



THE COMMITTEE ON ENERGY AND COMMERCE

MEMORANDUM

April 16, 2012

TO: Members, Subcommittee on Oversight and Investigations

FROM: Subcommittee on Oversight and Investigations Staff

RE: Hearing on “Budget and Spending Concerns at DOE”

On Wednesday, April 18, 2012, at 10:30 a.m. in 2322 Rayburn House Office Building, the Subcommittee on Oversight and Investigations will hold a hearing entitled “Budget and Spending Concerns at DOE.” This hearing is the third in a series of hearings on the Administration’s efforts to identify wasteful, duplicative, or excessive spending by agencies within the jurisdiction of the Energy and Commerce Committee. This hearing aims to evaluate the results of Department of Energy (DOE) spending-reduction initiatives, as well as to assist DOE in identifying and prioritizing further targets for potential elimination or cuts for Congressional consideration.

I. WITNESSES

Christopher Johns
Director, Office of Budget
U.S. Department of Energy

Gregory H. Friedman
Inspector General
U.S. Department of Energy

Frank Rusco
Director, Natural Resources and Environment
U.S. Government Accountability Office

Additional witnesses may be called at the discretion of the Majority.

II. BACKGROUND

Established in 1977, the Department of Energy (DOE) engages in a broad range of national security, scientific, and environmental activities. At the end of FY 2011, DOE had 14,582 federal employees and 96,873 contractors across 10 program offices, 13 staff offices, 10 operations offices, 21 laboratory and technology centers, 4 power marketing administrations, as

well as the Energy Information Administration and the National Nuclear Security Administration.¹ On February 13, 2012, President Obama proposed a budget of \$27.2 billion for DOE for FY 2013.² The budget requests a 3.2 percent increase, or \$856 million, above the FY 2012 enacted level, and is up from \$15 billion in FY 2000 – a 71 percent increase over one decade. This does not include the more than \$35 billion received, in recent years, under the American Recovery and Reinvestment Act of 2009.³

The need to cut federal spending, especially in view of the current economic crisis, is not in dispute. Indeed, President Obama has said repeatedly that his Administration would conduct an exhaustive “line by line” review of the federal budget to reduce unnecessary spending.⁴ The Administration’s efforts to implement a line-by-line review of the federal budget were described in a September 16, 2009, memorandum from then-OMB Director Peter Orszag as including the following initiatives: (1) the President’s Securing Americans Value and Efficiency (SAVE) Award; (2) the President’s call for Cabinet members to identify \$100 million worth of administrative savings within 90 days of his first Cabinet meeting in April 2009; and (3) the annual *Terminations, Reductions, and Savings* volume accompanying the President’s Budget.⁵

More recently, in Executive Order 13589 issued on November 9, 2011, the President reiterated his Administration’s commitment “to cutting waste in Federal Government spending and identifying opportunities to promote efficient and effective spending.”⁶ This Executive Order instructs federal agencies to establish a plan for reducing the combined costs associated with travel, employee information technology devices, printing, motor vehicle fleet, and promotional items, as well as activities included in the Administrative Efficiency Initiative in the FY 2012 Budget, by not less than 20 percent below FY 2010 levels, in FY 2013. Plans shall be submitted to the Office of Management and Budget within 45 days of the date of this order.⁷

However, DOE’s progress in achieving the President’s aims is mixed. For example, in a November 15, 2011, letter to the Energy and Commerce Committee (see Attachment A), DOE credits the President’s SAVE Award with a savings of \$10 million from FY 2010-FY 2014 for the increased use of video conferencing technology.⁸ At the same time, DOE acknowledges that it is absent from the list of 15 agencies heeding the President’s April 2009 order to cabinet secretaries to identify a combined \$100 million in budget cuts by July 2009.⁹ Nonetheless, DOE notes that it has proposed additional efficiencies, including fleet vehicle reductions of 35 percent

¹ See [Organization Chart; DOE Program Offices, Labs & Technology Centers, Power Marketing Administration, Operations Offices, Other Agencies and Staff Offices](#).

