

University of California Regents' Meeting
Update on National Laboratory Management Issues
July 16, 2003
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Good morning, Mr. Chairman.

At the May Regents' meeting, Linton Brooks, the Administrator of the National Nuclear Security Administration, described the Secretary of Energy's decision to compete the contract to manage Los Alamos National Laboratory when the current contract expires in September 2005.

Ambassador Brooks reviewed the reasons for that decision, he praised the University and Los Alamos for the management changes that have been made since December, and he urged the University to compete for the contract. With this in mind, the University faces two tasks in the months ahead:

First, we must continue the management improvements that began late last year, we must sustain them over time, and we should extend them into additional areas at Los Alamos and;

Second, we need to prepare ourselves to make a decision about whether to compete for the contract to manage Los Alamos. DOE expects to issue the request for proposals in the fall of 2004.

Since our discussion with Ambassador Brooks focused solely on the University's contract, I want to provide some context for that decision, and highlight some developments that may influence our decision about whether to compete.

There are active discussions underway in Washington about how best to carry out the responsibilities of the Federal Government. The administration is interested in remaking the federal workforce and identifying further opportunities to outsource activities to the private sector. The Congress is examining how the Executive Branch, particularly the Department of Energy, has managed its existing contracts. Both the administration and the

Congress begin with the presumption that competition will improve contractor performance.

Earlier this year, the Secretary of Energy established a Blue Ribbon Commission to recommend the criteria he should use in making the determination about whether to renew or compete existing contracts. The Commission was created following criticism from potential competitors when the Secretary decided to renew Lockheed Martin's contract to manage the Sandia National Laboratory. The Commission expects to make its recommendations in the fall and has asked the University and our three Lab Directors – as well as other contractors – to testify on August 5. The Commission's recommendations may affect future UC Lab contracts.

Just this week, Representative Hobson – who chairs the House Appropriations Subcommittee on Energy and Water – included statutory language in the Fiscal Year 2004 bill directing the Secretary of Energy to compete all Department of Energy contracts that have not been competed in the past ten years. On Tuesday, the full House Appropriations Committee changed the requirement for competition to contracts that have not been competed in the past fifty years.

If this language survives, it would require competition for Princeton's Plasma Physics Lab; Argonne National Lab, managed by the University of Chicago; the Ames Lab, managed by Iowa State University; and Lawrence Livermore National Lab. It would exempt the Berkeley Lab from competition, at least through the period of the next five-year contract, which is currently under negotiation.

The Committee further directed that, "The Secretary may not impose any conditions on the contract competition in favor of the incumbent contractor." The Committee also opposed efforts by DOE to cover the costs of competition for existing contractors, such as UC.

Meanwhile, Senator Domenici has expressed dissatisfaction with DOE's management of its nuclear weapons and scientific laboratories. He wants to better define the respective roles and responsibilities of DOE and its contractors. He believes that conflicting edicts from different parts of DOE are contributing to poor management of the Labs. Three former directors of Los Alamos and Livermore National Labs have, or will, testify at these hearings.

In addition, the House Science Committee held a hearing last week to ensure that DOE's decision to compete the Los Alamos and Argonne West contracts does not compromise the scientific excellence and the scientific mission of the Labs. John McTague, former UC Vice President of Lab Management and former Science Advisor to President Reagan testified.

And, the House Government Reform Committee held a hearing to examine security failures at DOE nuclear facilities. The General Accounting Office released a report at the hearing that was highly critical of the Department's security policies and questioned the thoroughness of the Department's security audits and inspections.

So, there are many forces at work that may influence our thinking about the contracts. Let me now turn to our continued efforts to improve all aspects of Laboratory management – from business practices to security.

Los Alamos continues to make improvements:

- The reorganization of the Business Division and Human Resources has been completed and national searches are underway to recruit new managers to lead them.
- The first phase of the comprehensive property inventory has been completed and has identified over 99% of the Laboratory's property inventory.
- The Business Process Improvement Plan has completed 74 of its 132 milestones and is on track to complete all of them by September of 2004.
- New controls are in place for Lab procurement to lessen the possibility of recurrence of past problems.
- We recently announced the completion of the Mustang case – the alleged attempt by a Lab employee to purchase a Ford Mustang with a Lab credit card. Our investigation concluded that there is no evidence that the employee attempted to purchase the car. In fact, it appears that she was the victim of a fraud. We have sent our findings to the

U.S. Attorney and the DOE Inspector General so that they can pursue the matter.

Turning to Livermore, let me note that the NIF continues to exceed expectations, further underscoring the impressive turnaround of that crucial project.

The most recent concerns at Livermore relate to security. There have been three cases of missing keys in the last four weeks. While these instances have revealed weaknesses and proven embarrassing to the Lab, we know of no evidence of a threat to national security. In each instance, Laboratory leadership took quick and decisive action to minimize the vulnerabilities and to address the management problems, including naming a new head of security. In addition, the University has contracted with Booz-Allen Hamilton to review Livermore's security management and recommend further corrective actions.

Although we have spent a disproportionate amount of time in the past six months addressing problems and disappointments, all three Labs continue to set high standards of accomplishment in science and in fulfilling their respective missions to the nation. The President's Council on the Labs met Tuesday and each of the Directors reviewed the accomplishments of the Labs. They were truly impressive and will be discussed at a future meeting.

A timely reminder of the continuing excellence of the three Labs is that they received 15 out of 100 of the U.S. Research & Development 100 Awards that were awarded recently.

In conclusion, let me also say, since Chuck Shank is here, that there have been no major issues at the Berkeley Lab during this period. This speaks highly of Chuck and his colleagues' efforts.

Mr. Chairman, I welcome your comments or questions.