



U.S. Department of Energy
Office of Inspector General
Office of Audits and Inspections

AUDIT REPORT

Procurement of Support Service Contracts for
the Office of Energy Efficiency and Renewable
Energy

OAS-M-14-10

August 2014



Department of Energy
Washington, DC 20585

August 18, 2014

MEMORANDUM FOR THE ASSISTANT SECRETARY FOR ENERGY EFFICIENCY
AND RENEWABLE ENERGY
DIRECTOR, OFFICE OF MANAGEMENT

A handwritten signature in cursive script, reading "George W. Collard".

FROM: George W. Collard
Assistant Inspector General
for Audits
Office of Inspector General

SUBJECT: INFORMATION: Audit Report on "Procurement of Support Service
Contracts for the Office of Energy Efficiency and Renewable Energy"

BACKGROUND

The Department of Energy's (Department) Office of Energy Efficiency and Renewable Energy (EERE) leads the Department's efforts to develop and deliver market-driven solutions for energy-saving homes, buildings and manufacturing; sustainable transportation; and renewable electricity generation. To accomplish its mission, EERE relies on support service contractors to supplement its Federal workforce, and provide program offices with technical, management, and maintenance and operations support. In Fiscal Year 2012, EERE's workforce consisted of approximately 470 support service contractor and 688 Federal positions. EERE's open support service contract obligations totaled over \$628 million as of October 2013.

Contracting officers are delegated the authority to enter into, administer and/or terminate contracts by the Department's heads of contracting activities that have the broad authority to manage contracting functions. Heads of contracting activities retain the responsibility for ensuring compliance with applicable laws, regulations, policies and procedures. They typically reside at individual program or field-activity levels, but may provide procurement services to multiple program offices. EERE's support service contracts were managed by three separate heads of contracting activities, including Headquarters Procurement Services (Headquarters Procurement), the National Energy Technology Laboratory and EERE's Golden Field Office.

Due to EERE's reliance on support service contractors and the significant amount spent on such contracts, we initiated this audit to determine whether EERE's support service procurement activities were managed effectively and efficiently.

RESULTS OF AUDIT

Nothing came to our attention to indicate that controls were not in place over the management of EERE's support service procurement activities. In general, EERE's support service contracts

included in our review were competitively awarded, consistently applied established labor rates for labor hours billed, and incurred costs in accordance with contract terms. While our review did not identify material concerns regarding EERE's support service procurement activities, we identified weaknesses in contract documentation that warrant management attention.

In total, we reviewed four support service contracts with obligations of approximately \$171 million. Three of these four contracts were managed by Headquarters Procurement and the fourth by the Golden Field Office. Through the application of alternative procedures, we were able to obtain and review needed supporting documentation from sources in addition to the official contract files. It was necessary to look beyond the official contract files and the contracting officer representatives' (COR) administration files because documentation contained in those files did not constitute a complete history of contractual actions that was, in our view, sufficient to permit contracting officers to exercise their responsibilities. Contracting officers are responsible for effectively administering all contract actions and safeguarding the Government's interest in its contractual relationships. Therefore, contracting officers should have access to a complete history of procurement transactions to make informed decisions at each step in the acquisition process.

Official Contract Files

The Department's official contract files, which were maintained in the Strategic Integrated Procurement Enterprise System (STRIPES), did not contain a complete history of contractual actions, as required by Federal regulations. The Department's *Acquisition Guide* permitted the use of task assignments under each task order of the contract. Task orders are normally the level at which work scope and funding are controlled. We found, however, that for the three support service contracts managed by Headquarters Procurement, STRIPES did not include task assignment documentation that described the specific work to be performed by the contractors; required deliverables; periods of performance; and allocations of the overall contract's funding and labor hours needed to satisfy the task assignments.¹

We found that contract-related documentation, prepared by the Headquarters Procurement Contracting Office and included in STRIPES, only contained broad statements of work that obligated funding and identified the number of labor hours expected to be consumed under each contract. Contracting officers delegated the responsibility for issuing task assignments to the CORs, who were outside the contracting office. As such, the official contract files did not contain detailed information regarding the actual tasks assigned to contractors, specific deliverables and periods of performance for those tasks, or the contract funding and labor hours allocated to the individual tasks. Instead, some task assignment documentation was separately maintained by the CORs and was often incomplete or inadequate. We concluded that task assignment documentation was clearly an integral part of the contract that should have been included in STRIPES.