² [Budget of the United States Government, Fiscal Year 2013, Department of Energy, Funding Highlights](#)

³ [DOE Agency Summary, Financial Status, Recovery.gov](#)

⁴ [President-elect Barack Obama, OMB Announcement in Chicago, Illinois, November 25, 2008](#)

⁵ [M-09-31, Memorandum for the Heads of Departments and Agencies, “Implementing the President’s SAVE Award,” September 16, 2009](#)

⁶ [Executive Order 13589 -- Promoting Efficient Spending](#)

⁷ *Id.*

⁸ Letter to the Honorable Fred Upton and the Honorable Cliff Stearns from Owen F. Barwell, Acting Chief Financial Officer, Department of Energy, November 15, 2011.

⁹ *Id.*

by FY 2013, improvements to supply chain management, as well as cuts to certain administrative expenses.¹⁰

According to DOE, the results of the agency's identification of its lowest priority programs for reductions and terminations related to the September 14, 2010, guidance under the Accountable Government Initiative are reflected in the *Terminations, Reductions, and Savings* volume accompanying the FY 2012 President's Budget.¹¹ Not including proposals to repeal tax preferences, the FY 2012 volume proposed \$40 million worth of terminations and \$330 million in reductions for DOE.¹² The *Cuts, Consolidations and Savings* volume accompanying the FY 2013 President's Budget proposes \$467 million in cuts and \$249 million in savings for DOE.¹³ In both years, however, the programs identified by DOE for possible termination or reduction amounted to significantly less in savings than the 5 percent of total spending set out by the President's September 2010 guidance.¹⁴

Notwithstanding DOE's cost-cutting efforts to date, the DOE Inspector General (DOE IG) and the Government Accountability Office (GAO) have identified numerous areas of concern across the agency, the resolution to which could result in substantial savings. These include management challenges,¹⁵ opportunities to reduce duplication, overlap and fragmentation,¹⁶ the Advanced Research Projects Agency – Energy (ARPA-E),¹⁷ the performance of American Recovery and Reinvestment Act funds,¹⁸ and the need for heightened oversight of the Loan Guarantee Program, the ATVM loan program, and renewable energy initiatives more generally.

Notably, the President's FY 2013 DOE budget reserves its greatest relative funding increases over FY 2012 enacted levels for some of its most troubled programs, including Energy Efficiency and Renewable Energy (+29.1 percent to \$2.3 billion), ARPA-E (+27.3 percent to \$350 million), and the Advanced Technology Vehicles Manufacturing (ATVM) loan program (+50 percent to \$9 million).

III. ISSUES

The following issues may be examined at the hearing:

- The proposed cuts resulting from the President's budget-cutting initiatives and how many were actually executed;

¹⁰ *Id.*

¹¹ *Id.*

¹² [FY 2012 Terminations, Reductions, and Savings](#)

¹³ [FY 2013 Cuts, Consolidations, and Savings](#)

¹⁴ [The Accountable Government Initiative -- An Update to Our Performance Management Agenda](#)

¹⁵ [Management Challenges at the Department of Energy, DOE IG](#)

¹⁶ [2012 Annual Report: Opportunities to Reduce Duplication, Overlap and Fragmentation, Achieve Savings, and Enhance Revenue, GAO](#)

¹⁷ See [Advanced Research Projects Agency - Energy Could Improve Its Collection of Information from Applications, GAO; Audit Report: The Advanced Research Projects Agency - Energy, DOE IG](#)

¹⁸ [Recovery Act Reports, DOE IG](#)

- The potential for identifying further cuts and spending efficiencies;
- DOE priority setting and spending performance measures as a tool for accountability and Congressional oversight; and,
- DOE's response to recommendations set out by the DOE IG and GAO to reduce wasteful or inefficient spending and improve budget accountability to Congress.

IV. STAFF CONTACTS

If you have any questions regarding this hearing, please contact Sam Spector with the Subcommittee on Oversight and Investigations staff at (202) 225-2927.



