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Annual Report

Contractor Procurement System Review Program—Fiscal Year 1978

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PREFACE

The first year of the Department of Energy (DOE) was an exciting time. Among our accomplishments was the management and conduct of an active and evolving Contractor Procurement System Review (CPSR) Program.

A strong CPSR Program has many benefits. First, our contractors' procurement systems can be strengthened and their procurement performance improved as a result of the reviews. Second, both the Government and the contractors can save considerable employee-hours by reducing surveillance and limiting subcontract reviews where the contractors' procurement systems can be approved. Third, the reviews can highlight the key role procurement plays in accomplishing both the contractor's and the DOE's missions.

This report provides a record of our Fiscal Year 1978 CPSR Program and serves as an overview of areas needing improvement in the year ahead. Both DOE and contractor procurement managers are urged to use this report as part of their procurement system review activity.

As always, your comments on the DOE CPSR Program are encouraged.

for *David J. Ball*
John E. Reid, Director
Office of Procurement Management
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CHAPTER I
SCOPE OF DOE CPSR PROGRAM

A. INTRODUCTION

Fiscal Year 1978, the first year of the Department of Energy (DOE), saw some \$10.1 billion obligated on awards over \$5 million and some \$60.7 billion of on-going contracts under administration. This volume of work was performed by less than 350 people in the procurement and procurement related workforce.

The large number of high dollar value contracts for which the DOE is responsible requires an active and professional CPSR Program. This report is the story of that program in Fiscal Year 1978.

B. CPSR PROGRAM OBJECTIVES

A CPSR is an evaluation of a contractor's procurement system and the effectiveness with which procurements are placed in the performance of Government contracts.

The objectives of the DOE CPSR Program are to provide:

- (1) a means for evaluating the efficiency, effectiveness and economy with which the contractor manages the procurement function;
- (2) the basis for the contracting officer to grant, continue, withhold, or withdraw approval of the contractor's procurement system;
- (3) reliable current information on the contractor's procurement system for use in source selection, determining the appropriate type of contract, estimating contract costs, and establishing profit or fee objectives; and
- (4) current procurement system information for appropriate DOE activities.

C. ROLE OF HEADQUARTERS

The Procurement Management Review Division has been assigned responsibility for CPSR program management by the Director, Procurement and Contracts Management. The Division is required to examine the appropriateness of proposed CPSR's, CPSR plans and, as necessary, participate as team members or consultants. After receipt of CPSR reports, the Division reviews the reports for completeness and objectivity and prepares the recommendation for Headquarters management decision.

Additionally, the Division must identify, compile and publish lessons learned, conduct CPSR conferences, and provide consistency throughout the DOE CPSR Program.

D. ROLE OF THE CONTRACTING OFFICER

The procuring activity contracting officer is responsible for planning, conducting, and reporting appropriate CPSR's of applicable DOE contractors' procurement systems. The contracting officer, with Headquarters DOE authorization, is responsible for granting, continuing, withholding or withdrawing approval of a contractor's procurement system. The contracting officer also must maintain a sufficient surveillance to assure that an approved contractor procurement system continues at an acceptable level of performance.

CHAPTER II

PROGRAM MANAGEMENT ACCOMPLISHMENTS

A. FISCAL YEAR 1978 OBJECTIVES

A somewhat ambitious set of Fiscal Year 1978 objectives for CPSR program management was listed in the Fiscal Year 1977 Annual Report. Accomplishments toward the seven listed objectives were:

1. Issue Fiscal Year 1978 CPSR Schedule.

The first Fiscal Year 1978 CPSR Schedule was issued in October 1977. It listed 30 initial reviews and four follow-up reviews for Fiscal Year 1978. Subsequent revisions were issued as appropriate.

2. Issue Consolidated Listing of Approved Procurement Systems.

The first consolidated listing of approved contractor procurement systems ever developed for the Federal Government was issued in February 1978. The listing was updated in June 1978. The listing is provided to DOE procuring activities and other Government agencies. DOE activities can use the listing to identify procurement systems approved by others which they may elect to rely on in raising subcontract consent thresholds and other review requirements.

3. Issue Improved CPSR Guide.

The improved guide was developed by the Contract Administration Branch of the Policy and Procedures Division. Improvements in the new guide include clarification on how and when to submit recommendations to contractors, a requirement for subfunctional area appraisal, and expanded worksheets. The new guide will be available early in Fiscal Year 1979.

