



NNSA Policy Letter: NAP-18

Date: July 13, 2006

TITLE: Implementation of NNSA Pilot Program on Determination of Fiscal and Other Impacts of New or Revised Directives

1. **OBJECTIVE:** Provide guidelines for a six month pilot program to subject all draft new directives or draft proposed revisions to existing directives (including Policies, Orders, Notices, and Manuals) that may be issued by the Department of Energy which apply to the National Nuclear Security Administration ("NNSA") or that may be issued by NNSA (the "Directive" or "Directives") to a written initial assessment of the costs and benefits (including fiscal, personnel, and other impacts) and, if necessary, a secondary, more in-depth quantitative and qualitative written analysis. This NNSA policy for the preparation of Initial Assessments and Further Evaluation Documentation will provide senior NNSA management with the necessary information to enable them to make informed decisions regarding Directives that may be accompanied by onerous or unfunded burdens that exceed their assessed benefits.
 - a. The Administration's Policy Letter system is issued under the authority of Section 3212(b)(2) of Public Law 106-65, the National Defense Authorization Act for Fiscal Year 2000.
 - b. This Policy Letter is issued in accordance with NNSA Policy Letter NAP-1 dated May 21, 2002, entitled "Establishment of a Policy Letter System for Managing Policy, Directives, and Business Practices Within the National Nuclear Security Administration."
2. **APPLICABILITY:**
 - a. This Policy Letter is applicable to all organizations and elements within the NNSA except Naval Reactors (NA-30).
 - b. This Policy Letter does not apply to classified Directives.
3. **REQUIREMENTS:** During the period of this pilot program, the Service Center (SC) will, in all cases, perform an initial estimate (the "Initial Assessment") of impact of each proposed Directive. This will be a rough estimate that will be used to determine if further analysis is required as the subject Directive reaches maturity and prior to being issued. For those Directives identified by the NNSA Management Council (MC) as having the potential for significant impact on NNSA, the Principal Deputy Administrator will direct the SC to provide a more precise evaluation (the "Further Evaluation Documentation") of the fiscal and other impacts, both quantitative and qualitative as well as the associated benefits.

The SC, assisted by SMEs from each organizational element affected by the Directive, will prepare the Further Evaluation Documentation and distribute it for review (but not coordination) by each affected organization. The SC will include review comments from each organization in total as an attachment to a Final Summary Report. As a part of this Final Summary Report, a senior officer from each affected organization (i.e., direct report to NA-1) will acknowledge, by signature, that he/she has reviewed the SC's analysis of impact. The SC will provide the Final Summary Report to the MC through the Principal Deputy Administrator. The MC and the Principal Deputy Administrator will determine whether the costs and other impacts of each subject Directive exceeds the assessed benefits and, if so, recommend a course of further action to the Administrator to include non-concurrence on or rejection of the proposed Directive.

- a. The Methodology for NNSA SC Preparation of the Initial Assessment for Cost/Benefit Review of a Directive is presented in Attachment 1.
- b. The Methodology for NNSA SC Preparation of the Further Evaluation Documentation for Cost/Benefit Review of a Directive is presented in Attachment 2.
- c. The Directive Impact Review Process Flowchart is presented in Attachment 3.
- d. The Contractor Requirements Document is presented in Attachment 4.
- e. NNSA Federal staff shall perform the required analysis. NNSA management and operating contractors and other prime contractors as determined by NNSA Headquarters and or field/site management shall provide assistance as required to complete the analysis.
- f. The language of this Policy Letter outlines the process for a six-month pilot project. The Office of Primary Interest (OPI) for this Policy Letter, NA-3.4, shall resolve any procedural issues that arise within NNSA during this six-month pilot project relating thereto and/or amend this Policy Letter, as necessary, to facilitate the development of this process.
- g. At the conclusion of this six-month pilot project the MC and the OPI for this Policy Letter, NA-3.4, shall recommend to the NNSA Administrator whether to continue this pilot project as a permanent NNSA policy. This Policy Letter shall be revised at that time, as necessary.

4. RESPONSIBILITIES:

a. Administrator, National Nuclear Security Administration

(1) For Directives that may be issued by NNSA:

- (a) Evaluate the recommendation of the Principal Deputy Administrator and the MC regarding a particular directive.
- (b) Make the final determination to issue, direct revision or reject that directive.

