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MEMORANDUM FOR THE SECRETARY

FROM: John C. Layton
Inspector General

SUBJECT: INFORMATION: Report on "Review of
Proposed Subcontract For Outsourcing
Information Technology"

BACKGROUND

The subject final report is provided for your information. An allegation was made to the Office of Inspector General (OIG), and also reported in the press, regarding possible kickbacks in connection with a proposed Westinghouse Savannah River Company (WSRC) subcontract with the Computer Sciences Corporation (CSC) for outsourcing information technology (IT). Our investigative activity did not substantiate this allegation. However, in the course of investigating the allegation it came to the OIG's attention that WSRC's selection of CSC for this proposed subcontract had possibly involved significant deviations from procurement rules and regulations. Accordingly, the specific

objective of this review was to determine if the selection of CSC as a proposed subcontractor was made in accordance with appropriate procurement rules and regulations. In the course of our review, the Department of Energy's (DOE) Savannah River Operations Office (SR) made the decision to disapprove WSRC's proposed subcontract with CSC, taking this action on December 23, 1996. Although SR disapproved the subcontract, we completed our review, and have issued this report in order to address some management and possible future procurement issues.

DISCUSSION:

We reviewed WSRC's selection of SCS as a proposed subcontractor for outsourcing IT at the Savannah River Site (SRS). Our review found that WSR: (1) did not use effective competitive techniques regarding both the solicitation and evaluation of bids for this procurement; (2) failed to maintain adequate file documentation appropriate to the value of the proposed procurement; and, (3) had not ensured that the pricing of the proposed subcontract was fair and reasonable.

Both WSRC and SR officials have stated that the requirements of DEAR 970.7103 should be the basis for determining the propriety of the CSC procurement process. That regulation, provides, in part, that a contractor's procurement system should ensure the use of effective competitive techniques, adequate documentation, and fair and reasonable pricing. WSRC officials provided a legal analysis to SR that concluded that the proposed CSC procurement met the requirements of this regulation. SR disagreed with WSRC's conclusion, however, and on December 23, 1996, disapproved WSRC's proposed subcontract with CSC.

We were told that CSC had up to 30 employees at SRS during the negotiation process for the proposed subcontract. We were also told that the CSC employees' activities included reviewing the scope of information technology operations and requirements at SRS. CSC also had some involvement in determining what areas should be included in the proposed scope of work for the proposed procurement. Further, CSC was provided an opportunity to review WSRC's Make-or-Buy analysis. All of these activities, in our opinion, could potentially provide CSC with an unfair competitive advantage in the event of future procurements of IT services at SRS.

We recommended that the Manager of the Savannah River Operations Office direct WSRC to: (1) conduct any future procurements of IT support services in accordance with the requirements of WSRC's approved procurement procedures; and, (2) ensure that any potential unfair competitive advantage provided to CSC in competing for future information technology procurements at SRS is considered and mitigated, as appropriate.

In commenting on this report, DOE management concurred with the factual accuracy of the report, and with both recommendations.

Attachment

cc: Deputy Secretary
Under Secretary

U.S. DEPARTMENT OF ENERGY
OFFICE OF INSPECTOR GENERAL

REPORT ON
REVIEW OF PROPOSED SUBCONTRACT FOR
OUTSOURCING INFORMATION TECHNOLOGY

Report No: DOE/IG-0406 Office of Inspections
Date Issued: June 2, 1997 Washington, DC 20585

REPORT ON
REVIEW OF PROPOSED SUBCONTRACT FOR
OUTSOURCING INFORMATION TECHNOLOGY

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U.S. DEPARTMENT OF ENERGY
OFFICE OF INSPECTOR GENERAL
OFFICE OF INSPECTIONS
WASHINGTON, DC 20585

REPORT ON
REVIEW OF PROPOSED SUBCONTRACT FOR
OUTSOURCING INFORMATION TECHNOLOGY

1. INTRODUCTION AND PURPOSE

An allegation was made to the Office of Inspector General (OIG), and also reported in the press, regarding possible kickbacks in connection with a proposed Westinghouse Savannah River Company (WSRC) subcontract with the Computer Sciences Corporation (CSC) for outsourcing information technology (IT). OIG investigative activity did not substantiate this allegation. However, in the course of investigating the allegation it came to the OIG's attention that WSRC's selection of CSC for this proposed subcontract had possibly involved significant deviations from procurement rules and regulations. Accordingly, the specific objective of this review was to determine if the selection of CSC as a proposed subcontractor was made in accordance with appropriate procurement rules and regulations.

