary, and directed the heads of field organizations to ensure that contractors implement approved RIF plans without unreasonably increasing costs. DOE and contractor management prefer to use voluntary separations rather than involuntary separations to reduce the negative impact of staffing reductions on employee morale. The Under Secretary did not define "unreasonably increasing costs" in his memorandum.

ACQUISITION REGULATION REQUIREMENTS

The Department of Energy Acquisition Regulation (DEAR) subsection 970.3102-2, "Compensation for Personal Services," defines allowable early retirement incentive plan costs and allowable severance pay for DOE contractors. Early retirement incentive is defined as a bonus, over and above the requirement of the basic pension plan, to retire early. Severance pay is defined as a payment in addition to regular salaries and wages by contractors to workers whose employment is being involuntarily terminated.

The DEAR states that early retirement incentive plan costs are allowable subject to the following criteria:

1. Plan costs must be accounted for and allocated in accordance with the contractor's system of accounting for pension costs;

2. Payments must be made in accordance with the terms and conditions of the contractor's pension plan;

3. The contractor's plan must apply only to active employees; and

4. The total of the incentive payments to any employee may not exceed the amount of the employee's annual salary for the previous fiscal year before the employee's retirement.

The DEAR also states that severance pay is allowable only to the extent that it is required by law, employer-employee agreement, established policy that constitutes implied agreement on the contractor's part, or circumstances of the particular employment. Severance payments are generally not allowable when paid to employees in addition to early or normal retirement payments; however, abnormal or mass severance pay may be determined to be allowable on a case-by-case basis.

MOUND PLANT'S REDUCTION-IN-FORCE PLAN

EG&G Mound formally proposed a voluntary RIF to DOE on April 8, 1992. The RIF was proposed in response to cuts made by DOE in EG&G Mound's FY 1993 budget. The RIF plan was designed by EG&G Mound to primarily benefit employees who were 50 to 54 years of age. The following incentives were proposed.

1. Employees who volunteered to retire and who attained the age of 50 no later than September 30, 1992, would receive credit for 5 additional years of age for retirement eligibility and benefits.

2. Employees who volunteered to leave or retire would receive lump-sum incentive payments based on length of service, up to 1 full year of salary or wages.

3. Employees who volunteered to leave or retire and were considered by EG&G Mound management to be crucial to the Mound Plant mission would be eligible to receive retention incentive payments for up to 3 years. Payments would be calculated as a percentage of annual salaries or wages (25 percent for FY 1993, 30 percent for FY 1994, and 35 percent for FY 1995).

EG&G Mound estimated that the proposed plan would result in 180 early retirements and 75 voluntary separations and cost DOE $17,845,633. The total estimate of 255 early retirements and voluntary separations would exceed the target reduction of 215 employees. The estimates were based on reports provided by the corporation's pension plan consultant. A summary of EG&G Mound's cost estimate follows.

Description	Amount
Present value of increase in pension plan costs for 180 early retirements	$5,051,012
Lump-sum incentive payments for 180 early retirements and 75 voluntary separations	7,231,766
Retention incentive payments for 90 employees over a 3-year period	5,562,855
Total	$17,845,633

DOE approved EG&G Mound's RIF plan, except for the retention incentives, on May 7, 1992. DOE did not approve the retention incentives of $5.6 million because DOE Headquarters considered them to be inappropriate. DOE notified EG&G Mound on May 11, 1992, that the plan, with proposed costs of $12.3 million, was approved with the understanding that if more than 180 people elected early retirement, it would not be necessary for EG&G Mound to hire replacements. The letter acknowledged the possibility that more people might elect to retire than estimated by EG&G Mound.

On May 7, 1992, EG&G Mound informed DOE of its intent to implement the incentive plan serially. EG&G Mound stated that it would first offer early retirement incentives to eligible employees. If the target reduction of 215 employees was not achieved through the offering of early retirement incentives, EG&G Mound would offer lump-sum incentive payments to employees who would volunteer to leave.

EG&G Mound decided to offer early retirement and voluntary separation incentives concurrently rather than serially after DOE Headquarters issued a press release that appeared in two local newspapers on May 11, 1992. The press release stated that the Secretary of Energy approved both incentive programs for EG&G Mound employees. EG&G management felt compelled to offer both programs concurrently after their employees were informed of the Secretary's approval through the news media.

