



DOE F 1325.8  
(8-89)  
EFC (07-90)

United States Government

Department of Energy

# Memorandum

DATE: December 2, 2002

REPLY TO: IG-36 (A02SR013)  
ATTN OF:

Audit Report No.: OAS-L-03-07

SUBJECT: Audit of Subcontracting Practices at the Savannah River Site

to: Jeffrey M. Allison, Acting Manager, Savannah River Operations Office

## INTRODUCTION AND OBJECTIVE

The Department of Energy (Department) has contracted with Westinghouse Savannah River Company, LLC (Westinghouse) to manage and operate the Savannah River Site (Savannah River) through September 30, 2006. As of August 2, 2002, Westinghouse had 534 open and active service procurements worth \$100,000 or more each, with a total value of about \$518 million, that it had awarded since October 1996.

In order to promote competition, Federal Acquisition Regulations require Government contractors to procure goods and services on a competitive basis to the maximum practical extent, consistent with the objectives and requirements of the procurements. Accordingly, Westinghouse established policy stating that it will apply the best in commercial practices to ensure acquisition of quality goods and services at fair and reasonable prices, and will use effective competitive techniques. In addition, for those situations where sole-source transactions cannot be avoided, the policy requires that the procurement file adequately document the exclusive capability of the selected vendor.

The objective of this audit was to determine whether Westinghouse's service subcontracting practices result in the award of competitively bid subcontracts.

## CONCLUSIONS AND OBSERVATIONS

As of August 2002, about 59 percent of Westinghouse's open and active service procurements worth \$100,000 or more were competitively awarded. However, of the 40 procurements we reviewed, 10 valued at about \$10.7 million were not competed to the maximum extent practicable. Specifically, seven were awarded on a sole-source basis without substantiating the exclusive capability of the vendor, and three were awarded competitively, but with restricted competition. The following are examples.

- Westinghouse awarded a subcontract for roof replacement, valued at about \$746,000, on a sole-source basis. However, the sole-source justification did not substantiate that

this subcontractor offered exclusive capability over other potential sources. The buyer attributed the sole-source selection to receiving the Request for Proposal (RFP) late in the year and the need to award the subcontract before the end of the year.

- Westinghouse awarded a \$315,000 subcontract for roofing inspection and oversight services to a bidder that did not meet the minimum safety performance factors listed in the RFP. When the number of bids received was less than expected, Westinghouse relaxed the minimum qualifications, rather than reissue the RFP. The original RFP stated that proposals not meeting the minimum requirements would be considered non-responsive. Under these circumstances, potential bidders may have met the revised minimum requirements, but did not have an opportunity to compete for the project.
- Westinghouse competitively awarded a subcontract for the performance of fast-turnaround chemical analyses of soils, sediment, and water. However, when the quantity of these fast-turnaround analyses declined years later, Westinghouse revised the subcontract to allow the subcontractor to perform the same sampling analyses on a routine basis. Despite having subcontracts for routine analysis in place, Westinghouse did not request competitive bids from other vendors. Instead it negotiated a price of \$200 per analysis on a sole-source basis. Had it solicited competitive bids, it may have acquired the analyses at lower prices.

These conditions occurred because Westinghouse personnel did not always follow approved policies and procedures, and neither Westinghouse nor the Savannah River Operations Office (Operations Office) established internal controls to ensure employee compliance. As a result, the Department had no assurance that Westinghouse obtained the best value on the Department's behalf, and lost potential savings from competition.

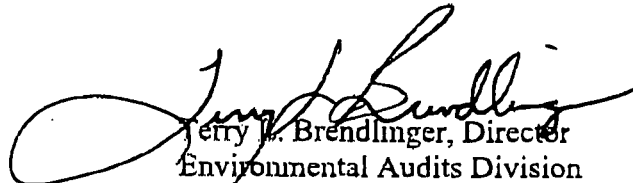
#### SCOPE AND METHODOLOGY

The audit was performed at Savannah River between May and August 2002. The audit covered subcontracts greater than or equal to \$100,000 that were awarded since October 1996 and open and active as of August 2, 2002.

To accomplish the audit objective, we reviewed Westinghouse's procurement policies and procedures, evaluated samples of subcontracts and purchase orders, and discussed procurement activities with Operations Office and Westinghouse personnel.

The audit was performed in accordance with generally accepted Government auditing standards for performance audits and included tests of internal controls and compliance with laws and regulations to the extent necessary to satisfy the audit objective. In addition, we reviewed Westinghouse's compliance with the *Government Performance and Results Act of 1993*. Because our review was limited, it would not necessarily have disclosed all internal control deficiencies that may have existed at the time of our audit. Further, we conducted a limited reliability assessment of computer-processed data from Westinghouse's purchasing system, and concluded that the data were reliable.

We discussed the audit results with the Operations Office's Lead Contracting Officer for the Westinghouse contract on November 22, 2002. Since no formal recommendations are being made in this letter report, a formal response is not required. However, to maximize procurement competition, we suggest that you take appropriate action to ensure that Westinghouse complies with approved procurement policies and procedures. We appreciate the cooperation of your staff throughout the audit.