In the course of our review, the Department of Energy's (DOE) Savannah River Operations Office (SR) made the decision to disapprove WSRC's proposed subcontract with CSC, taking this action on December 23, 1996. Although SR disapproved the subcontract, we completed our review, and have issued this report in order to address several management issues and possible future procurement issues.

11. SCOPE AND METHODOLOGY

Our review activities were conducted during September 1996 through January 1997 by personnel within the Office of Inspector General's Offices of Investigations, Audits, and Inspections.

We reviewed relevant sections of Title 48, Code of Federal Regulations, Chapter 9, the Department of Energy Acquisition Regulation (DEAR), the Department of Energy's prime contract with WSRC, various procurement-related documentation held by WSRC in support of the proposed subcontract with CSC, and WSRC's current procurement policies and procedures. We interviewed key management, legal, procurement, financial, and computer personnel at the Department's Savannah River Operations Office and WSRC, as well as a consultant hired by WSRC. We also interviewed key management officials with CSC and four competing companies.

This review was conducted in accordance with the Quality Standards for Inspections issued by the President's Council on Integrity and Efficiency.

111. SUMMARY RESULTS OF REVIEW

We reviewed WSRC's selection of CSC as a proposed subcontractor for outsourcing IT at the Savannah River Site (SRS). Our review found that WSRC: (1) did not use effective competitive techniques regarding both the solicitation and evaluation of bids for this procurement; (2) failed to maintain adequate file documentation appropriate to the value of the proposed procurement; and (3) had not ensured that the pricing of the proposed subcontract was fair and reasonable.

Both WSRC and SR officials stated that the requirements of DEAR 970.7103 should be the basis for determining the propriety of the CSC procurement process. That regulation provides, in part, that a contractor's procurement system should ensure the use of effective competitive techniques, adequate documentation, and fair and reasonable pricing. WSRC officials provided a legal analysis to SR that concluded that the proposed CSC procurement met the requirements of this regulation. However, SR disagreed with this conclusion. On December 23, 1996, SR disapproved WSRC's proposed subcontract with CSC.

We were told that CSC had up to 30 employees at SRS during the negotiation process for the proposed subcontract. We were also told that the CSC employees' activities included reviewing the scope of IT operations and requirements at SRS. CSC also had some involvement in determining what areas should be included in the proposed scope of work for the proposed procurement. Further, CSC was provided an opportunity to review WSRC's Make-or-Buy analysis. All of these activities, in our opinion, could potentially provide CSC with an unfair competitive advantage in the event of future procurements of IT services at SRS.

We recommended that the Manager of the Savannah River Operations Office direct WSRC to: (1) conduct any future procurements of IT support services in accordance with the requirements of WSRC's approved procurement procedures; and (2) ensure that any potential unfair competitive advantage provided to CSC in competing for future information technology procurements at SRS is considered and mitigated, as appropriate.

DOE management reviewed a draft of this report, and concurred with the report's factual accuracy and both recommendations. DOE management, however, did not provide actual or planned corrective actions with pertinent target dates. In commenting on this report, DOE management requested that the following text be included within this section of the report "to ensure complete accuracy and

understanding of the issues and events."

"WSRC initially sought to have an information technology (IT) firm as a member of its 'bid team' for SR's management and operating contract competition. However, during the IT selection process, WSRC elected to have the IT company as a subcontractor, as opposed to a member of its bid team (referred to in the SR solicitation as the 'performing entity'). There are no procurement procedures applicable to a firm choosing its rebid partners; however, the requirements of the SR solicitation precluded the selection of 'subcontractors' which were not members of the bid team (unless justified as a sole source or selected utilizing competitive procedures). When the WSRC proposal team changed from having the IT company as a member of its bid team to a subcontractor, WSRC management failed to obtain assistance from WSRC legal and procurement personnel. As a result, the selection process employed did not meet the requirements of the approved purchasing system."

IV. BACKGROUND

During 1994, Westinghouse Electric Corporation (WEC) was in the process of assembling a team of contractors for the purpose of rebidding WSRC's prime contract with DOE for managing and operating the Savannah River Site. During this process, a decision was made to consider including a company that would be responsible for providing IT services for SRS. WEC contacted certain companies to explore their interest in joining the rebid team as an IT supplier, and other companies with IT experience contacted WEC to express their interest in joining the team.