PLAN PARTICIPATION AND COSTS

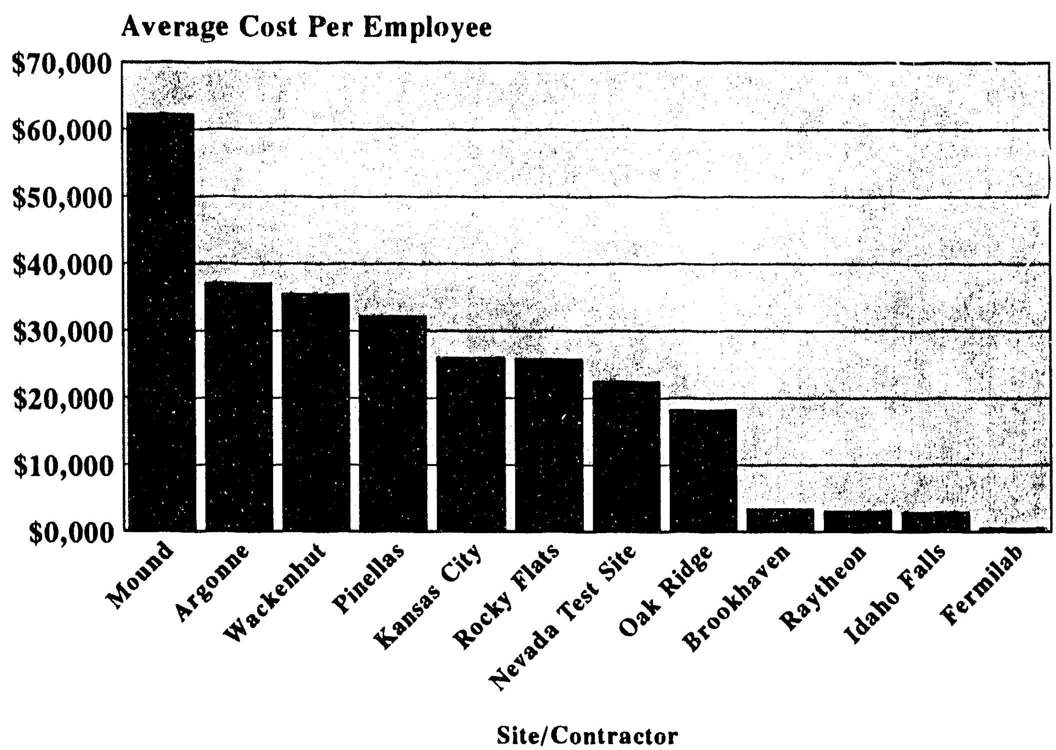
Actual plan participation and costs were substantially higher than EG&G Mound proposed to DOE. A total of 540 employees, or 26 percent of EG&G Mound's total of 2,068 employees, elected to retire early or separate under EG&G Mound's RIF plan. The contractor proposed that 180 employees would retire early, but the actual number was 443. The contractor proposed that 75 employees would voluntarily separate, but the actual number was 97. Also, the contractor estimated that the RIF plan approved by DOE would cost about $12.3 million, but actual costs were about $33.6 million, including $13.9 million for pension plan costs and $19.7 million for lump-sum incentive payments.

EG&G Mound's RIF plan did not comply with DOE policy, because it unreasonably increased separation costs. The EG&G Mound plan was by far the most generous and costly RIF plan approved by DOE in FY 1992. Total costs of the plan exceeded EG&G Mound/DOE contract provisions and union agreement provisions by $31,563,915. Early retirement incentives exceeded DEAR allowability provisions by $840,293. Furthermore, EG&G Mound spent $512,501 to rehire, either directly or indirectly through subcontractors, retired or separated employees who were considered to be crucial to EG&G Mound's mission.

Most Generous and Costly Plan

EG&G Mound's RIF plan was the most generous and costly plan approved by DOE in FY 1992. As shown by the graph on page 12, the cost per employee for EG&G Mound's plan was almost double the cost per employee for the next most expensive plan.

Reduction-in-Force Plan Costs
by Department of Energy Site/Contractor
Fiscal Year 1992



In addition to Mound's cost per employee being almost double the next highest plan, it was also the only plan to offer both early retirement incentives and voluntary separation incentive payments. The exhibit to this report lists each contractor's FY 1992 RIF plan and gives a brief description of RIF incentives.