¹ The fourth support service contract included in our sample, managed by the Golden Field Office, did not have a similar issue because it did not use task assignments.

The Headquarters Procurement Contracting Office did not include task assignment documentation in STRIPES, in part, because memorandums from contracting officers designating the CORs' responsibilities only required them to maintain task assignments in the official COR administration files. Further, the CORs were only required to furnish a copy of contract-related documentation to the Contracting Officer upon request instead of when prepared, as suggested by the Department's *Acquisition Guide*. A Headquarters Procurement contracting officer told us task assignments were not required to be included in STRIPES because internal guidance for STRIPES' file maintenance was not fully developed at the time the contracts were awarded.

Without including task assignment documentation in STRIPES, there were a large number of important documents related to EERE's support service contracts managed by Headquarters Procurement that were not included in the official contract files. Contracting officers must have knowledge of and readily available access to all contractual actions to exercise Federal Acquisition Regulation (FAR) 1.602 responsibilities for ensuring performance of all necessary actions for effective contracting, ensuring compliance with the terms of the contract, and safeguarding the interests of the United States in its contractual relationships. FAR 4.801 also required the head of each contracting office to establish contract files containing a complete history of contractual actions. Additionally, the Government Accountability Office's (GAO) *Standards for Internal Control in the Federal Government* requires clear documentation of transactions and significant events that is properly managed, maintained and readily available for examination.

Prior Office of Inspector General audits identified similar weaknesses related to inadequate documentation. Our audit report on *The Department of Energy's Management of Contractor Responsibility Determinations* (OAS-M-13-07, September 2013), found official contract files were not always sufficiently maintained because management did not ensure internal controls were consistently implemented by procurement personnel. Similarly, our audit report on *The Department of Energy's Energy Innovation Hubs* (OAS-M-13-08, September 2013), found that required certifications were not maintained in the official award file, making them unavailable for review, because of poor recordkeeping practices.

In response to this audit, Headquarters Procurement issued interim guidance in June 2014. That guidance states that the Contracting Officer will issue task assignments for new contracts and include supporting documentation in STRIPES. For existing contracts where CORs issue task assignments, the guidance requires CORs to send the Contracting Officer all task assignments to be added to STRIPES.

COR Administration Files

The COR administration files did not contain complete documentation of COR actions as required for all four of the EERE support service contracts we reviewed. FAR 1.604 required the COR to maintain a file for each assigned contract that included, at a minimum, documentation of COR actions taken in accordance with the delegation of authority. We found CORs had not prepared memorandums for the record of all meetings, trips, and telephone conversations related to the contract as required in memorandums issued by the Contracting Officer that designated

COR responsibilities. Also, CORs had not consistently documented contract-related activities such as communication with technical monitors and/or program officials who the CORs relied on to monitor the contractors' day-to-day performance, and review and inspect deliverables prior to invoice approval. Additionally, for at least one of the three EERE support service contracts managed by Headquarters Procurement, CORs had not consistently prepared documentation supporting changes to funding allocated on task assignments, and, in some instances, moved allocated funding between task assignments with only an annotation on the spreadsheet used to track the funding.