WEC's process for selecting a rebid partner responsible for IT started in the Fall of 1994 and continued through August 1995. During this time, WEC explored outsourcing information technology, and went through a selection process involving seven potential suppliers. The outcome of this process was that CSC was selected as a member of WEC's rebid team responsible for providing IT services to SRS.

In September 1995, WSRC submitted and briefed its rebid proposal, and identified its team, which included three primary subcontractors and 16 other specialty subcontractors, including CSC. During November 1995 through March 1996, SR requested additional information regarding the use of the 16 specialty subcontractors and the manner in which CSC had been selected. We were told by an SR official that WSRC had represented to SR that the selection and evaluation process for CSC had been competitive and consistent with WEC practices for commercial procurements.

On February 23, 1996, WSRC's Executive Vice President wrote SR's Contracting Officer and requested approval to begin negotiations with CSC for the outsourcing of IT at SRS. In

the memorandum, this official stated that "CSC was selected by WSRC following a six-month competitive solicitation involving seven major U.S. industrial firms"

On March 15, 1996, the Chairman of SR's Source Evaluation Board (SEB) wrote to WSRC and informed them of the SEB's decision that WSRC's proposed secondary subcontractors had not been accepted by the SEB as part of the prime contract Request For Proposal (RFP) process. The letter, in part, stated:

"The RFP did not provide a methodology for acceptance of any secondary subcontractors and, therefore, the Board has concluded that it cannot make any decision at this time as to the acceptability of proposed specialty or privatization subcontractors. However, any subcontract solicited on a competitive basis . . . which: (1) is needed for mission accomplishment, (2) provides for fair and reasonable prices, and (3) is in the Government's best interest, may be awarded consistent with WSRC's approved purchasing system. [Emphasis added.]"

On April 9, 1996, SR's Contracting Officer authorized WSRC to proceed with discussions and negotiations with CSC toward a mutually agreeable subcontract for IT services. While authorizing WSRC to proceed, however, SR's Contracting Officer also specified that: (1) the final decision and subcontract must be approved by DOE, and (2) "CSC is to receive no compensation whatsoever for their participation in subcontract negotiations, including any pre-negotiation situation assessments for SRS." SR's Contracting Officer told us that his authorization for WSRC to proceed with negotiations with CSC had relied on WSRC's representations, both written and oral, regarding the competitive process used by WSRC in selecting CSC.

In April 1996, WSRC began negotiations with CSC, and CSC personnel came to SRS to conduct survey activities to better understand site IT operations and requirements. In commencing negotiations, WSRC had CSC sign a letter stating, in part, that CSC was "to receive no compensation whatsoever for their participation in subcontract negotiations, including any pre-negotiation situation assessments at SRS." WSRC also contracted with Gartner Group Consulting Services (Gartner) to assist in writing a scope of work for the subcontract, and to provide a pricing analysis of CSC's proposal. WSRC also constructed a Make-or-Buy analysis comparing the cost of performing the work in-house versus the cost of CSC performing the work. These activities extended into the Fall of 1996.

SR signed the new prime contract with WSRC on August 6, 1996. That same month CSC proposed its pricing for the subcontract; Gartner reviewed these initial prices and expressed "grave concerns" that CSC's pricing would not achieve certain cost-savings goals. CSC revised its proposed pricing for the subcontract in September 1996.

Applying CSC's pricing to a proposed statement of work resulted in a five-year cost estimate for CSC totaling \$265,398,753, which was included in WSRC's Make-or-Buy analysis dated October 3, 1996. This was submitted to SR as part of the subcontract approval package on October 7, 1996. SR staff reviewed WSRC's Make-or-Buy analysis and had concerns which were discussed with WSRC in a meeting in early December 1996. SR staff stated that the process used by WSRC to construct the Make-or-Buy analysis was flawed, and the results were invalid. SR staff also had concerns regarding the scope of work of the proposed CSC subcontract, and WSRC's procurement process having met various requirements of DEAR 970.7103. As a result of these concerns, on December 23, 1996, SR's Contracting Officer wrote to the President of WSRC and disapproved WSRC's proposed subcontract with CSC, citing the following reasons:

- "o The basis for technical selection could not be adequately demonstrated.
- "o The Make-or-Buy analysis did not identify any projected savings from outsourcing.
- "o The reasonableness of the subcontract pricing could not be justified.
- "o The subcontract baseline scope of work excludes strategic tasks previously approved by SR or projected for future implementation. Significant incremental costs would be incurred to accomplish these tasks."