Costs Exceeded Contract and Union Agreement Provisions

EG&G Mound's RIF costs also exceeded previously negotiated contractual agreements. EG&G Mound's contract with DOE and its union agreements provided for involuntary separation allowances and early retirement benefits. These provisions were negotiated between DOE and EG&G Mound and between EG&G Mound and its labor unions to provide appropriate compensation for salaried and hourly employees in the event that staff cutbacks became necessary at any time during contract performance. Under these agreements, salaried employees were allowed severance pay up to the equivalent of one-quarter of a month's pay for each year of service, plus one additional quarter of a month's pay. Hourly employees were allowed severance pay up to the equivalent of one week of regular pay for each year of service. Certain employees were also entitled to early retirement benefits. For example, employees who were 55 years old and had at least 5 years of service were eligible to receive reduced retirement benefits.

Unlike EG&G Mound, 6 of the 12 contractors that proposed RIFs in FY 1992 did not provide separation allowances to their employees in excess of contractual provisions. One example was Martin Marietta Energy Systems, Inc., (Energy Systems) in Oak Ridge, Tennessee. Energy Systems implemented a RIF program that allowed separation payments to employees, if their voluntary terminations prevented the involuntary terminations of other employees. As evidenced by the exhibit, the average cost per employee at Energy Systems was $18,212, which was approximately $44,000 less than the cost per employee at EG&G Mound.

Also in contrast to EG&G Mound, 9 of the 12 contractors did not provide early retirement benefits to their employees. They accomplished, or are accomplishing, their cutbacks through involuntary separations or enhanced severance payments. EG&G Mound's plan provided early retirement benefits to 443 of the 540 employees who participated in the plan. Under the EG&G Mound RIF plan, employees were permitted to retire early and receive retirement benefits to which they would not have otherwise been entitled.

Had EG&G Mound's RIF benefits been limited strictly to the provisions of its contract with DOE, total RIF costs would have been only $2,027,293 instead of $33,591,208. DOE could have avoided RIF costs of $31,563,915. The following table shows how this cost difference was calculated.

Actual Cost Versus Cost per Contract			
	Actual Cost	Cost per Contract	Difference
Lump-sum early retirement incentive payments	$18,067,869	$ 0	$18,067,869
Lump-sum separation incentive payments	1,648,275	2,027,293	(379,018)
Present value of additional pension plan payments	13,875,064	0	13,875,064
Total	$33,591,208	$2,027,293	$31,563,915

The first column of the table shows actual costs of incentives provided to 540 employees who elected early retirement or separation under the EG&G Mound plan. The second column of the table reflects what costs would have been if the 215 targeted employees had retired or voluntarily separated and received separation allowances in accordance with the terms of EG&G Mound's contract. This amount was calculated by determining the average of separation allowances per the terms of the contract for all employees who voluntarily terminated and by applying the average to EG&G Mound's goal of 215 separations.

DOE stated that our calculation of severance under the terms of the contract was not plausible. It stated that separation allowance applies to salaried employees who are involuntarily separated and that it can be modified to provide a separation allowance for early retirees. We agree that the contract could be modified to provide a separation allowance for those who voluntarily separate. However, our computation was intended to show the difference between what the program actually cost and what the program would have cost if there had been strict adherence to the original terms of the contract. We did not attempt to compute all the possible variations that could have been implemented through contract modifications.

The Office of Inspector General takes no position regarding the use of voluntary separation programs. However, DOE's own data confirm that sizable RIFs were conducted in FY 1992 where benefits did not exceed those specifically called for in the contracts. The purpose of our analysis was to demonstrate the financial impact of the RIF at Mound and to contrast this information with data on RIFs at the 11 other sites.

Early Retirement Incentives in Excess of Acquisition Regulation Requirements

In addition, EG&G Mound paid or plans to pay its employees early retirement incentives that exceed DEAR provisions by $840,293. DEAR 970.3102-2(1)(6) states that early retirement incentives are allowable to the extent that they do not exceed the employee's previous fiscal year salary. However, EG&G Mound in FY 1992 paid 224 employees $539,360 in early retirement incentives in excess of their FY 1991 salaries, and it plans to pay 91 employees $300,933 above the limit in FY 1993. These excesses occurred because EG&G Mound based the payments on the employees' current salaries at the time of retirement, instead of the employees' FY 1991 salaries. The differences between current salaries and FY 1991 salaries are the excessive costs.