Department of Energy

Washington, DC 20585

November 15, 2011

The Honorable Fred Upton
Chairman
Committee on Energy and Commerce
U.S. House of Representatives
Washington, DC 20515

The Honorable Cliff Stearns
Chairman
Subcommittee on Oversight and Investigations
Committee on Energy and Commerce
U.S. House of Representatives
Washington, DC 20515

Dear Chairman Upton and Chairman Stearns:

Thank you for your September 15, 2011 letter to Energy Secretary Steven Chu, requesting documents and information concerning the participation of the Department of Energy (DOE) in the Administration's efforts to restore fiscal discipline to the federal government. As DOE's Acting Chief Financial Officer, Secretary Chu has asked me to respond on his behalf.

DOE is steadfast in its commitment to produce an annual budget request that reflects the Administration's highest priorities while also recognizing the need to use public resources wisely. The President's directive to review the "federal budget page by page, line by line – eliminating those programs we don't need" has enabled DOE to be more rigorous in its efforts to find savings by performing in a more efficient and cost-effective manner.

In May 2011, Secretary Chu released DOE's Strategic Plan, which established a vision for transformational clean energy, science, and security solutions that are significant, timely, and cost effective. Successfully achieving this vision will require a sustained commitment to management and operational excellence throughout the Department.

To help realize the Management and Operations goal within the DOE Strategic Plan, Secretary Chu established the Associate Deputy Secretary (ADS) position in February 2011. In support of the Secretary and Deputy Secretary, the Associate Deputy Secretary drives improvements in mission execution and assures that they are efficiently and effectively implemented throughout the Department. The Associate Deputy Secretary reports directly to the Secretary and Deputy Secretary, and is the executive in charge of the following DOE functional offices: Office of the Chief Human Capital Officer; Chief Information Officer; Economic Impact and Diversity; Management; Health, Safety and Security; and Hearings and Appeals. In this capacity, the ADS ensures day-to-day activities required by the Under Secretaries and Assistant Secretaries with the line management responsibility are efficiently and effectively implemented. Additionally,



Secretary Chu appointed a Senior Advisor for Operations, who works closely with the Secretary and the Associate Deputy Secretary towards improved mission execution.

The FY 2012 budget demonstrates real ways in which DOE is making government more efficient and effective.

- With an emphasis on good government, smart spending, and common sense steps to cut costs and save taxpayer money, the Department's FY 2012 budget request reduces the cost of corporate management by nearly 13 percent, cutting nearly \$45 million from our FY 2011 Budget Request.
- In addition to these reductions, the Department reduced certain administrative expenses in the categories of travel, printing and reproduction, supplies and materials, and advisory and assistance services across all programs in the FY 2012 budget for a total of \$111 million from FY 2010 levels.

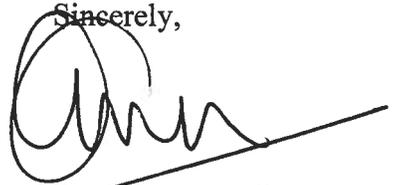
In addition, DOE's budget formulation process includes the identification of areas where the Department delivers the greatest value in technology investments. In some cases, the Department's review concludes that the private sector is already performing a function or can do so more efficiently than a government program. For instance, the Department's Research and Development (R&D) funding for oil and gas production is dwarfed by the private industry, and consequently, the Department has often conducted research in areas that were already receiving funding from the private sector, especially for evolutionary advances and incremental improvements. With that in mind, DOE has recommended that funding be diverted from these R&D programs. Furthermore, in order to realize greater savings, in December 2010, the President's National Commission on Fiscal Responsibility and Reform recommended eliminating the energy research for oil and gas production and the President's FY 2012 Budget complies with that recommendation.

DOE also has concluded that the Natural Gas Technology, Oil Technology, and Unconventional Fossil Technology R&D programs are similar to the Ultra-Deepwater and Unconventional Natural Gas and Other Petroleum mandatory R&D programs and proposed the former's termination in both FY 2011 and FY 2012. DOE has determined that the industry has the incentive and resources to undertake this work without this particular federal subsidy.

DOE plans to continue its cost saving and operational efficiency efforts through a clear articulation of key priorities and goals. This year, the Quadrennial Technology Review (QTR) was launched at the recommendation of the President's Council on Advisors on Science and Technology and provides a multi-year framework for our planning. In carrying out the QTR, DOE has established portfolio principles that can guide its investments over time with a disciplined and strategic approach to catalyzing innovation. These activities will strive to identify the portfolio investment strategies and cross programmatic synergies that will eliminate duplication and yield the most efficient allocation of federal funding.