V. CONTRACTOR PURCHASING SYSTEM CRITERIA

Both WSRC and SR officials stated that the requirements of DEAR 970.7103 should be the basis for determining the propriety of the CSC procurement process. That regulation provides, in part, that a contractor's procurement system should ensure the use of effective competitive techniques, adequate documentation, and fair and reasonable pricing.

DEAR 970.71

Procurement rules for the Department's management and operating (M&O) contractors are found in DEAR Subpart 970.71, "Management and Operating Contractor Purchasing." This provision of the DEAR has been incorporated in both the previous and current contracts with WSRC for managing and operating the Savannah River Site. The applicable contract clause, 'Contractor Purchasing System,' states, in part, that: "The contractor shall develop, implement, and maintain formal policies, practices, and procedures to be used in the award of subcontracts consistent with . . . 48 CFR (EAR) [sic] 970.71."

In a November 26, 1996, letter to SR's Chief Counsel, WSRC's Assistant General Counsel stated that: "WSRC's purchasing system in place under its prime contract, DE-AC09-89SR18035, was not used in the CSC selection and evaluation process." However, WSRC's Assistant General Counsel further wrote that: "The key legal questions regarding this subcontract relate to the issue whether the subcontract satisfies the requirements of 48 CFR 970.7103" The letter concluded: "We are satisfied that the subcontract meets the requirements of 48 CFR 970.7103 for contractor purchasing systems."

DEAR 970.7103 was revised effective June 2, 1995, while the procurement process leading to the selection of CSC was still ongoing. Prior to this date, DEAR 970.7103 required procurements to be made in a manner as to conform with the "Federal norm." After being revised effective June 2, 1995, DEAR 970.7103 no longer referred to a "Federal norm," but required, in part, the following:

"The following shall apply to the purchasing systems of management and operating contractors:

* * * * *

"(b) The purchasing systems and methods used by management and operating contractors shall be well-defined, consistently applied, and shall follow purchasing practices appropriate for the requirement and dollar value of the purchase.

* * * * *

"(d) Contractor purchasing systems shall identify and apply the best in commercial purchasing practices and procedures (although nothing precludes the adoption of Federal procurement practices and procedures) to achieve system objectives. Where specific requirements do not otherwise apply, the contractor purchasing system shall provide for appropriate measures to ensure the:

"(1) Acquisition of quality products and services at fair and reasonable prices;

* * * * *

"(4) Use of effective competitive techniques;

* * * * *

"(8) Maintenance of file documentation appropriate to the value of the purchase and which is adequate to establish the propriety of the transaction and the price paid."

In the "RESULTS OF REVIEW" section of this report we discuss

our basis for concluding that WSRC's selection of CSC as a proposed subcontractor failed to meet these three key requirements of DEAR 970.7103.

WSRC Approved Procurement Procedures

WSRC's contract clause, "Contractor Purchasing System," states, in part, that: "The contractor shall develop, implement, and maintain formal policies, practices, and procedures to be used in the award of subcontracts consistent with . . . 48 CFR (EAR) [sic] 970.71."

DEAR 970.71 requires, in part, the following:

"The contracting procedures of the contractor's organization, therefore, form the basis for the development of a purchasing system and methods that will comply with its contract with DOE and this subpart. [DEAR 970.7101]

"In carrying out their overall responsibilities, HCA's [Heads of the Contracting Activity] shall: (1) Require management and operating contractors to maintain written descriptions of their individual purchasing systems and methods and further require that . . . the entire written description be submitted to the contracting officer for review and acceptance" [DEAR 970.7102(b)(1)]

Our review identified only one set of approved procurement procedures, WSRC's "Procurement Manual B13," which would have been applicable to the proposed CSC procurement. This manual contains the procurement policies and procedures approved by SR for use under both WSRC's previous and current prime contracts with the Department. WSRC had submitted for approval one other set of procurement procedures for a commercial procurement "pilot" program, however, procurement officials in both WSRC and SR informed us that these "pilot" procedures were to be initially used for the purchase of materials, and would not be applicable to the CSC procurement.

Although DEAR 970.71 encourages the Department's M&O contractors to "identify and apply the best in commercial purchasing practices and procedures" [DEAR 970.7103(d)], it also requires that these commercial practices and procedures be documented and submitted to the contracting officer for review and acceptance [DEAR 970.7102(b)(1)].