4. Conduct "Lessons Learned" CPSR Conferences.

Most planning for the DOE Annual CPSR Conference (to be held November 13-14, 1978) was completed in Fiscal Year 1978. The Seminar will be a "first" for the DOE (and ERDA) CPSR Program. In Fiscal Year 1978 the agenda was

established; participants invited and arrangements completed. The seminar will include down-to-earth briefings by DOE Headquarters, Department of Defense, Office of Federal Procurement Policy and field activity personnel as well as considerable give-and-take questioning and discussion periods.

5. Standardize Advance Notice/Consent/Approval Requirements.

In Fiscal Year 1978 the Office of Procurement Management requested selected DOE procuring activities to provide copies of their procedures, forms, and management techniques on advance notice/consent/approval requirements. The data is to be used in developing uniform dollar thresholds for approved systems, standardizing requirements for advance notice and consent or approval, and developing consistent subcontract consent review procedures and documentation.

This objective is being incorporated into the Procurement and Contracts Management Directorate formal Management-By-Objectives (MBO) program for Fiscal Year 1979 to ensure that this key DOE action item is closely tracked to a successful completion.

6. Promote CPSR Objectivity and Creativity.

In January 1978 the Procurement Management Review Division initiated the "Lessons Learned" newsletter, which includes suggestions for improved CPSR's. The "Lessons Learned" have been reasonably well received throughout DOE. Also in FY 1978 additional emphasis was given to including DCAS personnel on the CPSR teams. Such use not only provides additional team resources and expertise, but also provides an additional independent insight into the contractor's operations.

7. Develop Improved Surveillance Techniques.

In Fiscal Year 1978 representative surveillance plans in use were reviewed with the objective of issuing detailed guidelines for the development and use of surveillance plans. Also, effort commenced on selection and development of "selected sample" surveillance plans for distribution to the procuring activities.

B. OTHER ACCOMPLISHMENTS

In addition to the actions described above under the Fiscal Year 1978 Objectives, other CPSR program management accomplishments were:

1. Contractor CPSR Conference Planned.

Preliminary planning was completed to conduct a CPSR conference with the DOE operating contractors in Fiscal Year 1979.

2. CPSR Inventory System Developed.

A CPSR continual inventory system was developed to track current review status, overdue reports, and future CPSR plans and to identify new awards with CPSR potential.

3. Reporting of CPSR Savings.

A format for standardized reporting of savings achieved through raising subcontract consent thresholds was developed and issued. Preliminary DOE-wide savings data has been developed.

CHAPTER III
CPSR'S PERFORMED

A. FISCAL YEAR 1978 REVIEWS

During Fiscal Year 1978 there were 23 CPSR's conducted, up from 20 in Fiscal Year 1977. The Fiscal Year 1978 reviews were:

<u>Contractor</u>	<u>DOE Activity</u>	<u>Type*</u>	<u>Date</u>
Argonne Univ. Assoc. (Argonne National Lab)	CH	F	Oct 77
Univ. of California (Livermore Berkeley Lab)	SAN	I	Oct 77
E.I. DuPont de Nemours & Co.	SR	I	Oct 77
Univ. of California (Los Alamos Scientific Lab)	AL	I	Nov 77
Gulf Interstate Engineering Co.	PR-50	I	Nov 77
Stearns-Rogers Inc.	PR-50	I	Nov 77
Battelle Memorial Institute (Pacific N.W. Lab)	RL	I	Nov 77
Universities Research Assoc. (Fermi National Acc. Lab)	CH	F	Dec 77
Parsons Gilbane	PR-50	I	Dec 77
Univ. of California (Lawrence Livermore Lab)	SAN	F	Dec 77
Sandia Corp. (Sandia Lab)	AL	Sur	Jan 78
Fluor Engineering & Constructors Inc.	PR-50	Spec	Jan 78
EBASCO Services Inc.	PR-50	I	Feb 78
General Atomic Co.	SAN	I	Mar 78

EG&G, Idaho Inc.	ID	I	Apr 78
EG&G, Inc.	NV	F	Apr 78
Dravo Corp.	PR-50	I	Apr 78
General Electric (Neutron Devices Dept.)	AL	I	May 78
Bendix Field Engineering Corp.	GJ	I	May 78
Goodyear Atomic Corp.	OK	I	May 78
Institute of Gas Technology	PR-50	F	May 78
Rockwell International (Atomics International Div. Rockwell Hanford Operations)	RL	I	May 78
Associated Universities Inc. (Brookhaven National Lab)	CH (BAO)	F	Jul 78

* I - Initial, F- Follow-Up, Sur - Surveillance, Spec. - Special

The Fiscal Year 1978 reviews resulted in 12 contractor procurement systems being approved and 11 with approval withheld.