Thank you, again, for your interest in this important subject. I have attached answers to your specific questions. If you have any further questions or require additional detail, please contact me or have your staff contact Mr. Christopher Davis, Deputy Assistant Secretary for House Affairs at (202) 586-5450.

Sincerely,

A handwritten signature in black ink, appearing to read 'Owen', written over a horizontal line.

Owen F. Barwell
Acting Chief Financial Officer

Enclosures

cc: The Honorable Henry A. Waxman
Ranking Member
Committee on Energy and Commerce

The Honorable Diana DeGette
Ranking Member
Subcommittee on Oversight and Investigations

Responses to Requests for Information

1. Is DOE performing a line-by-line review of the federal budget?
 - a. How is that review being conducted?
 - b. Are there uniform standards for disclosing items in DOE's budget and if not, how would a line-by-line review reach spending that is not itemized or that is non-uniformly (i.e., too broadly) categorized?

DOE undergoes a detailed budget formulation process that uses the Department's Strategic Plan as a basis for priority initiatives that should be resourced. With the recognition that discretionary spending is limited and declining, the Department views the Strategic Plan as one of its tools in focusing spending priorities to meet the Agency's missions.

In terms of process, the line-by-line review of the Department's budget proposals is conducted at the program, subprogram and activity level of detail collected from each program office. Data is submitted by the programs in a prioritized format at the level of detail presented in the Department's justification materials, and oftentimes at a lower level of supporting detail. Each program responds to standardized templates that are created and designed to capture and analyze budget data in multiple ways. Specific data collection requirements can and do vary by fiscal year, program and Office of Management and Budget (OMB) requirements.

As is typical with most agencies, DOE conducts a "corporate review" during the summer months which leads to our submission to OMB in the fall. The annual process involves a structured review of each program office's submission that includes an in-depth review of program priorities on a line-by-line basis, proposed trade-offs (including a review of unobligated and uncosted financial balances) and an analysis of various crosscutting data points. During this process, the data is also analyzed to ensure increased coordination and reduce duplication across the Department. The Secretary, Deputy Secretary, Under Secretaries and Chief Financial Officer are engaged throughout the process and make final approvals on the OMB submission and funding levels.

The result of DOE's identification of programs for possible termination, reduction or savings are included in the *Terminations, Reductions, and Savings* volumes accompanying the President's Budget in fiscal years 2010, 2011 and 2012, the relevant pages of which are enclosed. In addition, the Department's review of unobligated and uncosted balances resulted in the inclusion \$199 million in proposed use of prior balance offsets in our FY 2012 budget.

In addition, the Department has established a strategic plan that includes targeted outcomes to ensure that DOE programs are executing their missions effectively and efficiently.

Focused on the safe and secure mission execution, results/actions are tracked via 52 Measures of Performance aligned with the Department's Strategic plan. Examples include:

Efficiencies – Savings include efforts associated with bulk purchasing, fleet vehicle reductions (with an overall goal of 35% reduction in vehicles by FY 2013), travel reductions, mobile device management, website consolidation, and elimination of excess real property.

Effectiveness – Safe and secure mission execution.

Achieve Operational and Technical Excellence

1. Alignment – **Align roles and responsibilities across the complex:** Horizontal integration (i.e., line/functional, Headquarters/field, Federal employees/laboratories). Decision making is more efficient and effective (leaders are 'getting to yes'). The ADS oversees a routine decision making governance which includes:

- Chief Operating Officer Board established in June 2011. This Board is comprised of career Senior Executive Service members from the line, functional offices, and field leaders.
- Operations Management Council which consists of the Under Secretaries and functional leaders.
- Nuclear Safety and Security Council established in June 2011 which facilitates integration and coordination of the senior nuclear leaders across each Under Secretary program.
- Super 8 which integrates and coordinates the eight major functional leaders in support of line management.
- Directives Review Board which consists of senior leaders who approve mission directives and requirements.
- A weekly operations meeting with the Secretary and Deputy Secretary.
- Additionally, the executive decision correspondence process was changed in March 2011, resulting in executive decisions 10 times faster than before.