In a November 26, 1996, letter to the SR Chief Counsel, a WSRC Assistant General Counsel stated that: "The selection and evaluation process [for CSC] was consistent with Westinghouse Electric Corporation (Westinghouse) practices for commercial procurements." He also wrote that: "WSRC's purchasing system in place under its prime contract, DE-AC09-89SR18035, was not used in the CSC selection and evaluation process. Rather, Westinghouse and WSRC used a system it

believed to equate to best commercial practices for a best value procurement."

Although we requested them, WSRC did not provide us in the course of our review with a copy of WEC's written corporate commercial procurement procedures. We discussed WEC's corporate procurement procedures with WSRC's Manager of the Procurement & Materials Management Division. This individual indicated that he did not have these procedures, nor did he have specific knowledge of what they required.

Even if WEC had documented its corporate commercial procurement procedures, they had not been submitted for SR contracting officer review and acceptance, as required by DEAR 970.7102. The only applicable written procurement procedures that had been approved by the contracting officer, were the procedures in WSRC's "Procurement Manual B13."

We note that because CSC was proposed as a subcontractor to WSRC, and because the WSRC purchasing system (as documented in "Procurement Manual B13") was not used in the CSC selection and evaluation process, then the proposed CSC procurement technically did not conform with the requirements of DEAR 970.71. In addition to not meeting this technical requirement of DEAR 970.71, we discuss in the next section of this report WSRC's failure to meet key substantive requirements for the contractor's purchasing system found in DEAR 970.7103.

VI. RESULTS OF REVIEW

We reviewed WSRC's selection of CSC as a proposed subcontractor for outsourcing IT at the Savannah River Site. Our review found that: (1) WSRC did not use effective competitive techniques regarding both the solicitation and evaluation of bids for this procurement; (2) failed to maintain adequate file documentation appropriate to the value of the proposed procurement; and (3) had not ensured that the pricing of the proposed subcontract was fair and reasonable.

1. Effective Competitive Techniques

DEAR 970.71 requires that the contractor's approved purchasing system ensure the use of effective competitive techniques. Although the current revision is silent on the elements of effective competition, the previous version of DEAR 970.71 discussed the competitive elements regarding solicitation and evaluation in some detail. Also, the concepts of these elements are in WSRC's currently approved procurement procedures, "Procurement Manual B13." Our review found that WSRC's proposed procurement of CSC was deficient with regards to meeting the "solicitation" and "evaluation" elements of effective competition.

Accordingly, we concluded that the proposed CSC procurement did not meet the requirement of DEAR 970.7103 to ensure the use of effective competitive techniques.

Solicitation

The first element in ensuring effective competition, according to the earlier DEAR 970.7103, was to have the solicitation describe the requirements as completely as possible. Services should be purchased through the use of specifications, standards, or descriptions which clearly and accurately describe the services to be purchased. Also, according to the DEAR solicitation documents should be prepared which set forth the contract terms and conditions, and described the requirements clearly, accurately, and completely.

We found that a specific solicitation document was not prepared for this procurement. WSRC informed SR that the "solicitation" given to prospective bidders consisted of: (1) the RFP for the prime contract, and (2) an information package describing the current scope and organization of IT operations at SRS. Neither of these documents had a scope of work pertaining to the IT work to be performed under the proposed subcontract, nor informed the bidders what would be required under this subcontract. The only reference to information technology in the draft RFP for the prime contract was as one of 12 listed services ("Information resources management, development, operation") in the Site Services section of the scope of work.

We believe that one reason why a scope of work was not provided to the bidders for the IT subcontract procurement was because the original purpose of this procurement was to find a rebid team partner who had IT expertise, and not to accomplish specific work. In fact, WSRC initially did not have a clear idea of what the appropriate scope of work should be, and was asking potential bidders to come forward with their own ideas on how to run IT operations at SRS.

Due to the solicitation's unspecific nature, and much of the procurement process being conducted through oral discussions, there is no evidence that the bidders were treated consistently. In fact, our interviews of bidders disclosed that the bidders had different understandings of what they were being asked to bid on; some thought they were to be a rebid team member, and others knew they were to be an IT subcontractor. The bidders also commented on the lack of information provided by the "solicitation" on which to prepare a bid.

With the "solicitation" being unspecific and without a scope of work, the bidders' proposals we reviewed in the procurement files were also very general in nature and unspecific. These proposals could be characterized as marketing material regarding the general IT experience and capabilities of the bidding company(s). Very little of

these proposals addressed specific IT work at SRS. Officials involved in preparing their companies' proposals had indicated in interviews that because the solicitation had no scope of work or other specifics, and they had not been provided with adequate background information, they had been unable to submit a specific proposal for outsourcing IT at SRS.

