

# HANFORD ADVISORY BOARD

*A Site Specific Advisory Board, Chartered under the Federal Advisory Committee Act*

**Advising:**

US Dept of Energy  
US Environmental  
Protection Agency  
Washington State Dept  
of Ecology

November 4, 2005

Jim Rispoli, Assistant Secretary for Environmental Management (EM-1)  
U.S. Department of Energy, Headquarters  
1000 Independence Avenue  
Washington, D.C. 20585

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Todd Martin

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Re: Contract Management and Upcoming Major Contracts

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Dear Mr. Rispoli,

## Background

The Hanford Advisory Board (Board) has reviewed several recent Government Accountability Office (GAO) reports focused on Department of Energy (DOE) contract management. The GAO has repeatedly found that DOE management faces significant "challenges" and that major contracts have suffered from a lack of detailed planning and significant pressures to meet regulatory deadlines. The result of the lack of planning has repeatedly been unanticipated cost and schedule delays. The GAO has also been highly critical of the use of "design-build" contracts when construction is begun before design is sufficiently complete for projects facing technological challenges, using unproven technology, or where the extent of the problem to be addressed is not known.

Contracts expire on September 30, 2006, for the Project Hanford Management Contract (PHMC) (held by Fluor Hanford) and for the operation of the High-Level Nuclear Waste tank farms and retrieval of wastes (held by CH2M Hill Hanford Group). This represents an opportunity for DOE to create new contract structures and scope which could greatly facilitate Hanford cleanup in an integrated fashion, while also posing significant risks if lessons learned from the past are not applied.

In general, the GAO reports outline a need for more effective DOE oversight of contractors. Expenditures and size of contracts have dramatically increased, but there has not been a concomitant increase in trained DOE contracting personnel. The GAO found that DOE needs additional experienced contract management personnel and needs to implement a more rigorous application of existing disciplined project management systems.

The GAO has been critical of not having a balance of incentives for both schedule and cost. Also, the GAO has encouraged the use of performance-based contracts, and there is significant progress in the use of this type of contract at Hanford. The

Board was pleased that the new River Corridor Contract included equitable cost incentives as well as schedule incentives.

DOE has agreed with many of the findings of these reports and the Board is encouraged by the acknowledgement of the validity of the findings. Additionally, the Board is encouraged by the recent memo from Secretary of Energy Bodman requiring the stringent application of DOE's project management order (DOE Order 413.3). However, despite the repeated findings from the GAO on this subject, DOE has continued, in some cases, to utilize the same inadequate management practices.

**Board Advice:**

The Board advises DOE implement GAO findings through the following actions:

- DOE should provide enough competent trained contract management and technical support staff to ensure all Hanford contracts have experienced oversight. This is necessary to set priorities for work to be accomplished and manage activities to independently validate cost and schedule estimates. (See Board Advice #112.)
- DOE should make public the corrective actions identified and implemented at Hanford in response to the GAO's findings about contract management.
- DOE should ensure Order 413.3 is implemented at Hanford on a firm schedule to ensure project progress is measured against expenditures and specific, measurable performance goals. DOE should ensure projects under new contracts are well-defined. Contractual cost targets should not be set for specific projects until the project has been adequately defined to allow independent validation of schedule and cost expectations. DOE should ensure that project assumptions are validated through reviews in accordance with DOE Order 413.3.1, Chapter 9, "Project Reviews."
- DOE should complete the project Conceptual Design phase before proceeding to implement projects. DOE should clearly define the scope of projects before it begins contracting for specific performance.
- DOE should incorporate the GAO critiques of "savings" claims from the "accelerated cleanup program" into DOE baselines and target budgets. The GAO found that these purported savings are largely illusory and will not be realized. DOE baselines should not rely on illusory savings, but on validated

project costs and schedules. The claim that the accelerated cleanup program would save \$20 billion in the arena of tank farms and vitrification should be discontinued.

For the new PHMC and Tank Farms contracts, the Board advises:

- DOE should avoid defining the scopes of work for new contracts based solely on which Field Office currently “owns” a facility or work on the Hanford site. An integrated approach should be examined. Integration and agreements between the field offices at Hanford might prevent unnecessary expenditures and work disruptions. Integration of the contracts will facilitate the contractors’ ability to move highly qualified and experienced exempt and management staff from project to project as needs and priorities change, thus facilitating Hanford clean-up activities.
- DOE should identify financial, schedule, cleanup quality and worker safety incentives in performance-based contracts. The emphasis to date has been primarily on schedule adherence. For cost and schedule incentives to work, DOE should get independent cost estimation and schedule reviews, both prior to contract award and during contract performance. New contracts should also include financial penalties if work is over budget (based on independently validated baselines).
- Contracts should include specific penalties for violations of worker safety and health standards or administrative or judicial findings of retaliation against workers. (See Board Advice #167.) In addition, DOE should ensure safety records of contractors are one of the explicit and quantifiable bases for contract award. Reliance on discretionary fee reductions is not an adequate mechanism to demonstrate a commitment to safety and the environment.
- DOE should ensure that cost schedules and cost profiles reflect Tri-Party Agreement milestones and other legal schedule obligations. Contracts should not be based on assuming changes to those schedules or on target budgets which do not fully fund the work required to meet schedules.
  - Both schedules and cost for contracts need independent validation in advance of bid review, rather than having contracts based on unrealistic “stretch” goals.
  - Contracts should include clearly identified assumptions (including knowledge gaps or technical challenges).

- Contracts should be based on expectations for retrieval, treatment and disposal and remediation of soil and ground water under existing state and federal standards, and should not presume waiving requirements.
- DOE should minimize and scrutinize transition costs as new contractors take over from existing contractors.

Sincerely,



Todd Martin, Chair  
Hanford Advisory Board

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*This advice represents HAB consensus for this specific topic. It should not be taken out of context to extrapolate Board agreement on other subject matters.*

cc: Keith Klein, Manager, U.S. Department of Energy Richland Operations Office  
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