In response to the draft of this report, DOE management stated that the cost principles of DEAR subpart 970.31 were not incorporated into the contract between DOE and EG&G Mound and that the DEAR limitation on early retirement incentives was therefore not applicable. Considering the number of RIFs DOE has faced in recent years and the prospective RIFs due to the changing mission of DOE, we have recommended that DOE develop and implement guidance to require compliance with the DEAR limitations in future RIFs.

Although DOE did not believe there was any basis for disallowing early retirement incentives payments above the DEAR limitation, DOE did state that it would issue clarifying guidance to all operations offices underscoring DEAR requirements.

Rehiring of Crucial Employees

After all applications for voluntary RIFs were approved in July 1992, EG&G Mound identified 151 employees considered to be crucial to DOE's mission at the Mound Plant. Management asked each of these employees to remain at the plant for up to 12 months before retiring or separating, to allow the contractor time to hire or retrain replacements. Of the 151 employees asked, 115 agreed to stay for an average of 8 months beyond July 31, 1992. The remaining 36 employees left the plant between May 12, 1992, and July 31, 1992.

In August 1992, EG&G Mound identified 42 employees who had unique skills and would be needed for specific tasks after their retirement or termination. Management directed department heads to request procurements of temporary services for each employee identified. As of October 27, 1992, EG&G Mound had negotiated agreements with 16 of the 42 employees and made offers to 9 others. Two of the 16 employees with negotiated agreements were directly rehired, and the other 14 were rehired through subcontractors. The total value of the negotiated agreements was $127,556, and the total value of the outstanding offers was $159,956. If similar agreements are reached with the remaining targeted employees, the estimated annual costs to DOE will be $426,141.

In its management response, DOE updated our calculations concerning the cost to rehire employees. As of December 17, 1992, there were 28 employees who separated under EG&G Mound's RIF and were rehired as subcontractors at a total subcontract cost of $512,501. DOE also stated that EG&G Mound was reviewing all subcontracts and would immediately cancel all that are not crucial.

Retired employees are prohibited by Federal law from receiving compensation in excess of 40 hours per month while receiving retirement pay from the same employer. For this reason, as of October 27, 1992, EG&G Mound had directly rehired only one of its early retirees. The other retirees were rehired through local subcontractors. EG&G Mound personnel stated that the subcontract arrangements will permit retirees to work more than 40 hours per month without violating Federal law. Besides circumventing the law on pension payments through these employment agreements, EG&G Mound will also pay higher prices for its retirees' services in the form of subcontractor markups on negotiated salaries or wages.

DOE management stated that EG&G Mound assured DOE before the RIF plan was approved that no matter how many employees elected to retire or separate, EG&G Mound would not need to hire replacements. DOE, relying on EG&G Mound's assurance, did not believe that EG&G Mound would need to rehire employees who elected to retire or separate when the program was approved.

DOE management also stated that EG&G Mound advised each employee eligible for retirement in June 1992 that the use of retired personnel would be "severely restricted" and that the use of retirees would "only be done to fill critical needs that cannot be met in any other way." This directly contradicts EG&G Mound's assurance to DOE that no rehires would be necessary.

DOE further stated that retirees were rehired for short-term assignments under work statements that directly defined the work to be done, and that all requisitions were approved by EG&G Mound's General Manager. DOE believed these restrictions minimized the use of retirees by EG&G Mound. DOE maintained that it would not be in its best interest to bar the use of retirees because they often have unique skills and, if carefully controlled, can provide a valuable service to EG&G Mound and DOE.

We agree that DOE should not completely bar the use of rehired retirees; however, in order to eliminate the need to rehire critically skilled employees, EG&G Mound should have structured their plan to keep such employees.

THE DEPARTMENT'S EVALUATION PROCEDURES AND COST DATA

The condition discussed in the preceding section existed because DOE did not have adequate guidelines for evaluating contractors' RIF proposals, and because EG&G Mound furnished inaccurate cost data to DOE evaluators.

Evaluation Procedures

The only guidance that existed for evaluating contractors' RIF proposals other than the DEAR was the Under Secretary's memorandum, dated April 10, 1991. The memorandum contained guidance for obtaining the Secretary of Energy's concurrence and providing advance notification to Headquarters, Congress, state and local governments, labor unions, and the public; but it did not provide specific guidance for evaluating contractors' RIF proposals.