(2) For Directives that may be issued by DOE:

- (a) Evaluate the recommendation of the Principal Deputy Administrator regarding a particular Directive.
- (b) Make the final determination to recommend approval or rejection of that Directive to the Secretary.

b. Principal Deputy Administrator, National Nuclear Security Administration

(1) On receipt of the Initial Assessment:

- (a) Engage the MC and seek a determination whether the Directive has the potential for significant impact on NNSA and warrants the development of Further Evaluation Documentation.
- (b) Identify MC concerns, if any, to the OPI.

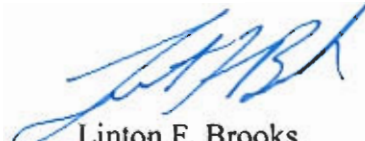
(2) When the MC determines that development of Further Evaluation Documentation is warranted:

- (a) Direct the SC to prepare the Further Evaluation Documentation.
- (b) Convey MC concerns regarding the Directive to the SC to facilitate development of the Further Evaluation Documentation.
- (c) Convey MC concerns regarding the proposed Directive to the OPI.

(3) Upon receipt of the Final Summary Report of a Directive: Engage the MC and form a recommendation to present to the Administrator regarding the costs and benefits of that Directive.

- c. NNSA Management Council
 - (1) Evaluate the costs and benefits of each Directive based on the Initial Assessment prepared by the SC.
 - (2) Determine whether to request that the Principal Deputy Administrator direct the SC to prepare Further Evaluation Documentation, if warranted, and convey concerns regarding the Directive to the Principal Deputy Administrator.
 - (3) Engage the Principal Deputy Administrator and form a recommendation whether to approve or reject each Directive based upon the Initial Assessment or the Final Summary Report.
- d. NNSA Service Center Director
 - (1) Prepare the Initial Assessment of each Directive in accordance with the terms of this Directive Policy Letter.
 - (2) Prepare the Further Evaluation Documentation when directed by the Principal Deputy Administrator in accordance with the terms of this Policy Letter.
 - (3) Prepare the Final Summary Report that will include:
 - (a) The Initial Assessment;
 - (b) The Further Evaluation Documentation;
 - (c) Comments from each impacted NNSA organization (as an attachment); and
 - (d) Senior NNSA officer signature (from each impacted NNSA organization) indicating review of the Initial Assessment and Further Evaluation Documentation.
 - (4) Maintain cost and data records of all analyses of Directives performed during this six-month pilot project.
- e. NNSA Senior Officers (i.e., NA-1 direct reports): Acknowledge, by signature, when applicable, review of the SC's Further Evaluation Documentation.
- f. Subject Matter Experts: Assist the SC with preparation of the Initial Assessment and Further Evaluation Documentation of any Directive that may affect their organization.
- g. All of the above responsibilities can be delegated within the respective organization with the exception of those of the Administrator, Principal Deputy Administrator and the MC.

5. POINT OF CONTACT FOR ADMINISTRATION POLICY LETTER: NNSA Policy Planning Staff (NA-3.4), at 202-586-9044.



Linton F. Brooks
Administrator

Attachments:

1. Methodology for NNSA SC Preparation of the Initial Assessment for Cost/Benefit Review of a Directive
2. Methodology for NNSA SC Preparation of the Further Evaluation Documentation for Cost/Benefit Review of a Directive
3. Directive Impact Review Process Flowchart
4. Contractor Requirements Document

ATTACHMENT 1

NNSA Policy Letter: NAP-18 Implementation of NNSA Pilot Program on Determination of Fiscal and Other Impacts of New or Revised Directives, Dated July 13, 2006

METHODOLOGY FOR NNSA SERVICE CENTER PREPARATION OF THE INITIAL ASSESSMENT FOR THE COST/BENEFIT ANALYSIS OF A DIRECTIVE

OBJECTIVE:

The initial screening process and preparation of the Initial Assessment regarding a new or revised directive focuses on providing management with a high-level evaluation of the possible impact of a directive that will assist the NNSA Management Council in determining whether a more detailed cost benefit analysis should be performed.

PROCESS:

Evaluation of the costs and benefits of directives are management decisions that must be made on a case-by-case basis. The following steps provide guidelines that may be used in preparing the Initial Assessment.