2. **Develop the most highly-qualified, capable, and flexible workforce:** We are optimizing our work/Federal workforce and reducing the need for support service contractors. We are upgrading our continual learning program for managers, and working to improve diversity and inclusion in the workforce.

3. **Assure excellence in research and development (R&D) management:** We are consolidating our R&D financial assistance information technology programs/processes towards better effectiveness while saving dollars.

4. **Improve contract and project management:** There are several measures of performance in this area which are being pursued.

5. **Leverage infrastructure to support the mission:** This includes the Department's sustainability efforts (e.g. fleet reductions, buildings efficiency, cool roofs).

6. **Create a regulatory process that is strategic and efficient:** (e.g. revised refrigerator energy standard, etc.).

Implement a Performance-Based Culture

1. **Cultivate a performance-based framework:** We are articulating clear performance expectations, clear accountability, responsible empowerment, timely and responsible performance assessments. (Includes a 'managers training managers' training effort). Recognition of our people is occurring (e.g. management reform recognition, Honor awards).

2. **Improve transparency:** Budget and reporting codes are being consolidated by 50% towards improved financial transparency. We are working to reduce the time required to distribute funds from Headquarters to the field by a factor of four or greater.

3. **Transform our approach to safety and security:** We are streamlining requirements, eliminating duplication (e.g. Health, Safety, and Security requirements have been reduced by 50% while maintaining safe and effective operations).

4. **Enable missions through responsive information technology (IT) and cyber security:** We are improving our commodity IT services, and our cyber risk management.

5. **Refresh our strategy regularly:** The Quadrennial Technology Review is informing our budgets. We are participating in the Office of Management and Budget's Business Quarterly Review process. The ADS conducts bi-monthly management reviews with cognizant leaders to ensure that measures of performance are being realized.

Alignment is our Operating Model towards achieving Management and Operational Excellence. We are taking a systems approach to align DOE's Strategy, Structure, Processes, and People such that they are better focused on mission. The DOE Strategic Plan (a key aspect of our strategy) indicates that we must do the following towards achieving Management and Operational Excellence:

1. Focus on our **Mission**, while being efficient, effective, and reaffirming our Management Principles. Cut waste and capture savings; reapportion savings to mission (i.e. transfer from 'tail' to 'tooth').

2. Achieve Operational and Technical **Excellence**.

Excellence is our standard. This will require alignment of our strategy, structure, processes, and people. This will require accountability (with authorities) by each leader and worker: (1) line leaders are directly accountable for our mission, enabled by accountable Departmental program and functional leaders; and (2) we must remain the subject matter experts of our core competencies (do not 'outsource' core). In achieving Operational and Technical Excellence there are six key points:

- Align roles and responsibilities across the complex.
- Develop the most highly-qualified, capable, and flexible federal workforce.
- Assure excellence in research and development (R&D) management.

- Improve contract and project management.
- Leverage infrastructure to support the mission.
- Create a regulatory process that is strategic and efficient.

3. Implement a **Performance**-Based Culture.

Performance (execution, decisions, outcomes, and results) on a day-to-day basis is our culture. "Get to yes" with a sense of mission urgency while also regarding each of our seven management principles. Do so via timely collaborative action by key experts, instead of concurrence by all. Towards implementing a Performance-Based Culture, there are five key points:

- Cultivate a performance-based framework.
- Improve transparency.
- Transform our approach to safety and security.
- Enable missions through responsive information technology (IT) and cyber security.
- Refresh our strategy regularly.

Aligned with DOE's Strategic Plan, we have established and are pursuing specific **Measures of Effectiveness** (i.e., our standard for success) and **Measures of Performance** (i.e., action steps and our actual performance relative to our standard for success) which are transparent and available on DOE's wiki site – Powerpedia.

2. All memoranda, directives, findings or other documents received by DOE from OMB pursuant to the President's stated commitment to conduct a line-by-line review of the federal budget.

Enclosed, please find guidance documents received from OMB.