Since DOE did not have specific guidelines for approving or disapproving contractors' RIF proposals, the proposals were evaluated by DOE personnel on a case-by-case basis. DOE approved or disapproved contractors' proposals and recommended ways to revise disapproved proposals. When DOE considered a contractor's proposal to be too generous or costly, the contractor was advised to reduce the level of employee benefits proposed. When a contractor's proposal was considered to be relatively inexpensive, DOE generally approved the contractor's proposal without revision.

The lack of DOE guidelines contributed to the approval of inconsistent RIF plans among DOE sites. In fact, DOE received a letter from four Colorado Congressmen asking for an explanation of differences between EG&G Mound's and EG&G Rocky Flats' RIF plans in FY 1992. DOE's response stated that each plan was designed to meet DOE's objectives to treat contractor employees fairly and to provide support to affected employees and communities. On the surface, this seems like a reasonable response. However, the inconsistencies between RIF plans, as described in the exhibit, are so significant that DOE should be able to provide a more analytical rationale to support its approval actions.

In our opinion, DOE needs to develop and implement written guidelines, not only to ensure consistency among contractors, but also to ensure that future RIF programs do not result in unreasonable costs and the loss of crucial employees. Downsizing experts recommend that across-the-board RIFs be avoided whenever possible. When terminations are scattered and unpredictable, such as in the EG&G Mound RIF, organizations can face serious consequences; for example, many employees who are vital to the effectiveness of the organization might leave. Instead of across-the-board offerings, some companies target specific employee classifications or eliminate crucial classifications. Other companies use the Energy Systems approach, which is to permit voluntary separations only when they prevent the requirement for involuntary separations.

Cost Data Furnished to the Department of Energy

EG&G Mound furnished inaccurate information to DOE regarding anticipated RIF costs. EG&G Mound proposed to DOE that its plan for voluntary separations was structured so that about 25 percent of the employees eligible for early retirement incentives would participate. However, internal contractor documents indicated that EG&G Mound anticipated the participation rate for early retirements to exceed 50 percent. The actual participation rate, 62 percent, probably reflects the benefits level of the DOE approved program and employees' uncertainty about the Mound Plant's future.

EG&G Mound and Corporate Office personnel met with the company's pension plan consultants on August 16, 1990, to discuss plans for the early retirement incentive program at the Mound Plant. Handouts for the meeting stated that an objective of the plan was to provide sufficient incentives to achieve 50-percent participation by employees eligible for early retirement.

In September 1991, the Secretary of Energy proposed to consolidate DOE's nonnuclear production facilities to reduce overall costs. The Secretary's preferred alternative called for the Mound Plant to be phased out of production by FY 1995.

The pension plan consultants issued a letter to EG&G Mound on December 17, 1991, proposing early retirement incentives to include (1) age credits of 5 years toward retirement eligibility; (2) benefits based on 5 years of additional service; and (3) supplemental payments of $750 per month to age 62, with a 1-year minimum payment, regardless of age. The letter stated that similar early retirement plans produced 60-percent participation rates for two other clients.

EG&G Mound submitted a proposal to DOE on February 5, 1992, containing the incentive package proposed by the pension plan consultants in December 1991. DOE rejected the proposal on March 17, 1992, stating that it would not approve the 5-year benefits credit or the $750-per-month supplemental payments. DOE advised EG&G Mound to revise and resubmit its proposal.

On the same day that DOE rejected EG&G Mound's first proposal, EG&G Mound's consultants issued a letter reducing the proposed incentives and lowering the participation rate to 25 percent. EG&G Mound submitted its revised RIF proposal to DOE on April 8, 1992. This proposal did not include provisions for the 5-year benefit credits or the $750-per-month supplemental payments. EG&G Mound stated that it estimated 25 percent of employees eligible for early retirement incentives would participate in the RIF plan. Although EG&G Mound's estimate was based on the aforementioned letter, neither they nor the consultant could provide documentation to support the estimated participation rate of 25 percent.

On March 25, 1992, an EG&G Corporate Office employee issued a memorandum to members of the Mound Retirement Plan Administrative Committee asking for a waiver of the requirement for a 12-month notice of intent before an employee could take a lump-sum retirement payment. The memorandum stated in part:

> The present value of benefits which would be paid from the Plan, assuming a 100 percent acceptance rate of both the retirement incentive and the lump sum option, is $10.2 M. Actual acceptance rates for retirement incentives vary, but they typically run closer to 50%. The Mound Plan has sufficient assets to pay benefits in the event all eligible employees accept the offer.