1. Determine the purpose of the directive.

- What is the directive or revision intended to accomplish?
- Develop an understanding of the business climate that created the perception that a new directive or revision is needed.
 - Have laws and regulations changed?
 - Are current systems and controls operating ineffectively?
- Talk to the author of the draft directive.
- Perform limited reviews of DOE/NNSA, OIG, and GAO reports relevant to the subject matter area.

2. Identify the requirements of the directive.

- Identify action items contained in a new directive.
- Identify changes contained in a revised directive.
- Consider whether requirements in the draft directive already exist in other guidance.
 - Determine if there would be duplication of effort with other directives.
 - Evaluate whether the requirements in the draft directive could be satisfied by proper reliance on approved systems in accordance with the Administrator's policy, as opposed to continually reviewing outputs of these systems for compliance.

3. Assess the impact of the directive.

- Who is impacted? What is the impact?
- Talk to Subject Matter Experts regarding the high level assessment of cost impacts as well as the overall benefits to be derived from the implementation of the directive.
- Determine the impact of levels of management review of schedules, cost, and performance.
 - Identify all levels of review and estimate the cost of each level of review.
 - If there are multiple levels of review, determine whether each level of review adds value to the review process.
- If contractors already have systems that address the new or changed requirements of the draft directive, estimate the cost incurred by the contractors to run the systems.

4. Summarize and report the initial screening evaluation.

- Provide an Initial Assessment (two pages or less) of the preliminary analysis to the NNSA Principal Deputy Administrator including a recommendation as to whether Further Evaluation Documentation should be developed.

ATTACHMENT 2

NNSA Policy Letter: NAP-18 Implementation of NNSA Pilot Program on Determination of Fiscal and Other Impacts of New or Revised Directives, Dated July 13, 2006

METHODOLOGY FOR NNSA SERVICE CENTER PREPARATION OF FURTHER EVALUATION DOCUMENTATION FOR THE COST/BENEFIT ANALYSIS OF A DIRECTIVE

OBJECTIVE:

Provide methodology for the development of a more detailed analysis of the costs and benefits of implementing a new or revised directive.

REVIEW PROCESS SUMMARY:

1. Develop a tailored plan of analysis for the directive.
2. Evaluate the quantitative impacts of each action item.
3. Evaluate the qualitative impacts of each action item.
4. Assess the risks assumed if action items are not implemented.
5. Provide status reports to management.
6. Provide a Final Summary Report to the NNSA Principal Deputy Administrator.

REVIEW STEPS:

The following detailed steps provide preliminary guidelines for preparing Further Evaluation Documentation. They are generic steps that will be modified for each directive reviewed.

1. Develop a tailored plan of analysis for the directive.

- A.** Address any specific concerns or information requested by management after review of the initial screening of the cost and benefit of the draft directive.
- B.** Perform a detailed review of current Subject Matter Expert (SME) comments related to the directive under review. Consider whether SME comments may result in substantive revisions to the draft directive, and whether the review should be deferred until potential revisions have been made.
- C.** Perform a detailed review of recent DOE/NNSA, OIG, and GAO reports related to the directive.
- D.** Identify the action items contained within the directive, and tailor the review plan to evaluate the costs and benefits of each action item broken out separately, to provide management with information for making decisions on implementing each action item.
- E.** Prepare information requests for SMEs for each organizational element affected by the action items.

F. Prepare specific summary questions to coordinate the planned approach with NNSA management.

2. Evaluate the quantitative impacts of each action item.

Evaluate the quantifiable (A) programmatic and (B) financial costs and benefits of each action item under review, based on summary reports and suggested recommendations by SMEs for each organizational element impacted.

A. Evaluate programmatic impacts of each action item.

- i. Potential impacts to be considered by SMEs include programmatic costs such as work which will be forgone or deliverables which will not be met if the action items are implemented; or programmatic benefits such as increased efficiencies.
- ii. Reviewers may summarize the programmatic impacts of each action item for each organization element affected in a narrative such as in the suggested matrix below.

