

DOE F 1325.8
(8-89)
EFG (07-94)



United States Government

Department of Energy

Memorandum

DATE: October 29, 2002

REPLY TO: IG-36 (A02DN028)
ATTN OF:

Audit Report No.: OAS-L-03-01

SUBJECT: Audit of Procurement at the Rocky Flats Environmental Technology Site
TO: Eugene Schmitt, Manager, Rocky Flats Field Office

INTRODUCTION AND OBJECTIVE

The Department of Energy (Department) and its site contractor, Kaiser-Hill Company, LLC (Kaiser-Hill), contracted in January 2000 to close the Rocky Flats Environmental Technology Site (Rocky Flats) by a target date of December 15, 2006. As of May 2002, Kaiser-Hill had awarded 784 procurements worth more than \$25,000 each, with a total value of about \$368.6 million, to support the complex activities required for site closure.

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, Kaiser-Hill established policy requiring that procurements exceeding \$25,000 be awarded on a competitive basis to the maximum extent practicable.

The objective of this audit was to determine whether Kaiser-Hill has maximized the use of competition in procuring goods and services on the Department's behalf.

CONCLUSIONS AND OBSERVATIONS

As of August 9, 2002, about 67 percent of Kaiser Hill's active procurements were competitively awarded. However, of the 52 procurements we reviewed, 21 with a total value of about \$47 million were not competed to the maximum extent practicable. Specifically, 17 were awarded on a sole-source basis even though other vendors were capable of performing the work, and 4 were awarded competitively, but with restricted competition. The following are examples.

- A subcontract for internal security, with a current value of about \$7.6 million, was awarded to the incumbent subcontractor on a sole-source basis without requesting bids from other contractors. The justification for the sole-source procurement stated that the use of competition would significantly impact Rocky Flats' closure programs and projects because the incumbent subcontractor had extensive

knowledge of the Department's security programs and regulations. However, the justification did not include support for the statement, and evidence in the file indicates that at least one other source with prior experience at Rocky Flats could have competed for the work.

- A subcontract for an intrusion detection system to protect Rocky Flats' storage site for special nuclear materials was awarded for \$4.4 million on a sole-source basis without requesting bids. The justification for the sole-source award cited an urgency to install the system. However, the justification did not explain how soliciting bids from other potential subcontractors would delay the installation. In fact, according to Kaiser-Hill's own statistics, the average time required to competitively award solicitations exceeding \$1 million is only 60 days from the receipt of the purchase requisition to award.
- A purchase order valued at \$115,000 was awarded for computer equipment after soliciting bids from only two suppliers—one from a computer manufacturer in California and one from the manufacturer's local distributor—without soliciting bids from other computer manufacturers or vendors. The manufacturer had an agreement with its distributor not to sell computers for less than the distributor's price, and the procurement agent was aware of the agreement. Thus, the distributor was virtually guaranteed to receive the award from the outset.
- A procurement agent awarded a \$528,000 purchase order for metal waste containers without obtaining a current quote from one of two potential suppliers. Instead, the agent used a 9-month-old quote from one vendor and obtained a current quote from the other vendor, who ultimately received the purchase order. Therefore, only one valid quote was used in the source selection process.

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

SCOPE AND METHODOLOGY

The audit was performed at Rocky Flats between April and August 2002. The audit covered subcontracts and purchase orders that were active as of August 9, 2002.

To accomplish the audit objective, we reviewed Kaiser-Hill's procurement performance objectives and measures in recent Balanced Scorecard Program self-assessment reports, evaluated samples of subcontracts and purchase orders, and discussed procurement activities with Field Office and Kaiser-Hill 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 Kaiser-Hill'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 reliability assessment of computer-processed data from Kaiser-Hill's accounting software and purchasing system, and concluded that the data was reliable.

We discussed the audit results with Field Office personnel on October 3, 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 monitor Kaiser-Hill's competition through the Balanced Scorecard Program and take appropriate action to ensure that Kaiser-Hill complies with approved procurement policies and procedures. We appreciate the cooperation of your staff throughout the audit.



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

cc: Assistant Secretary for Environmental Management
Team Leader, Audit Liaison Team, ME-2
Audit Liaison, Rocky Flats Field Office

IG Report No. OAS-L-03-01**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 telex 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.

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Department of Energy

memorandum

DATE: October 29, 2002

REPLY TO
ATTN OF: IG-36 (A02DN028)SUBJECT: Final Report Package for Letter Report on Procurement at the Rocky Flats Environmental
Technology Site

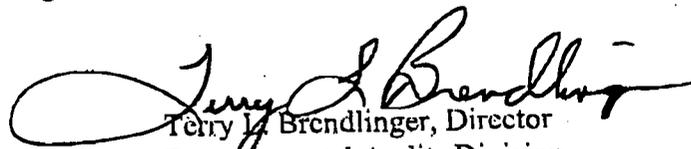
TO: Director, Planning and Administration

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

1. Staff days: Programmed 250 Actual 189
2. Elapsed days: Programmed 238 Actual 190
3. Names of OIG audit staff:

Assistant Director: Fred Pieper
Team Leader: Mark Mickelsen
Auditor-in-Charge: Richard Terry
Audit Staff: Susy Marin
Christine Nehls

4. Coordination with Investigations and Inspections: Report was coordinated with Michael T. Matkowski, Investigations, and Henry C. Minner, Inspections, on October 28, 2002. This report will not impact any ongoing investigations or inspections.
5. Matters to be brought to attention of the IG or AIGAS: None.