3. A list of all programs identified by DOE pursuant to the President's April 2009 order to cabinet secretaries to identify a combined \$100 million in budget cuts.

The findings of this effort, discussed in a July 27, 2009, Memorandum to the President from Peter Orzag and Christopher Lu, included 77 proposals across 15 agencies. While DOE was not included in the list of 15 agencies, the FY 2011 budget included savings for the Increased Use of Video Teleconferencing Technology with a savings of \$10 million from FY 2010–FY 2014 as result of the President's SAVE Award. By increasing reliance on video teleconferencing and other online communications tools, DOE will reduce the need for some business travel. This will yield savings not only in terms of travel dollars, but also in travel time for Federal workers and contractors, as well as positive externalities of increased safety from eliminating unnecessary travel and reduced greenhouse gas emissions.

4. All memoranda, findings or other documents generated by DOE staff in accordance with "The Accountable Government Initiative – an Update to Our Performance Management Agenda" of September 14, 2010, in which the President instructed agencies to identify their lowest-priority programs (equal to 5 percent of total spending) for consideration as terminations or reductions.

The results of the DOE's identification of lowest priority programs for reductions and terminations related to this guidance are reflected in the *Terminations, Reductions, and Savings* volume accompanying the FY 2012 President's Budget (see enclosed). A total of \$3.9 billion (which include \$3.5 billion of terminations of oil and gas tax preferences) in terminations and \$330 million in reductions are identified in FY 2012 for the Department of Energy.

5. A list of all other programs identified by DOE for possible termination, reduction or savings in fiscal years 2010-2012, in addition to those set out in Questions 3 and 4, above.

As noted in Q1, the result of DOE's identification of programs for possible termination, reduction or savings are included in the *Terminations, Reductions, and Savings* volumes accompanying the President's Budget in fiscal years 2010, 2011 and 2012, the relevant pages of which are enclosed.

The Department continues its focus on reducing duplication and achieving savings where possible. This has already reduced some costs, but will result in important efficiencies in the FY 2013 budget and beyond.

Examples include:

Travel Reduction

Actions being taken:

- Increasing the use of Video Conferencing (VTC) technology. For example, 90 participants (30%) in the June 2011 Nuclear Safety Workshop participated via webcast, and the Office of Hearings and Appeals decreased travel costs by 31% (as compared to the same quarter in FY 2010) by conducting many of their hearings via VTC.
- Reducing the periodicity of conferences, for example the Aviation Management Workshop was changed from annual to every three years.
- Permitting the purchase of non-refundable airline tickets, which could yield a 25% to 75% savings when travel plans do not require changes.

Conference Cost Reduction

Actions being taken:

- Reducing conference periodicity.
- Leveraging VTC technology to minimize travel while maintaining or increasing communication.
- Reviewing conferences at a senior level to evaluate intended outcomes and to determine the appropriate attendees in order to maximize cost to benefit ratios.

Fleet Reduction

Actions being taken:

- Reducing the overall size of the fleet by 35% over the next three years. Leading by example, the headquarters executive fleet was reduced by 40% (7 to 4) the fleet

supporting top DOE executives in the DC area in April 2011 and reduced the entire DC area fleet by 35% (40 to 26) in September 2011.

- Switching to hybrid vehicles, with more than 750 vehicles replaced so far in FY 2011.

Fuel Cost Reduction

Actions being taken:

- Switching to fuel efficient hybrid or electric vehicles, with a target of 10% of the fleet by FY 2013.

Supply Chain Management

Actions being taken:

- Expanding the use of strategic sourcing, which provides a common approach to purchasing core supplies and services. In FY 2011, the National Nuclear Security Administration saved \$106 million via an incentives-based approach strategic sourcing products and services amongst its National Laboratory contractors. In FY 2011, the Office of Science saved \$84.3 million via a voluntary participation approach with its Laboratory contractors. DOE headquarters corporate offices saved \$59.2 million in FY 2011 via improved contracting processes.

Disposition of Excess Real Property

Actions being taken:

- Early decontamination and disposal of the K-33 building in Oak Ridge.
- Cumulative of 4.6 million gross square feet eliminated in FY 2011.