<u>ENTITY</u>	<u>PROGRAMMATIC IMPACTS:</u>	
	<u>Action Item A</u>	
	<u>Costs</u>	<u>Benefits</u>
LANL	Extend XYZ to FY 07	
LLNL		
Sandia		
Y-12		
Kansas City		
Pantex		
BN		
NNSA HQ		
NNSA Site Offices		
NNSA SC		

B. Evaluate financial impacts of each action item.

- i. Potential financial impacts to be considered by SMEs include additional direct and indirect costs required to perform the action items, such as additional FTEs, material, and overhead; or any cost savings projected.
- ii. Summarize financial impacts of each action item, based on budget quality estimates obtained from each entity impacted, and create visual aids such as the sample graphs following.

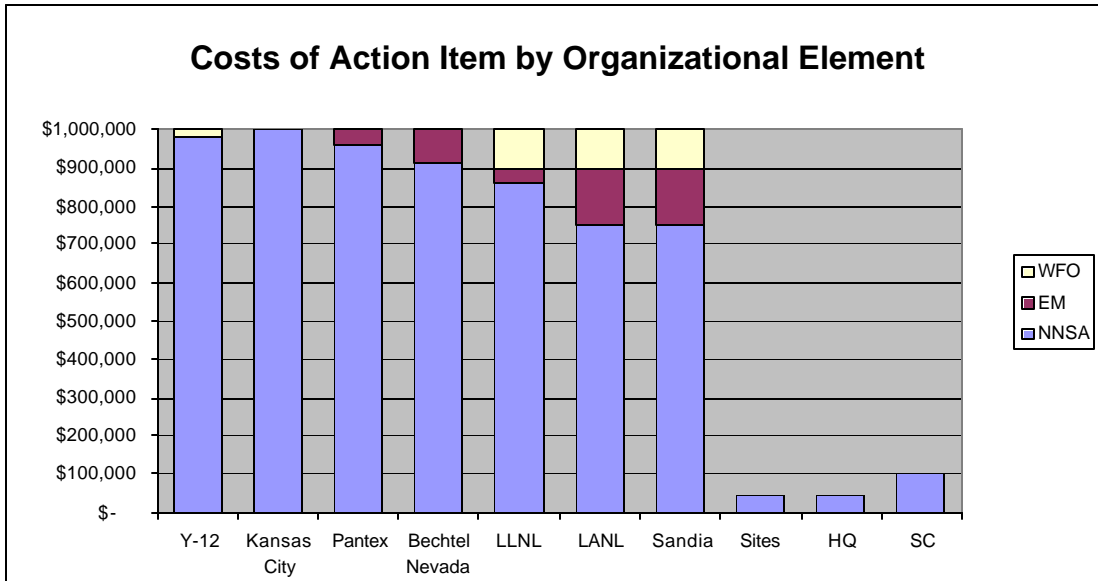


Figure 1. Costs of an Action Item by Organizational Element. The hypothetical costs of an action item as provided by SMEs at each organizational element impacted, summarized graphically and broken out by funding source for each location.

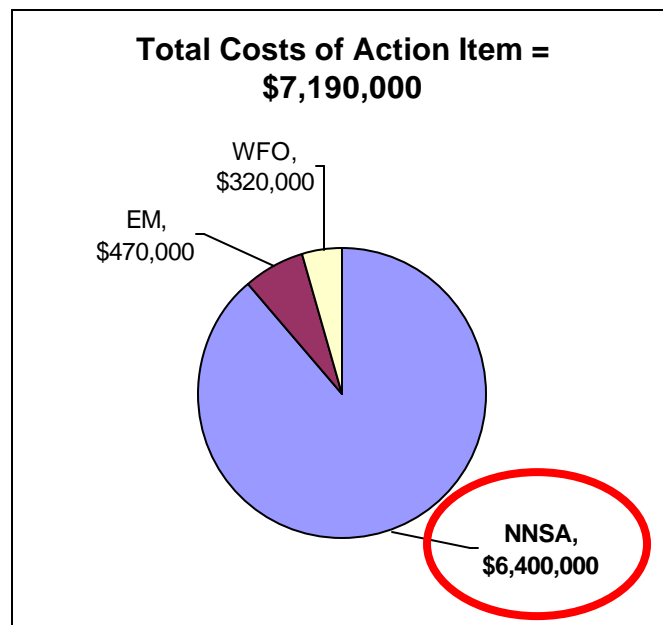


Figure 2. Total Costs of an Action Item. The hypothetical total costs of an action item, with the portion of costs that would be borne by NNSA.