This statement indicated to us that the members of the Mound Retirement Plan Administrative Committee were informed that the early retirement participation rate would be between 50 and 100 percent, rather than the proposed rate of 25 percent. The memorandum also demonstrated a management attitude that the potential cost of the plan was fully funded no matter how high the participation rate might be. Copies of the memorandum were sent to EG&G Mound officials.

Finally, a RIF proposal submitted to DOE by EG&G Rocky Flats 1 day before EG&G Mound submitted its RIF proposal indicated that EG&G Mound and its pension plan consultant should have expected a participation rate of at least 70 percent at the Mound Plant. The EG&G Rocky Flats proposal was prepared by the same consulting firm as used by EG&G Mound, and both EG&G offices coordinated their pension plan studies and proposals with the EG&G Corporate Office. The author of the March 25, 1992, memorandum served as a liaison between EG&G Mound and EG&G Rocky Flats, keeping both entities informed of individual plan developments. Although EG&G Rocky Flats proposed retirement incentives that were not as generous or costly to DOE as those proposed by EG&G Mound, EG&G Rocky Flats proposed an employee participation rate of 70 percent as compared to 25 percent for EG&G Mound. The threat of a plant shutdown affected both EG&G facilities; therefore, the morale and mind-set of employees were comparable, and participation rates could reasonably have been considered comparable at that time.

In our opinion, the documentation indicates that EG&G Mound anticipated or should have anticipated participation in the FY 1992 early retirement incentive plan to exceed 50 percent. However, the company proposed to DOE that the participation rate would be about 25 percent. The impact of the difference in rates of participation significantly affected DOE and the taxpayers. EG&G Mound calculated proposed RIF incentive costs of $12.3 million for 255 employees in contrast to actual RIF incentive costs of $33.6 million for 540 employees.

DOE management disagreed that EG&G Mound submitted inaccurate information to DOE regarding anticipated rates of employee participation. DOE stated that EG&G Mound provided DOE with all the information available to them. This issue is discussed in further detail in part III.

EFFECTS OF MOUND PLANT'S REDUCTION IN FORCE

The reduction in force at Mound resulted in excessive costs up to $32,076,416. These costs included $31,563,915 paid in excess of what would have been required following contract requirements and union agreements for involuntary separation. The remaining $512,501 was the excess cost to rehire ex-employees whom EG&G Mound determined to be crucial (based on updated information provided by DOE as of December 17, 1992). DOE lacked guidelines regarding the reasonableness of costs associated with voluntary separations. Thus, we were not able to form an overall judgment on this matter. We have, however, recommended that such guidelines be developed promptly.

Another $840,293 associated with the early retirement incentives was excessive, because the contractor exceeded the limit established by the DEAR. We have recommended that the contract be modified to require compliance with the DEAR cost principles.

Finally, in our opinion, at least $21 million of the cost of the separation program was unreasonable, because it was based on inaccurate information provided by EG&G Mound as to the cost of and number of employees who would participate in the reduction in force.

PART III

MANAGEMENT AND AUDITOR COMMENTS

DOE management agreed with the recommendations of the Office of Inspector General in this report. However, DOE did not agree with the conclusions that EG&G Mound's RIF costs were excessive and unreasonable or that the lack of DOE guidelines contributed to the excessive costs and approval of inconsistent RIF plans among DOE sites. DOE also disagreed with our conclusion that EG&G Mound furnished inaccurate information to DOE. Although DOE did not agree with the report conclusions, it did state that the recommendations had merit and would aid in future administration of contractor RIF proposals.

Management comments are summarized below and discussed in the report where appropriate.

Information Provided to Department of Energy by EG&G Mound

Management Comments. DOE management did not agree that EG&G Mound furnished inaccurate information regarding anticipated RIF costs. It believed that the Office of Inspector General did not have compelling documented evidence to support their conclusion. Management did not believe that EG&G Mound would benefit from providing inaccurate information to DOE. Management stated that EG&G Mound's actions clearly demonstrated that it did not know it had underestimated the number of employees who would voluntarily participate in the RIF. It also stated that all parties acted in good faith and that the review and approval process was conducted to the best of the participants' abilities.