Our review disclosed that it was unclear which companies had actually submitted proposals, or in what form those proposals were made. One company did not have any written proposal documentation in the file. WSRC informed SR that the company's proposal had been limited to an oral presentation, but they were included as a "supplier" and rated in the procurement evaluation process. Another company, on the other hand, had a "proposal" in the file, yet an official of this company had told us that this company had only provided WSRC with information, had not submitted a proposal, and would not have submitted a proposal even if WEC had requested them to do so. Even though this company never proposed, according to this official, WSRC included this company in their supplier evaluations.

Based upon the above information, we believe that WSRC's solicitation process was deficient in that it did not adequately define the requirements, and it relied too heavily on an oral process which failed to treat bidders in a consistent manner.

Evaluation Process

Our review found that WSRC's evaluation process was deficient in that the actual evaluation factors used were not properly disclosed to the bidders.

One of the principles for ensuring effective competition, according to the earlier DEAR 970.7103, was to state in the solicitation the factors that would comprise the basis for the award, and note any criteria that were of significantly greater or lesser importance. The DEAR also had required conducting evaluations in accordance with these stated factors, and the descriptions of their importance. Our review found that the bidders were provided with the evaluation factors in the RFP for the prime contract, but that they were evaluated using a different set of evaluation factors/criteria.

The evaluation criteria given to the bidders, according to WSRC, was the evaluation criteria in the RFP for the prime contract. For most bidders this would have been the criteria in the draft RFP released on January 17, 1995. This draft RFP evaluation criteria was changed somewhat when the final RFP for the prime contract was released on July

26, 1995.

Having referred the bidders to the evaluation criteria in the RFP, either draft or final, WSRC actually evaluated the proposals using a different set of criteria. In a November 26, 1996, letter to SR's Chief Counsel, WSRC's Assistant General Counsel discussed the criteria used by WSRC as follows:

"As the competitive selection process drew to a close, the Westinghouse evaluation team used a set of detailed selection criteria to grade each of the potential suppliers. This more detailed list of elements expanded upon the RFP criteria and were more specific to the IT environment. This grading matrix was not sent to any of the seven participants, so there can be no confusion as to the fact that all offerors understood that they were being evaluated as a partner based upon their meeting the requirements of the RFP. The Westinghouse evaluation matrix used to rate the suppliers supports and tiers directly from the RFP criteria."

A procurement official in SR performed a comparison of WSRC's evaluation matrix, the criteria actually used in evaluating the potential suppliers, with the criteria in the final RFP. This SR official's analysis indicated that, of the 29 specific elements within WSRC's evaluation criteria actually used, 13 were not represented at all in the final RFP's criteria, and one was only partially represented. This SR official's analysis further stated that the 14 elements which could not be crosswalked to the RFP criteria, and which consequently had not been disclosed to the bidders, represented 47.935 percent of the total possible points in WSRC's evaluation criteria.

Based upon the above information, we believe that WSRC's evaluation process was deficient in that the actual evaluation factors used were not properly disclosed to the bidders.

2. Documentation of the Procurement Action

Our review found that WSRC had not adequately documented its procurement process supporting the selection of CSC.

DEAR 970.7103(d) states, in part, that: "the contractor purchasing system shall provide for appropriate measures to ensure the: . . . (8) Maintenance of file documentation appropriate to the value of the purchase and which is adequate to establish the propriety of the transaction and the price paid."

When we started the review and requested the documentation supporting this procurement, we were informed that much of the documentation had not been retained, and that bidders' proposals had been destroyed, per the bidders' instructions. WSRC subsequently located various material and assembled a

□procurement file." Our review of the "file" found no solicitation document; limited, and indications of missing, correspondence; and boxes of bidder "proposals" which principally consisted of generalized marketing material and company IT capabilities. Some of this material, we learned through interviews, had not been submitted as "proposals" but as "information." We also noted one contractor "presentation" in the file which contained material dated months after the supposed date of the presentation.

Our interviews disclosed that a possible reason for the inadequate documentation was that WSRC did not include WSRC procurement officials in the procurement process up through the selection of CSC.

In our opinion, the material that was presented to us did not adequately document the procurement process. Given the magnitude of the proposed subcontract, we believe that WSRC's "procurement file" did not meet the requirements of DEAR 970.7103(d)(8) for adequate documentation of procurement actions.