3. Evaluate the qualitative impacts of each action item.

Evaluate the non-quantifiable costs and benefits of each action item under review, based on recommendations by SMEs for each organizational element impacted.

- A.** Some potential impacts of action items may not be quantifiable, but may be evaluated qualitatively. For example, negative publicity resulting from an action item may not have a known financial cost, but may still have a significant impact. The purpose of evaluating non-quantifiable information is to provide management with any additional perceived impacts of action items based on recommendations of SMEs.
- B.** Potential qualitative impacts to be considered by SMEs include the criteria applicable to FMFIA reporting requirements. These criteria include any impact which:
- substantially impairs the organization's mission;
 - could constitute a violation of significant statutory or regulatory requirements;
 - substantially weakens safeguards against waste, loss, unauthorized use, and misappropriation of funds or other assets;
 - results in a conflict of interest;
 - creates adverse publicity that affects the organization's credibility;
 - merits the attention of senior DOE management, the Secretary, congressional committees, or the Executive Office of the President;
 - exists in a majority of programs, administrative functions, and/or organizations and can cause harm, even though minor individually, because the aggregate is significant;
 - risks or results in the actual loss of either \$10 million or five percent of the resources of a budget line item;
 - could reflect adversely on management integrity if not reported;
 - endangers national security;
 - has received significant adverse audit coverage; and/or
 - significantly impairs the Department's ability to meet financial management systems requirements as outlined in the Contractor Requirements Document and section IV(6) of DOE Order 413.1A.

4. Assess the risks assumed if action items are not implemented.

Assess the risks NNSA would be assuming by not implementing each action item, based on recommendations by SMEs.

- A.** In addition to evaluating the costs and benefits of implementing each action item, the possible impacts of not implementing each action item should be evaluated based on the input of SMEs. The purpose of assessing the risks assumed by NNSA if action items are not implemented is to alert management to any potential specific consequences of not implementing an aspect of the directive.

- B.** Rank the potential consequences and likelihood of negative impacts resulting from each action item if not implemented.

A best practice for enterprise risk management in benchmark organizations is to use a numeric scale to describe the relative degrees of the consequences and likelihood of risks, such as in the example below:

<u>Consequences: Impact Severity</u>	<u>Likelihood: Probable Occurrence</u>
1 – Negligible	1 – Rare
2 – Low	2 – Unlikely
3 – Medium	3 – Moderate
4 – Very High	4 – Likely
5 – Extreme	5 – Almost Certain

- C.** Generate risk scores. Expressing risk as a product of consequences/impact and likelihood/probability is a best practice in enterprise risk management. With the two factors of consequences and likelihood quantified, a numeric score can be generated for the risks assumed by not implementing an action item:

$$\text{RISK} = \text{CONSEQUENCES} \times \text{LIKELIHOOD}$$

The example below illustrates ten action items within a new directive, identified by letters, with their numeric ratings for the consequences and likelihood of risks if not implemented, based on the judgment of SMEs. The total risk scores for each action item are expressed as a product of the two factors of consequences and likelihood.

Action Items Assessed for Risk			
<u>Action Item</u>	<u>Consequences</u>	<u>Likelihood</u>	<u>Risk Score</u>
A	5	2	10
B	2	5	10
C	3	3	9
D	4	4	16
E	5	2	10
F	1	3	3
G	3	4	12
H	4	5	20
I	2	4	8
J	3	1	3

D. Display risks on a heat map.

In addition to the risk scores, a visual representation of the potential risks of not implementing the action items may be helpful. A heat map is one of the best practices for displaying enterprise risks. Consequences are plotted on the Y-axis, and likelihood on the X-axis. The heat map following displays the action items A – J which were scored above for consequences, likelihood, and total risk.