CORs did not prepare documentation, at least in part, because of the time involved. One COR told us documentation was not prepared for day-to-day conversations because it would require a significant amount of time. Another COR stated email was used for normal communication and only informal notes were taken at meetings. Finally, another COR told us funding was moved between task assignments on the spreadsheets to get the work done and ensure continuity of service. Although we recognize, and a Contracting Officer told us, preparing documentation for all meetings, trips and telephone conversations may not be realistic, documentation of contract-related actions and correspondence must be sufficient to constitute a complete history of contractual actions. Additionally, we concluded that the expediency gained by moving allocated funding between task assignments with only an annotation on the spreadsheet did not outweigh the GAO internal control standard that requires clear documentation of all transactions and significant events to ensure accountability for the stewardship of Government resources.

Although CORs moved funding between task assignments, we found that such reallocations were within the same task orders and did not affect the overall obligation authority of the contract.

In response to our report, EERE officials stated that they will develop new procedures to document significant COR communications and ensure the documentation is sent to the Contracting Officer for inclusion in the official contract files. Additionally, Headquarters Procurement's interim guidance requires CORs to ensure that they sufficiently document their communication and forward that documentation to the Contracting Officer.

Impact on EERE's Support Service Procurement Activities

In the absence of a complete history of contractual actions in STRIPES, contracting officers and heads of contracting activities may not have the requisite knowledge needed to effectively and efficiently carry out their responsibilities. A complete history provides a basis for informed decisions at each step in the acquisition process, supporting actions taken, providing information for reviews and investigations, and furnishing essential facts in the event of litigation or congressional inquiries.

OTHER MATTERS

As part of our audit, we examined the circumstances surrounding two allegations we received regarding EERE procurement activities.

Support Service Contract Allegations

One allegation contained multiple issues related to the management of an EERE support services contract including allegations that: contract obligations were overspent; some activities performed by the contractor were inappropriate; some activities billed directly should have been included in indirect rates; and funding allocated under one task was being inappropriately used to fund other tasks. We were not able to substantiate the allegations. Specifically, we found:

- Contract obligations established by contracting officers were not overspent. We found that in some instances, the contractor had overspent task assignment funding allocated by the COR and that COR had subsequently adjusted the allocations. However, we found no evidence this practice was prohibited by law or regulation as long as the total funding allocated on task assignments did not exceed the authorized amount obligated for the underlying task order.
- Contractor activities, such as consulting on justification for a bridge contract and budget-related activities were not inappropriate because these activities were within the support service contract's scope of work.
- Activities billed directly to the contract were costs specifically associated with that contract and were not duplicative of indirect rates. Activities included in indirect rates were higher-level contractor activities that were not directly associated with the contractor's task assignments.
- Funding allocated against one task assignment was used to fund other tasks without clear documentation supporting the change. As previously discussed in this report, funding was moved between task assignments, however, the reallocations were within the same task order and authorized obligations were not exceeded. We found no evidence that moving funding among task assignments within the same task order was prohibited by law or regulation. Also, as previously discussed we did find that CORs did not consistently prepare documentation supporting changes to task assignment funding.

Executive Salaries and Bonuses Allegation

Another complaint alleged that salaries and bonuses received by four National Renewable Energy Laboratory executives was larger than standard during a salary freeze. We did not substantiate this allegation. During the period alleged, we found executives had not received increased Department-reimbursed salaries and the Department had not reimbursed the contractor for bonuses.

RECOMMENDATIONS

To address identified areas warranting management attention and improve the effectiveness and efficiency of EERE support service procurement activities, we recommend that the Assistant

Secretary for Energy Efficiency and Renewable Energy and the Director, Office of Management:

1. Ensure documentation, such as task assignments prepared outside the contracting office, is entered into and maintained in STRIPES, the Department's official contract file; and
2. Ensure communication is sufficiently documented to constitute a complete history of contractual actions and forwarded to the contracting office for inclusion in STRIPES.

MANAGEMENT REACTION

Management concurred with the report's recommendations and identified planned actions as well as actions that had already been completed to address the recommendations.