3. Reasonable Pricing

Our review found that WSRC's pricing analysis was not sufficient to determine that CSC's proposed subcontract costs were fair and reasonable.

DEAR 970.7103(d) states, in part, that: ". . . the contractor purchasing system shall provide for appropriate measures to ensure the: (1) Acquisition of quality products and services at fair and reasonable prices"

WSRC did not use price as a factor in its source selection process, and had not required the bidders to submit cost proposals. It was after CSC had been selected for negotiations that CSC submitted a proposed "Fixed Unit Price" subcontract for IT products and services. WSRC sought to determine the reasonableness of CSC's proposed pricing by contracting with the Gartner Group Consulting Services to perform a pricing analysis. WSRC also did a Make-or-Buy analysis which they said was not generally a measure of price reasonableness, but was simply another benchmark by which to gauge the competitiveness of CSC's pricing.

Pricing Analysis

In an undated letter, received by SR's Contracting Officer in November 1996, a WSRC official wrote:

"As stated in other documents previously transmitted, price was not a consideration in the selection process for this Subcontract [CSC], therefore, WSRC knew that another method of determining price reasonableness would have to be found. In light of this, and considering new procurement streamlining, FASA etc., WSRC would proceed

with obtaining CSC's proposal and justify the price of that proposal based upon industry/marketplace pricing. WSRC realized that we did not have the expertise or vast market/industry experience and pricing information to do this on our own. WSRC therefore hired the Gartner Group not only to help us develop the Scope of Work, but also to provide a price reasonableness analysis of the CSC proposal based on Gartner's large I/T industry database

"Our request to Gartner was to provide a price comparison of the final CSC proposal to both industry averages within a given category of work, and to the WSRC estimated 'make' cost to perform the same work. Gartner did not perform a detailed due diligence at SRS, but rather analyzed financial information provided to them for both the CSC prices and WSRC costs for each category for FY97. The comparison to WSRC cost is not generally a measure of price reasonableness, but simply another benchmark by which to gauge the competitiveness of CSC's pricing."

The WSRC official's letter also stated that Gartner's analysis concluded that CSC's pricing was below industry average in four categories, and above in six categories; for one other category Gartner did not have comparative data, but CSC's pricing was 25 percent lower than WSRC's internal cost for that category. The official wrote that WSRC considered CSC's pricing to be reasonable in all categories.

Our review of the Gartner study, and interviews with the consultant who performed the work, confirmed that Gartner did not perform a detailed study of SRS IT systems. And due to the wide ranges in industry pricing, we could not determine if the generalized industry averages used by Gartner were relevant to the operating conditions and related costs of the effort to be performed by CSC. We were informed that Gartner did not evaluate the proposed prices for certain functions where industry averages were not available, such as for Cray computing services. CSC's proposed prices for these unevaluated functions amounted to over \$10 million, or approximately 20 percent of first-year total costs. Gartner's review also did not address costs beyond the first year. In view of the above, we believe that the pricing analysis performed by Gartner was not sufficient to determine the reasonableness of CSC's pricing.

Our review found that SR also did not accept WSRC's assertion that Gartner's pricing analysis determined that CSC's pricing was reasonable. SR officials discussed with Gartner their pricing analysis, and were informed that Gartner had been asked by WSRC to provide a macro-level comparison against industry averages, but had not been asked to perform an overall assessment of price reasonableness. SR officials were also told by Gartner that while Gartner had contributed to authoring the Statement of Work, Gartner had never been asked to price out the entire contract. If

they had, Gartner told SR officials, then the results of the price comparison might have differed. Gartner told SR officials that their analysis was not intended to, and should not have been used to, justify CSC's overall contract pricing proposal as fair and reasonable.

SR also hired an independent consultant to review selected aspects of CSC's proposal. The consultant reported that prices on existing government contracts for equipment and equivalent desk-top computing support were 5 to 10 percent lower than CSC's proposed prices. The consultant further reported that for certain common labor categories, "Government Wide Acquisition Contracts" offered a 10 to 20 percent advantage over CSC's proposed prices. SR's consultant wrote to SR that: "the potential cost reductions associated with the proposed subcontract are unclear."

Make-or-Buy Analysis

WSRC also did a Make-or-Buy analysis. Although WSRC said it was not generally a measure of price reasonableness, they said it was simply another benchmark by which to gauge the competitiveness of CSC's pricing.