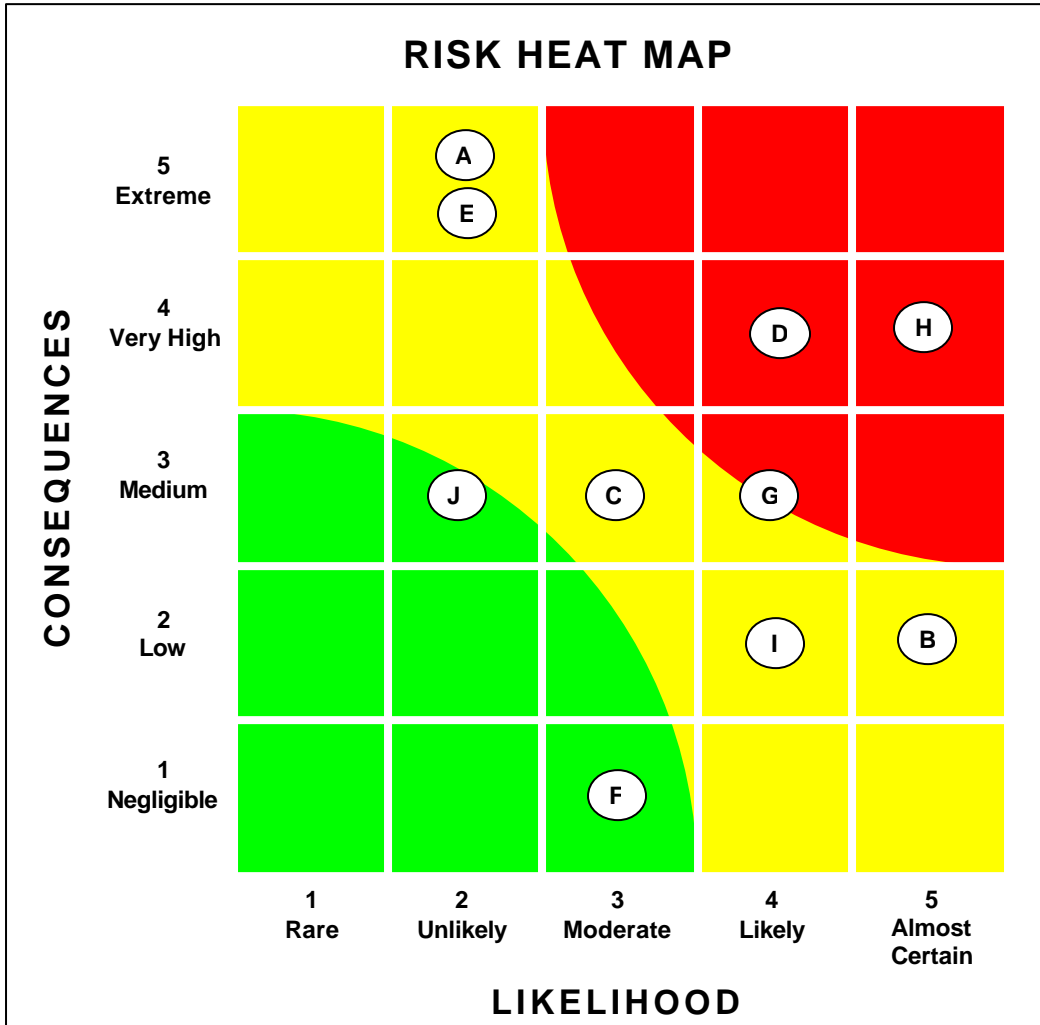


Figure 3. Risk Heat Map. A visual representation of the consequences and likelihood of potential risks to NNSA if action items are not implemented, based on SME assessments.