EERE stated that it no longer awards task assignment type contracts, and for the existing contracts, will develop procedures to ensure documentation such as task assignment memos are recorded in STRIPES. In addition, EERE stated it will develop new procedures to document significant COR communications and ensure the documentation will be sent to the Contracting Officer for inclusion in the official contract files.

The Office of Management informed us that Headquarters Procurement issued interim guidance in June 2014, to address the recommendations and plans to issue final guidance by November 2014.

Management's formal comments are included in Attachment 3.

AUDITOR COMMENTS

Management's corrective actions are responsive to the report's recommendations.

Attachments

cc: Deputy Secretary
Chief of Staff

OBJECTIVE, SCOPE AND METHODOLOGY

OBJECTIVE

The objective of this audit was to determine whether the Office of Energy Efficiency and Renewable Energy's (EERE) support service procurement activities were managed effectively and efficiently.

SCOPE

We conducted the audit from October 2013 through August 2014, at the Department of Energy's heads of contracting activities at Headquarters Procurement Services (Headquarters Procurement) in Washington, DC, and at the Golden Field Office in Golden, Colorado. Our audit focused on EERE's support service procurement activities, and salaries and bonuses received by National Renewable Energy Laboratory executives. The audit was conducted under the Office of Inspector General Project Number A13DN059.

METHODOLOGY

To accomplish our audit objective, we:

- Reviewed laws, regulations, policies and procedures applicable to support service procurement activities.
- Reviewed relevant prior Office of Inspector General and Government Accountability Office reports.
- Interviewed key personnel from the Department of Energy's heads of contracting activities at Headquarters Procurement and the Golden Field Office.
- Interviewed EERE's contracting officer representatives assigned to support service contracts selected for review.
- Judgmentally selected four EERE support service contracts managed by two of the three heads of contracting activities EERE used to obtain procurement services. Three of the four selected contracts were managed by Headquarters Procurement and the fourth by EERE's Golden Field Office. We did not review any support service contracts managed by the National Energy Technology Laboratory. These four selected contracts totaled approximately \$171 million out of the over \$628 million in open EERE support service contract obligations. The 4 selected contracts represent four contractors that were judgmentally selected out of the 16 identified EERE support service contractors based on such factors as contract dollar value, heads of contracting activities managing the contract, and allegations received. Because selection was based on a judgmental sample, results and overall conclusions are limited to the selected contracts.

- Reviewed pre-award and post-award aspects of the four judgmentally selected support service contracts to include: award procedures; contract type; consideration of past performance; if costs were allowable, allocable and reasonable; if costs claimed were appropriate and reasonable for task performed; and monitoring of award. In performing our testing of allowable costs, we selected a stratified random sample of 47 invoices totaling approximately \$23.5 million out of a population of 283 invoices totaling approximately \$139 million for testing. A confidence level of 90 percent, a precision level of plus or minus 5 percent, and an expected error rate of 0 percent was used to determine the sample size. No material errors were identified in our sample.
- Reviewed and analyzed two allegations received. Specifically, we reviewed the judgmentally selected contracts to determine whether contract obligations had been overspent, the contractor performed inappropriate activities, indirect costs were inappropriately included in direct costs, and funding allocated to one task was inappropriately used to fund other tasks. Additionally, we reviewed the salaries and bonuses of selected executives at the National Renewable Energy Laboratory to determine whether they were larger than allowed during a period of salary freeze.

We conducted this performance audit in accordance with generally accepted Government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective. Accordingly, the audit included tests of controls and compliance with laws and regulations to the extent necessary to satisfy the objective. We considered the *GPR Modernization Act of 2010* as necessary to accomplish the objective, and determined the Department of Energy had established performance goals to improve contract management and oversight. 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. We conducted a reliability assessment of computer-processed data relevant to our audit objective and deemed the data to be sufficiently reliable.

An exit conference was held on August 11, 2014.