Most of management's comments focused on the fact that the documents were written before EG&G Mound submitted its final proposal to DOE. More specifically, DOE stated that the consultant's letter, dated December 17, 1991; EG&G's internal memorandum, dated March 25, 1992; and EG&G Rocky Flats' RIF proposal were misinterpreted, taken out of context, and obscured by the Office of Inspector General. DOE stated that the letter and memorandum referred to the first incentive plan proposal, not the second proposal. DOE stated that EG&G Mound informed DOE in its first proposal that the incentives could be accepted by 60 to 80 percent of eligible employees without a harmful impact to DOE. DOE also stated that EG&G's Corporate Office did not exercise day-to-day oversight and control over the corporation's DOE activities. DOE believed that EG&G Corporate Offices' Human Resources was devoted to supporting EG&G commercial business rather than DOE activities. With respect to the Rocky Flats RIF proposal, DOE stated that it found nothing in the proposal that indicated EG&G Mound expected a participation rate higher than 25 percent. DOE also stated that the actual participation rate at Rocky Flats proved to be less than 50 percent.

Auditor Comments. The evidence in its entirety demonstrates that EG&G Mound believed that employee participation in early retirement incentive plans would generally be at least 50 percent, especially when employees faced the threat of potential plant closure. The fact that the correspondence was written before EG&G Mound submitted its final proposal to DOE does not change its contents. The Corporate Office employee who served as a liaison between Mound and Rocky Flats and authored the March 25 memorandum stated at the beginning of our audit that she anticipated a 50-percent acceptance rate based on her professional knowledge and previous experience with plans that offer 1-year salary incentives. Furthermore, EG&G had received the revised proposal from its consultant, projecting a participation rate of 25 percent before the internal memorandum was prepared. Yet, EG&G Mound proposed to DOE that 25 percent of eligible employees would participate in the plan. EG&G Mound and its consultant could not provide any documentation to support the lower number that was included in the proposal to DOE.

Also, DOE appears to take the position that EG&G Corporate Office was uninvolved in this matter. This contention is not supported by the facts:

- o EG&G Corporate Office maintained more correspondence with pension plan consultants relative to the Mound Plant RIF than EG&G Mound did.

- o EG&G Corporate Office personnel maintained copies of correspondence regarding RIF proposals between EG&G Mound and DOE and between EG&G Mound and pension plan consultants.

- o EG&G Corporate Office provided copies of EG&G Mound's correspondence with DOE and pension plan consultants to EG&G Rocky Flats and vice versa.

DOE management stated that it did not believe EG&G Mound could benefit from providing DOE inaccurate data. It stated that EG&G's substantially underestimating the number of employees to leave the plant would make operating the plant more difficult and reduce contract fee potential and that such results would be contrary to EG&G Mound's interests. Our objective was not to evaluate the motivation behind any of the actions taken in this matter by EG&G either at the corporate level or at Mound. As explained in part II of this report, DOE expended substantial expenses in reimbursing EG&G for a voluntary and quite generous RIF program. The scope of the program was about twice as large as DOE expected based on the EG&G proposal. Yet, EG&G had information in advance indicating that such an acceptance rate was likely.

Regulatory Limits on Early Retirement Incentives

Management Comments. Management stated that it would endeavor to incorporate DEAR cost principles into EG&G Mound's contract upon the next renegotiation of the contract. Management also stated that it would clarify and reinforce the DEAR requirements to ensure that early retirement incentives do not exceed retirees' previous fiscal year salaries. They agreed that since a large portion of employees who apply for incentives are retirement eligible, neither early retirement incentives nor voluntary separation incentives will be approved if they would result in any employee receiving additional compensation of more than the previous year's salary.

Auditor Comments. Management's comments are responsive, provided the EG&G Mound contract is renegotiated soon.

Reasonableness of Cost

Management Comments. DOE management did not agree that any portion of EG&G Mound's RIF costs were unreasonable. It believed that all parties acted in good faith and that the review and approval process was rigorous and conducted to the best of the abilities of the individuals involved. Management stated that the contracting officer has determined that costs incurred by EG&G Mound were reasonable and allowable, because there is no compelling evidence that EG&G Mound furnished inaccurate information to DOE.

Auditor Comments. In our opinion, EG&G Mound's RIF resulted in unreasonable costs. RIF costs of about $21 million were unreasonable, because EG&G Mound provided inaccurate information to DOE. Another $840,293 was unreasonable, because EG&G Mound's early retirement incentives exceeded the limit established by the DEAR.