B. REPORTS REVIEW

1. Overview

CPSR reports during Fiscal Year 1978 were consistently well written and professionally prepared. Increased attention to the requirements for a thorough CPSR Report, as detailed in the draft CPSR Manual, was noted during Fiscal Year 1978. Generally the reports were submitted in a timely manner, although the average of slightly over 70 days exceeded the established target of 2 months leadtime between completion of the on-site portion of an initial CPSR and submission of the report to Headquarters.

2. Review Innovations

Several significant innovations by review teams were observed in the reports. For example, one initial review team presented orientation sessions on Government contracting and subcontracting to key employees of a contractor with little Government contracts experience. This type of active help during the review speaks well for the constructive nature of the DOE CPSR program.

3. Recommendations for Report Improvements.

Several potential improvement areas for CPSR reports were noted during Fiscal Year 1978:

(a) Increase attention to timely report completion - Six reports were not completed in a timely manner. Effectiveness significantly lessens when the time between the review completion and receipt of the report by the contractor is too extended.

(b) Provide estimates of savings from threshold changes - Fiscal Year 1978 reports often recommended changing subcontract review thresholds without accompanying the recommendation with estimates of potential savings to be gained.

These estimates are important to the decision to authorize recommended changes. They are also important to management analysis of the entire CPSR Program. Such data, in the format provided in the April 1978 "Lessons Learned" newsletter, must accompany all recommended threshold changes.

(c) Describe contractor actions expected Recommendations to contractors need to be explicit about actions the contractor is expected to take to improve its procurement system. Some Fiscal Year 1978 reports did not provide the extent of detail in recommendations needed to assure communication of desired contractor action. Also, recommendation summaries need to be based on and keyed to specific report findings or discussions.

(d) Use adequate sample size - The size of the sample of subcontracts reviewed was not adequate in a few Fiscal Year 1978 CPSR reports. The draft CPSR Manual establishes minimum sample guidelines to help assure that recommendations are based on a fair overview of a contractor's subcontract operations. Future reviews must include appropriate sample size.

(e) Emphasize socio-economic program implementations Small business, labor surplus area, and minority business enterprise subcontracting programs continue to be of high interest for the Federal Government. Generally Fiscal Year 1978 CPSR reports

provided an overall review of these programs, although significantly less coverage was noted on the labor surplus area concern program. Future reports must analyze implementation for each of the programs, including procedures practices and statistics.

(f) Cover applicable procedures where no actions observed - Occasionally review teams found no action in particular subject areas during the sample period (e.g., a contractor may not have issued any letter subcontracts.) CPSR reports must comment on the adequacy of applicable policy and procedures in these areas to help indicate contractor capability.

4. Headquarters Improvements

Headquarters actions also were in need of some improvements. Turn-around times for reviewing CPSR reports were sometimes too lengthy. A turn-around goal of five working days at the reviewing office has now been established. Also, procuring offices have been advised to send an information copy of all CPSR communications with Headquarters directly to the Procurement Management Review Division to facilitate response.

CHAPTER IV
FISCAL YEAR 1978 CPSR FINDINGS

A major benefit of the CPSR program comes from the findings and recommendations to contractors for more efficient procurement under DOE contracts. Both Government and contractor procurement people can benefit from a general review of Fiscal Year 1978 CPSR findings.

A. MANAGEMENT HIGHLIGHTS

Contractor management needed to assure attention to the following:

1. Centralized responsibility of and accountability for procurement operations were needed. Fragmented procurement management leads to inefficiency in preparing Government funded procurements.
2. Justification for noncompetitive procurement need to be thorough and complete. Competition on all but very small procurements is required unless the use of single or sole sources is documented.
3. Cost and price analysis emphasis was needed to ensure fair and reasonable pricing.
4. Documentation of the key elements of procurement actions was not adequate.
5. Checks and balances were needed to provide adequate assurance of proper performance. Management must establish controls and conduct internal reviews to this end.

B. MAJOR FINDINGS

1. Management of Procurement

As observed in Fiscal Year 1977, it continues to be evident that most contractors could benefit by focusing additional attention to their procurement system. Many of the Fiscal Year 1978 findings repeat those listed in the Fiscal Year 1977 Annual Report. Findings included:

(a) Fragmented procurement organizations were found under some managements. Also, cases were found where procurement actions were performed outside of any formal procurement organization. Centralized procurement structures were needed. (4 reports)

(b) Training for procurement personnel continued to be needed. Especially lacking was training on cost or price analysis, negotiation techniques and use of the Federal and DOE procurement regulations. (4 reports)

(c) Adequate documentation for subcontract files was lacking. Standard buyer checklists were needed to index files. In a few cases the files did not support the total procurement action from requirement to contract. Improvements were needed to ensure contractor accountability for public funds and to enhance procurement professionalism. (8 reports)

(d) Workload management in procurement organizations was lacking. There was a need for meaningful management statistics to show current and projected workload and accomplishments.