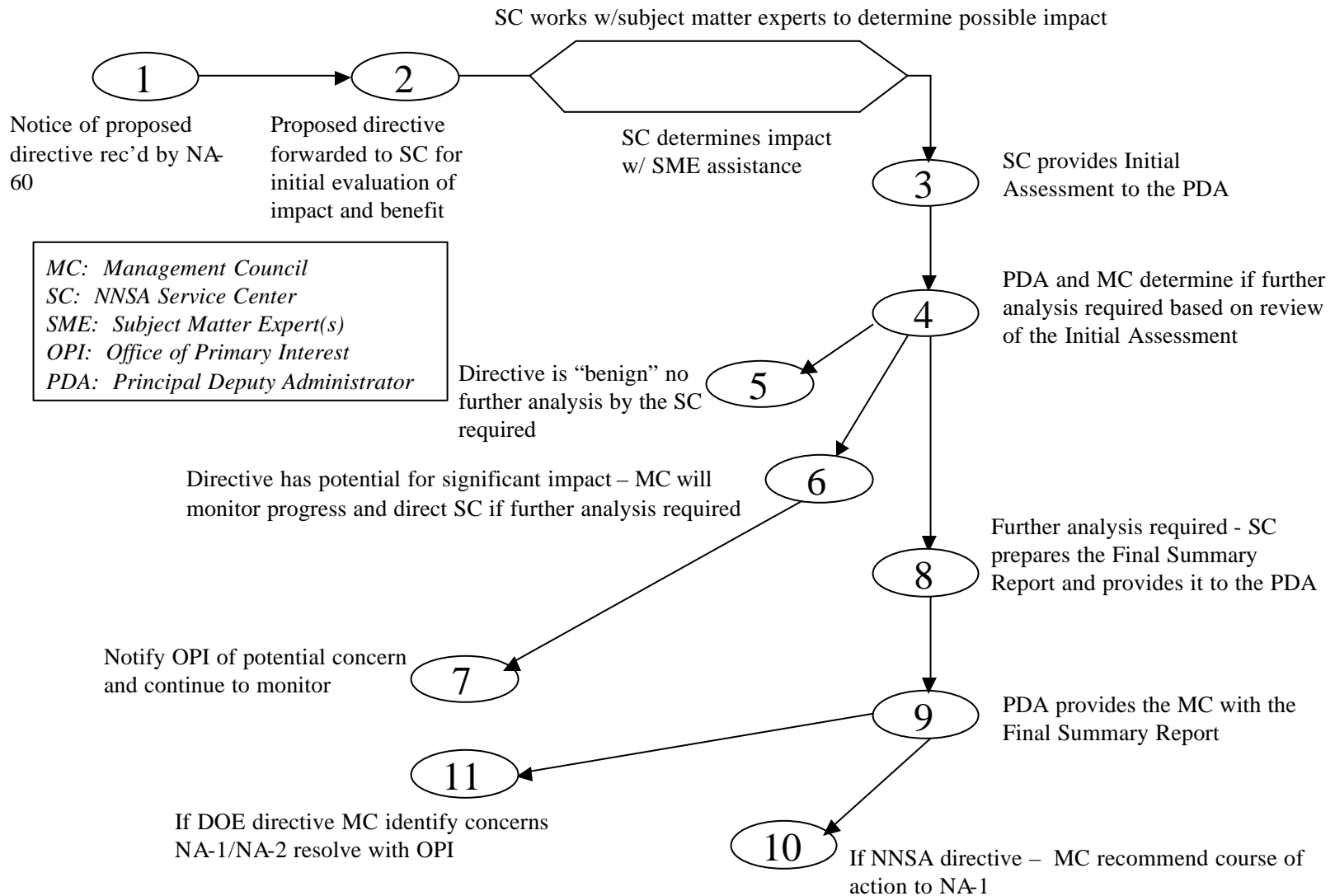
5. Provide status reports to management.

Provide regular briefings to management on the status of the review, and a preliminary exit conference with our conclusions.

6. Provide a Final Summary Report to the NNSA Principal Deputy Administrator.

This Report will include:

1. visual aids such as bar charts, graphs, and heat maps
2. the Initial Assessment
3. the Further Evaluation Documentation
4. review comments from impacted organizations
5. signature acknowledgement of review of the Further Evaluation Documentation by a senior officer of the impacted organizations



ATTACHMENT 3 NNSA Policy Letter: NAP-18 Implementation of NNSA Pilot Program on Determination of Fiscal and Other Impacts of New or Revised Directives, Dated July 13, 2006 Directive Impact Review Process Flowchart

ATTACHMENT 4

CONTRACTOR REQUIREMENTS DOCUMENT

**NNSA Policy Letter: NAP-18 Implementation of NNSA Pilot Program on
Determination of Fiscal and Other Impacts of New or Revised Directives, Dated
July 13, 2006**

The contractor must comply with the requirements of this Contractor Requirements Document and apply them when directed to provide assistance in the development of analysis associated with this Policy Letter.

1. **REQUIREMENTS**: During the period of this pilot program, NNSA management and operating contractors and other prime contractors as determined by NNSA Headquarters and or field/site management shall provide assistance as required to complete the analysis.
2. **RESPONSIBILITIES**: Subject Matter Experts from NNSA management and operating contractors and other prime contractors as determined by NNSA Headquarters and or field/site management shall assist the SC with preparation of the Initial Assessment and Further Evaluation Documentation of any Directive that may affect their organization.