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

Attachments:

1. Final Report (3)
2. Monetary Impact Report
3. Audit Project Summary Report
4. Transmittal Memorandum

MONETARY IMPACT REPORT OAS-L-03-01

- 1. Title of Audit: Procurement at the Rocky Flats Environmental Technology Site
- 2. Region/Office: Environmental Audits Division/Denver Audit Group
- 3. EIGPTS No.: A02DN028
- 4. Type of Audit:

Financial: _____ Performance: X
 Financial Statement _____ Economy and Efficiency X
 Financial Related _____ Program Results _____
 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	(E) No. Yrs.	(F) Total Amount					
	Competition				0			0		
TOTALS--ALL FINDINGS					0			0		

6. Remarks: No specific dollar amount is estimated for this audit because we could not quantify the potential savings from competing the subcontracts and purchase orders we found questionable.

7. Contractor: N/A
 8. Contract No.: N/A
 9. Task Order No.: N/A

10. Approvals: _____
 DD & Date B 10/25/02
 OAS Technical Advisor & _____
 Date Jan 10/30/02

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

Report run on: October 29, 2002 1:59 PM

Audit#: A02DN028 Ofc: DNA Title: PROCUREMENT ROCKY FLATS ENVIRONMENT TECH SITE

**** Milestones ****

	Profile	Planned End of Survey	Revised	Actual	
Entrance Conference:	15-APR-02	22-APR-02	22-APR-02	22-APR-02	
Survey Completed:	13-JUN-02	17-JUL-02	17-JUL-02	17-JUL-02	
Field Work Complete:			16-AUG-02	16-AUG-02	
Draft Report Issued:			11-OCT-02		
Exit Conference:			18-NOV-02		
Completed with Report:	20-DEC-02		16-DEC-02	29-OCT-02	(R)
-----Elapsed Days	249		238	190	
-----Staff Days:	250	0		189	
Date Suspended:		Date Terminated:			
Date Reactivated:		Date Cancelled:			
DaysSuspended(Cur/Tot):	0 ()	Report Number:		OAS-L-03-01	
Rpt Title: AUDIT OF PROCUREMENT AT THE ROCKY FLATS ENVIRONMENTAL TECHNOLOGY SITE					

**** Audit Codes and Personnel ****

Aud Type: EAE ECONOMY & EFFICIENCY
 Category: DWB DEFENSE WASTE MGMT. AD: 342 MICKELSEN
 DOE-Org: RFA KAISER-HILL COMPANY AIC: 447 TERRY
 Maj Iss: 009 CONTRACT/GRANT ADMIN HDQ-Mon: 390 HANCOCK
 Site: MSA MULTI-SITE AUDIT ARM: 496 PIEPER

**** Task Information ****

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

**** Time Charges ****

Emp/Cont Name	Numdays	Last Date
HALPIN, D	.9	05-OCT-02
MICKELSEN, M	17.1	19-OCT-02
MARIN, S	46.9	07-SEP-02
NEHLS, C	55.8	24-AUG-02
TERRY, R	67.9	19-OCT-02
Total:	188.6	

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

Report run on: October 29, 2002 1:59 PM

Audit History

Audit No: A02DNO28

History Date: 29-OCT-02

History Text:

PB/ ENTERED COMPLETED WITH REPORT DATE.

AUDIT DATABASE INFORMATION SHEET

1. Project No.: A02DN028
2. Title of Audit: Audit of Procurement at the Rocky Flats Environmental Technology Site
3. Report No./Date OAS-L-03-01
4. Management Challenge Area: Contract Administration
5. Presidential Mgmt Initiative: Competitive Sourcing
6. Secretary Priority/Initiative: Audit initiated based on Hotline Complaint
7. Program Code: MPA
8. Location/Sites: Rocky Flats Environmental Technology Site
9. Finding Summary:
Of the 52 procurments we reviewed, 21 with a total value of about \$47 million were not competed to the maximum extent practicable. Specifically, 17 were awarded on a sole-source basis even though other vendors were capable of performing the work, and 4 were competitively awarded, but with restricted competition.
10. Keywords: (include as many as you like)

Procurement	Competition
Rocky Flats	Sole-Source

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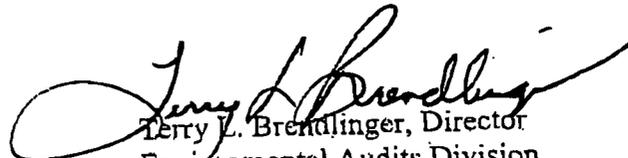
REPLY TO
ATTN OF: IG-36 (A02DN028)

SUBJECT: Letter Report on Procurement at the Rocky Flats Environmental Technology Site

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

Attached is the subject letter report. No recommendations are being made and no Management Decision is required for this report. Management was briefed on our observation that numerous procurements were not competed to the maximum extent practicable. We suggested that the Manager, Rocky Flats Field Office, monitor the site closure contractor's procurement competition through the Department's Balanced Scorecard Program and take appropriate action to ensure that the contractor complies with approved procurement policies and procedures.

We appreciate your cooperation.



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

Attachment

cc: Manager, Rocky Flats Field Office
Audit Liaison, Rocky Flats Field Office