Small dollar purchases were found assigned to senior buyers - an inefficient use of resources. Improved control of small dollar procurements was needed. (3 reports)

(e) Blanket purchase arrangements were not effectively used by some DOE contractors. Generally the finding was lack of use although there were instances of using blanket purchase arrangements where inappropriate. (3 reports)

(f) Prompt payment discounts needed to be taken and documented. (2 reports)

(g) Checks and balances within some procurement systems were lacking. Levels of contract review and approval were found inconsistent and legal review of high dollar actions was not being required. (2 reports)

2. Procurement Policies and Procedures

Contractor procurement systems need a basis of effective policies and procedures for satisfactory completion of procurement under major DOE contracts. Fiscal Year 1978 findings in this area included:

(a) Incomplete manuals and out-of-date policy and procedures were being used by contractors. Standard operating procedures for small purchases needed revision. (2 reports)

(b) Government oriented procedures for Government contracts were needed. This situation occurred when a normally commercially oriented contractor received a major DOE contract. (1 report)

(c) Comprehensive written procedures were needed in the following areas: (5 reports)

- (i) Conflict-of-interest
- (ii) Socio-economic programs
- (iii) Clause flow-down
- (iv) Single source and sole source justification
- (v) PL 87-653 (certified cost and pricing data)
- (vi) PL 91-379 (cost accounting standards)
- (vii) Payments and discounts
- (viii) Terminations and closeout
- (ix) Notification to unsuccessful offerors

(d) Adherence to established procedures was lacking, especially for low dollar quotations. (1 report)

3. Subcontract clauses

No major findings on subcontract clauses were reported in Fiscal Year 1978. Some contractors were including additional Defense Acquisition Regulation clauses in subcontracts, thus generally increasing the protection of DOE interests.

4. Development of Purchase Requirements

In an effective procurement system the procuring office needs to have a clear indication of what is required and when it is needed. Findings in this area included:

(a) Rights to question requirements (quality, quantity and need) needed to be established for procurement personnel by specific policies and procedures. (1 report)

(b) Leadtimes for requirements needed to be scheduled. Short leadtimes resulted in costly procurement arrangements which waste Government funds. (3 reports)

(c) Total needs for an item needed to be identified to foster quantity procurement and avoid change orders. (1 report)

(d) Automatic reorder systems should have been considered for improving purchasing system efficiency. (2 reports)

(e) Forms for RFQ's and purchase orders needed to be redesigned to show need dates. (2 reports)

5. Selecting the Source

Source selection is a key procurement decision. CPSR's must assure that national and businesslike policies are being fairly and thoroughly implemented by contractors. Major Fiscal Year 1978 findings in this area were:

(a) Small business, labor surplus area and minority business enterprise programs need greater attention by some contractors. Especially needed was more effort to locate minority owned businesses. (3 reports)

(b) Justification for single source and sole source procurements were not completely documented. (6 reports)

(c) Effective negotiation was not undertaken in many procurements when effective price competition and satisfactory offers were not obtained. (3 reports)

(d) Negotiation guidelines for prenegotiation techniques, prenegotiation objectives, and negotiation memorandums were lacking. (2 reports)

(e) Vendor contacts should have been restricted to authorized procurement people during source selection. (1 report)

- (f) Additional sources of supply needed to be sought more aggressively. (1 report)
- (g) Advance procurement planning on major subcontracts was incomplete. (1 report)
- (h) Competitive awards needed to be increased. (1 report)

6. Pricing

Findings in the pricing area were:

- (a) Policy and procedures for cost and price analysis were needed. (5 reports)
- (b) Price analysis on procurements under \$25,000 needed to be performed and documented. (1 report)
- (c) Financial and audit expertise were needed in support of cost and price analysis. (1 report)
- (d) Catalog prices needed verification. (1 report)
- (e) Cost accounting standards (PL 91-379) implementation needed management attention. (2 reports)
- (f) Certificates of current cost or pricing data (PL 87-653) were not included in contract files. (3 reports)

7. Expediting and Receiving Methods

Contractor management needed to assess expediting procedures to reduce the large number of delinquent deliveries. (1 report)

8. Subcontract Award And Administration

Findings in this area were:

- (a) DOE subcontract consent requirements were not being observed. (2 reports)
- (b) Deviations from standard subcontract terms and conditions were not being cleared, where required, with the contracting officer. (1 report)
- (c) Available expeditors were not being used by subcontract administrators. (1 report)