WSRC initially submitted a Make-or-Buy analysis, dated October 3, 1996, which indicated that outsourcing the site's information technology activities, rather than performing the work in-house, would save \$8.7 million over the life of the five-year subcontract. For the five years of operation, the WSRC analysis indicated that it would cost \$322,183,823 to outsource activities using the proposed CSC subcontract, versus \$330,884,519 for WSRC to perform the work in-house.

Our review found that this initial Make-or-Buy analysis was based on CSC's proposed prices, the reasonableness of which could not be determined without a technical evaluation to compare the proposed scope of work to WSRC's in-house efforts. Also, the Make-or-Buy analysis did not consider all increased costs that WSRC would incur as a result of outsourcing this effort. For example, telecommunications expenses and maintenance costs for certain types of computers were not considered.

SR staff reviewed WSRC's Make-or-Buy analysis and found that the process used to construct the analysis was flawed, and the results were invalid. SR also concluded that the proposed CSC subcontract would be more costly than performing the work in-house. SR discussed their concerns with WSRC in a meeting on December 3, 1996. WSRC agreed to revise the "Make" portion of their analysis.

Subsequent to the December 3, 1996, meeting, WSRC transmitted a revised Make-or-Buy analysis to SR, dated December 12, 1996. This new analysis showed that for the five year period of the proposed subcontract, the cost of performing the work in-house ("Make") would be \$321,333,033, or \$4,429,377 less than the "Buy", which totaled

\$325,762,410. The "Buy" included an estimate for the CSC subcontract of \$267,472,258.

In an April 2, 1996, letter to SR, WSRC had written that its number one priority in negotiating the IT outsourcing subcontract with CSC was to achieve a 30 percent cost savings in the first year of operations, and a further 10 percent savings (total) for the next four years. The results of this final Make-or-Buy analysis projected that subcontracting with CSC would not have met this primary objective. We also note that because the Make-or-Buy analysis compared CSC's proposed pricing with WSRC's internal costs, and not with commercial market prices, the Make-or-Buy analysis did not ensure the reasonableness of CSC's pricing.

Based upon the above information, we have concluded that WSRC had not adequately ensured that the pricing of the proposed subcontract with CSC was fair and reasonable.

VII. FUTURE INFORMATION TECHNOLOGY PROCUREMENTS

Our review found that CSC's involvement in certain activities during the negotiation of this proposed subcontract could potentially provide CSC with an unfair competitive advantage in future IT procurements. DEAR 970.7103(d)(4) requires that contractor purchasing systems provide for appropriate measures to ensure the use of effective competitive techniques. We believe that one principle of effective competition is to ensure that all competitors are treated equally, and have access to the same information for bidding purposes.

We noted in our review, however, certain activities by CSC that could potentially provide CSC with an unfair competitive advantage in future IT procurements at SRS. Specifically, we were told by WSRC officials that CSC was asked to work with WSRC's Information Resources Management group and with various WSRC technical and engineering functional areas which use IT support to determine areas that should be included in the subcontract. We were also told by WSRC officials that CSC conducted survey activities to better understand site IT operations and requirements. These survey activities involved up to 30 CSC employees during April to July 1996. We were further told that WSRC gave CSC the opportunity to review WSRC's Make-or-Buy analysis after SR claimed that it was less costly for WSRC to provide IT services internally ("Make") rather than to "Buy" the services under contract with CSC.

We believe that CSC's involvement in the development of the proposed subcontract's statement of work, its survey activities, and its knowledge of WSRC's Make-or-Buy analysis, could potentially provide CSC with an unfair competitive advantage in future IT procurements.

VII. RECOMMENDATIONS

We recommend that the Manager of the Savannah River Operations Office:

1. Direct WSRC to conduct any future procurements of computer support services according to the requirements of WSRC's approved procurement procedures, and
2. Direct WSRC to ensure that any potential unfair competitive advantage provided to CSC in competing for future information technology procurements at SRS is considered and mitigated, as appropriate.

IX. MANAGEMENT COMMENTS

DOE management reviewed a draft of this report, and concurred with the report's factual accuracy and both recommendations. DOE management, however, did not provide actual or planned corrective actions with pertinent target dates.

In commenting on the report, DOE management also recommended that an additional paragraph be included in the "SUMMARY RESULTS OF REVIEW" section of the report "to ensure complete accuracy and understanding of the issues and events." We have incorporated the suggested paragraph verbatim at the end of that section, and have attributed the source of the text to DOE management.

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