Rehiring of Crucial Employees

Management Comments. Management revised DOE Order 3309.1 on November 30, 1992, to exclude employees with crucial skills from voluntary separation offerings. Management agreed that EG&G Mound should keep the number of rehired employees to a minimum. Management updated the cost of rehiring employees from $287,512 to $512,501 based on current subcontracts. Each subcontract is being reviewed, and EG&G Mound will immediately cancel all subcontracts that are not determined to be crucial to successful completion of EG&G Mound's mission. Management did not believe that it would be in DOE's best interests to completely bar the use of retirees, because they often have unique skills.

Auditor Comments. The revision to DOE Order 3309.1 and the actions being taken by DOE and EG&G Mound to review all subcontracts and cancel those that are considered noncrucial to EG&G Mound's mission are responsive. We also agree with management's position that it would not be in DOE's best interests to completely bar the use of retirees. The real solution, however, is to avoid the problem in the first place by excluding employees with crucial job classifications from participating in the RIF.

Reduction in Force Plans
Submitted to U.S. Department of Energy
Fiscal Year 1992
Voluntary and Involuntary

VOLUNTARY PLANS

Contractor	Plan Description: Early Retirement Incentives	Plan Description: Voluntary Separation Allowances	Reductions: Goal	Reductions: Actual	Total Cost	Average Cost Per Employee
EG&G Mound Applied Technologies, Inc., Miamisburg, OH	5-year age credit Lump sum incentive payment, up to 1 year of salary, based on years of service	Lump sum incentive payment, up to 1 year of salary, based on years of service	215	540	$33,591,208	$62,206
Wackenhut Services, Inc., Las Vegas, NV	None	Separation payments to employees voluntarily retiring up to 30 weeks plus 2 weeks for each year of service over 21 years	35	19	672,004	35,369
Martin Marietta Specialty Components, Inc., Pinellas Plant, Largo, FL	None	Normal layoff benefits per contract terms from a minimum of 4 weeks of pay up to 2 weeks of pay per year of service over 15 years	165	0 1/	5,300,000 2/	32,121 3/
Allied Signal Aerospace Company, Kansas City Division, Kansas City, MO	None	Enhanced separation payments based on years of service up to 1 year of salary for salary and wage employees	750–850	820	21,280,000	25,951
EG&G Rocky Flats, Inc., Golden, CO	Lump sum payment option Removal of retirement reduction factors Increase retirement benefits by 10 percent	None	1,000–1,100	486 4/	12,548,000 2/	23,129 3/
EG&G Energy Measurements, Inc., Las Vegas, NV	5-year age credit 6-months medical insurance	None	250 5/	40	897,000	22,425 6/

Contractor	Plan Description: Early Retirement Incentives	Plan Description: Voluntary Separation Allowances	Reductions: Goal	Reductions: Actual	Total Cost	Average Cost Per Employee
Martin Marietta Energy Systems, Inc., Oak Ridge, TN	None	Separation per contract terms based on years of service up to 2 months of pay plus 1/4 month of pay for each year of service over 10 years	650	439	7,995,283	18,212

Footnotes:

1/ Plan was not approved in Fiscal Year 1992; therefore, no employees left.

2/ Estimated Cost. Actual cost information not available.

3/ Calculation based on reduction goals, because actual cost information was not available.

4/ Actual reductions and cost as of August 27, 1992.

5/ Goal represents total for early retirements and involuntary layoffs. Actual reductions represent early retirements only.

6/ Calculation based on cost for early retirements only. Does not include involuntary layoffs.

INVOLUNTARY PLANS

Contractor	Involuntary Separation Allowance	Reductions Goal	Reductions Actual	Total Cost	Cost Per Employee
University of Chicago, Argonne, IL	Severance payments as a percentage of annual salary up to 1 full year of salary	26	26	$963,237	$37,048
Associated Universities (Brookhaven), Upton, NY	Severance payments from a minimum of 1 week of pay up to 2 weeks for each year of service over 15 years	6	6	20,013	3,336
Raytheon Services Nevada, Las Vegas, NV	Enhanced severance up to 8 weeks of pay	44	44	133,360	3,031
EG&G Idaho, Inc., Idaho Falls, ID	Severance payments up to 16 weeks of pay	72	72	208,811	2,900
Universities Research Association, Inc., (Fermilab), Batavia, IL	Severance payments up to 1 week of pay	52	52	25,265	486

DATE

FILMED

8 / 16 / 93

END