(d) Technical people needed to be trained on their subcontract administration responsibilities. (2 reports)

(e) Close-out, termination and letter contract policies and procedures were needed. (6 reports)

(f) Check-lists for close-out were needed for timely and complete action. (2 reports)

(g) Change order documentation was weak. (2 reports)

(h) Mission statements for the functions and responsibilities of subcontract administration people would help clarify their role. (1 reports)

CHAPTER V
CPSR PROGRAM STATISTICS

A. OVERALL PROGRAM

The following statistics give a "thumbnail" view of the entire DOE CPSR program:

1. Review Potential

Systems with over \$10 million of DOE contracts: 164

Reviews not appropriate:	99
Reviews appropriate:	63
Appropriateness not yet determined:	2

2. Reviews Conducted

Systems with review appropriate: 63

Reviews conducted:	39
Reviews not conducted:	24

3. Systems Approved

Systems with reviews conducted: 39

Systems approved:	22
Systems not approved:	2
Approval withheld:	15

B. FISCAL YEAR 1978 PROGRAM

The following statistics are for the 15 initial reviews conducted during Fiscal Year 1978:

1. Universe of Contractor Activity

Contractor procurement actions: 161,874

Actions up to \$10,000:	158,034 (98%)
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Actions over \$10,000:	3,840 (2%)
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Contractor procurement dollars: \$296.7 million

Dollars on actions up to \$10,000: \$106.1 million (36%)

Dollars on actions over \$10,000: \$190.6 million (64%)

2. CPSR Samples (actions over \$10,000)

Total sample:

Actions: 1,336 (35% of universe)

Dollars: \$111.0 million (58% of universe)

Portion competitive:

Actions: 656 (48% of sample)

Dollars: \$70.4 million (63% of sample)

Portion noncompetitive:

Actions: 679 (52% of sample)

Dollars: \$39.6 million (37% of sample)

C. FISCAL YEAR 1978 SAVINGS DATA

1. Savings From Raising Subcontract Notice/Consent/Approval Thresholds (Operating Contractors).

<u>Est. Gross Savings/Year</u>	<u>Government Proc. Office (Div)</u>	<u>Government Other Offices (Divs)</u>	<u>Contractor</u>
a. Actions	1980	1980	1980
b. Employee-Hours/ action	8	4	2
c. Total Employee-Hours	15,840	7,920	3,960
d. Leadtime (days/ action)	4	3	3

2. Savings From Raising Subcontract Notice/Consent Approval Thresholds (Other than Operating Contractors).

<u>Est. Gross Savings/Year</u>	<u>Government Proc. Offices (Div)</u>	<u>Government Other Offices (Div)</u>	<u>Contractor</u>
a. Actions	120	120	120
b. Employee-Hours/ action	4	2	3
c. Total Employee-Hours	480	240	360
d. Leadtime (days/ action)	6	4	5

3. Savings From Accepting Approved System Thresholds from other Agencies.

<u>Est. Gross Savings/Year</u>	<u>Government Proc. Offices (Div)</u>	<u>Government Other Offices (Div)</u>	<u>Contractor</u>
a. Actions	330	330	330
b. Employee-Hours/ action	4	2	3
c. Total Employee-Hours	1320	660	990
d. Leadtime (days/ action)	6	4	5

4. Other Savings

One team estimated continuing savings of 3,135 employee-hours per year due to raising the authorized threshold for oral orders to \$2,500.

Savings data reported by review teams was somewhat spotty and fragmented. Accordingly, the above data represent the bottom of the Fiscal Year 1978 estimated savings range, with the top of the range unknown.

CHAPTER VI

FISCAL YEAR 1979 OBJECTIVES

Another active year of the DOE CPSR Program is planned for Fiscal Year 1979.

A. COMPLETION OF FISCAL YEAR 1978 OBJECTIVES

Continuing Fiscal Year 1978 objectives will be pursued as follows:

1. Conduct two-day CPSR Conference for DOE CPSR people.
2. Develop and implement standardized advance notice/consent/approval requirements.
3. Continue development of improved surveillance techniques.
4. Issue the new DOE CPSR Guide.

B. FISCAL YEAR 1979 OBJECTIVES

New Fiscal Year 1979 Objectives have been established as follows:

1. Schedule initial or follow-up reviews on the remaining contractor procurement systems where reviews are appropriate.
2. Conduct a CPSR Conference for DOE contractors.
3. Formalize and improve CPSR statistical summaries, including reporting of estimated savings.
4. Provide more Headquarters assistance during the on-site portion of reviews of major contractor procurement systems.