Jerry W. Brendlinger, Director  
Environmental Audits Division  
Office of Inspector General

cc: Assistant Secretary for Environmental Management  
Team Leader, Audit Liaison Team, ME-2  
Audit Liaison, Savannah River Operations Office

IG Report No. OAS-L-03-07**CUSTOMER RESPONSE FORM**

The Office of Inspector General has a continuing interest in improving the usefulness of its products. We wish to make our reports as responsive as possible to our customers' requirements, and therefore ask that you consider sharing your thoughts with us. On the back of this form, you may suggest improvements to enhance the effectiveness of future reports. Please include answers to the following questions if they are applicable to you:

1. What additional background information about the selection, scheduling, scope, or procedures of the audit or inspection would have been helpful to the reader in understanding this report?
2. What additional information related to findings and recommendations could have been included in this report to assist management in implementing corrective actions?
3. What format, stylistic, or organizational changes might have made this report's overall message more clear to the reader?
4. What additional actions could the Office of Inspector General have taken on the issues discussed in this report which would have been helpful?

Please include your name and telephone number so that we may contact you should we have any questions about your comments.

Name \_\_\_\_\_ Date \_\_\_\_\_

Telephone \_\_\_\_\_ Organization \_\_\_\_\_

When you have completed this form, you may telefax it to the Office of Inspector General at (202) 586-0948, or you may mail it to:

Office of Inspector General (IG-1)  
Department of Energy  
Washington, D.C. 20585  
ATTN: Customer Relations

If you wish to discuss this report or your comments with a staff member of the Office of Inspector General, please contact Wilma Slaughter at (202) 586-1924.

DOE F 1325.8  
(4-89)  
EFG (07-90)

United States Government

Department of Energy

# Memorandum

DATE: December 3, 2002

REPLY TO: IG-36

ATTN OF:


SUBJECT: Audit Report on "Subcontracting Practices at the Savannah River Site"

TO: Team Leader, Audit Liaison Team (ME-2)

Attached is the subject audit report. Because no recommendations were made as a result of the audit, there is no need to track the audit in the Department's Audit Report Tracking System.

If you have any questions, please contact Philip Beckett at (865) 576-7400.

We appreciate your cooperation.



Terry L. Brendlinger, Director  
Environmental Audits Division  
Office of Inspector General

cc: Manager, Savannah River Operations Office

DOE F 1327.8  
(8-89)  
RFG (07-90)

United States Government

Department of Energy

# Memorandum

DATE: December 2, 2002

REPLY TO: IG-36 (A02SR013)

ATTN OF:

SUBJECT: Final Report Package for Letter Report on Subcontracting Practices at the Savannah River Site

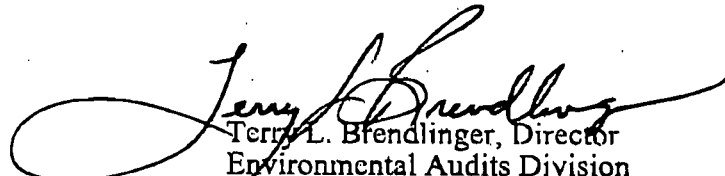
TO: Director, Planning and Administration

Attached is the required final report package on the subject audit. The pertinent details are:

- Staff Days:                      Programmed 210                      Actual 180
- Elapsed Days                      Programmed 210                      Actual 187
- Names of OIG audit staff:

Assistant Director: Philip Beckett  
Team Leader: Vince LaBon  
Auditor-in-Charge: Troy McGahee  
Audit Staff: Brittanica Melton

- Coordination with Investigations and Inspections: Report was coordinated with Walt Warren, Investigations, and Henry Minner, Inspections on November 6, 2002. This report will not impact any ongoing investigations or inspections.
- Matters to be brought to the attention of the IG or AIGAS: None.

  
Terry L. Bfendlinger, Director  
Environmental Audits Division  
Office of Inspector General

## Attachments:

- Final Report (3)
- Monetary Impact Report
- Audit Project Summary Report
- Audit Database Information Sheet

**MONETARY IMPACT OF REPORT NO.:** \_\_\_\_\_

- 1. Title of Audit: Subcontracting Practices at the Savannah River Site
- 2. Division: Environmental Audits Division/Savannah River Audit Group
- 3. Project No.: A02SR013
- 4. Type of Audit

Financial: \_\_\_\_\_ Performance: X  
 Financial Statement \_\_\_\_\_ Economy and Efficiency \_\_\_\_\_  
 Financial Related \_\_\_\_\_ Program Results X  
 Other (specify type): \_\_\_\_\_

5.

FINDING		BETTER USED			QUESTIONED COSTS			MGT. POSITION	POTENTIAL BUDGET IMPACT	
(A)	(B) Title	(C) One Time	Recurring			(G) Questioned Portion	(H) Unsupported Portion	(I) Total	(J) C=Concur N=Noncon U=Undec	(K) Y=Yes N=No
			(D) Amount Per Year	(F) No. Yrs.	(F) Total Amount					
	NONE									
TOTALS-ALL FINDINGS										

6. Remarks: N/A

7. Contractor: \_\_\_\_\_  
 8. Contract No.: \_\_\_\_\_  
 9. Task Order No.: \_\_\_\_\_

10. Approvals:  
 Division Director/Date: [Signature] 12/2/02  
 Technical Advisor & Date: [Signature] \_\_\_\_\_

Office of the Inspector General (OIG)  
Audit Project Office Summary (APS)

Report run on: December 3, 2002 8:26 AM

Page 1

Audit#: A02SR013 Ofc: SRA Title: SUBCONTRACTING PRACTICES AT SAVANNAH RIVER

## \*\*\*\* Milestones \*\*\*\*

	Profile	Planned End of Survey	Revised	Actual	
Entrance Conference:	19-FEB-02	29-MAY-02	29-MAY-02	29-MAY-02	
Survey Completed:	17-MAY-02	24-SEP-02	24-SEP-02	24-SEP-02	
Field Work Complete:					
Draft Report Issued:					
Exit Conference:					
Completed with Report:	17-SEP-02		29-NOV-02	02-DEC-02	( R )
-----Elapsed Days	210		193	187	
-----Staff Days:	210	0		180	
Date Suspended:		Date Terminated:			
Date Reactivated:		Date Cancelled:			
DaysSuspended(Cur/Tot):	0 (	) Report Number:	OAS-L-03-07		
Rpt Title:	SUBCONTRACTING PRACTICES AT THE SAVANNAH RIVER SITE				

## \*\*\*\* Audit Codes and Personnel \*\*\*\*

Aud Type: PRR	PROGRAM RESULTS		
Category: OTH	OTHER	AD:	180 LABON
DOE-Org: SRO	SAVANNAH RIVER OPERA	AIC:	241 MCGAHEE
Maj Iss: 022	PROGRAM MANAGEMENT A	HDQ-Mon:	390 HANCOCK
Site: SSA	SINGLE-SITE AUDIT	ARM:	327 BECKETT

## \*\*\*\* Task Information \*\*\*\*

Task No:		CO Tech. Rep:	
Task Order Dt:		Orig Auth Costs:	
Orig Auth Hrs:		Current Auth Cost:	
Current Auth:		Tot Actl Cost:	
Tot Actl IPR Hr:			

## \*\*\*\* Time Charges \*\*\*\*

<u>Emp/Cont Name</u>	<u>Numdays</u>	<u>Last Date</u>
HILL, A	6.3	29-JUN-02
LABON, V	8.4	16-NOV-02
MCGAHEE, T	81.8	16-NOV-02
MELTON, B	83	16-NOV-02
<b>Total:</b>	<b>179.5</b>	



Office of the Inspector General (OIG)  
Audit Project Office Summary (APS)

Report run on: December 3, 2002 8:26 AM

Page 3

Audit History

Audit No: A02SR013

History Date: 03-DEC-02

History Text:

SMP/LETTER REPORT ISSUED 02-DEC-2002.

## AUDIT DATABASE INFORMATION SHEET

1. Project No.: A02SR013
2. Title of Audit: Subcontracting Practices at the Savannah River Site
3. Report No./Date \_\_\_\_\_
4. Management Challenge Area: Contract Administration
5. Presidential Mgmt Initiative: N/A
6. Secretary Priority/Initiative: N/A
7. Program Code: MA
8. Location/Sites: Savannah River Site, Aiken, SC
9. Finding Summary:

The Department of Energy (Department) has contracted with Westinghouse Savannah River Company, LLC (Westinghouse) to manage and operate the Savannah River Site (Savannah River) through September 30, 2006. As of August 2, 2002, Westinghouse had 534 open and active service procurements, worth \$100,000 or more each, with a total value of about \$518 million, that it had awarded since October 1996.

In order to promote competition, Federal Acquisition Regulations require Government contractors to procure goods and services on a competitive basis to the maximum practical extent, consistent with the objectives and requirements of the procurements. The management and operating contract requires that Westinghouse maximize the use of competition in accomplishing work in all business areas at the site. Accordingly, Westinghouse established policy stating that it will apply the best in commercial practices to ensure the acquisition of quality goods and services at fair and reasonable prices and will use effective competitive techniques. In addition, for those situations where sole-source transactions cannot be avoided, the policy requires the procurement file adequately document the exclusive capability of the selected vendor.

As of August 2002, about 59 percent of Westinghouse's open and active service procurements worth \$100,000 or more were competitively awarded. However, of the 40 procurements we reviewed, 10 valued at about \$10.7 million were not competed to the maximum extent practicable. Specifically, seven were awarded on a sole-source basis without substantiating the exclusive capability of the vendor, and three were awarded competitively, but with restricted competition.

These conditions occurred because Westinghouse personnel did not always follow approved policies and procedures, and neither Westinghouse nor the Savannah River Operations Office established internal controls to ensure employee compliance. As a result, the Department had no assurance that Westinghouse obtained the best value on the Department's behalf, and lost potential savings from competition.

10. Keywords: (include as many as you like)

Westinghouse Savannah River Company	Procurement
Savannah River Site	Sole-Source
Competition	Commercial Practices
Best Value	Subcontracting
Exclusive Capability	Federal Acquisition Regulations