PRIOR REPORTS

- Audit Report on [*The Department of Energy's Management of Contractor Responsibility Determinations*](#) (OAS-M-13-07, September 2013). This review found important procurement documentation used in determining a bidder's responsibility was not always included in the official contract files as required by the Department of Energy's (Department) policies and procedures. Specifically, the Department's Headquarters Procurement Services and the National Nuclear Security Administration's Office of Acquisition Management in the Albuquerque Complex had not always sufficiently maintained official contract files to record actions undertaken and provide key documentation should issues arise with the contract. These issues occurred because management did not ensure internal controls were consistently implemented by procurement personnel, in accordance with the Federal Acquisition Regulation and the Department's Acquisition Guide.
- Audit Report on [*The Department of Energy's Energy Innovation Hubs*](#) (OAS-M-13-08, September 2013). This review identified weaknesses in the internal controls related to recordkeeping/document retention. Specifically, Department officials did not ensure certifications were maintained in the award files; therefore, certifications were not available for review. The absence of conflict of interest certifications was the result of poor recordkeeping practices by the Department.

MANAGEMENT COMMENTS


Department of Energy

Washington, DC 20585

JUL 31 2014

MEMORANDUM FOR: RICKEY R. HASS
 DEPUTY INSPECTOR GENERAL
 FOR AUDITS AND INSPECTIONS
 OFFICE OF INSPECTOR GENERAL

FROM: BINDU JACOB 
 ACTING DIRECTOR
 OFFICE OF BUSINESS OPERATIONS
 ENERGY EFFICIENCY AND RENEWABLE ENERGY

SUBJECT: Response to Draft Audit Report on "Procurement of Support Service Contracts for the Office of Energy Efficiency and Renewable Energy"

The Office of Energy Efficiency and Renewable Energy (EERE) welcomes the opportunity to respond to the recommendations by the Office of the Inspector General (OIG) in its July 2014 Draft Report on "Procurement of Support Service Contracts for the Office of Energy Efficiency and Renewable Energy."

As a part of the effort to protect taxpayer interests while promoting energy efficiency and renewable energy programs, EERE endeavors to protect America's national interest through the sound financial management of its business practices, including support services contracts.

In general, the auditors found that EERE's support service contracts included in the review were competitively awarded; consistently applied established labor rates for labor hours billed; and incurred costs in accordance with contract terms. Although the auditors did not identify material concerns regarding EERE's support service procurement activities, they identified weaknesses in contract documentation that warrant management attention and made two recommendations, which EERE will address to more effectively manage its support services contracts.

EERE's response is provided below.

Recommendation 1: Ensure documentation, such as task assignments prepared outside the contracting office, is entered into and maintained in STRIPES, the Department's official contract file.

EERE Management Response: EERE concurs with the recommendation. EERE no longer awards task assignment type contracts. Recent and future support service contract awards are structured as IDIQ/task order type vehicles. For existing task assignment type contracts administered by EERE, EERE will develop procedures to ensure documentation such as task assignment memos are recorded in STRIPES. Any existing task assignment contracts with a period of performance



greater than one year will be transitioned to task order type vehicles. This transition will be complete by June 30, 2015.

Recommendation 2: Ensure communication is sufficiently documented to constitute a complete history of contractual actions and forwarded to the contracting office for inclusion in STRIPES.

EERE Management Response: EERE concurs with the recommendation. EERE will develop new procedures to document significant Contracting Officer Representative (COR) communications such as contractor meeting notes and contract change discussions, with the understanding that all contractual decisions obligating the government are made by the Contracting Officer. The documentation will be sent from the COR to the Contracting Officer (CO) for inclusion in the official contract files and uploading into STRIPES in a timely manner to support associated contractual actions executed by the CO. The new procedure will be implemented by December 31, 2014.



Department of Energy
Washington, DC 20585

July 31, 2014

MEMORANDUM FOR RICKEY R. HASS
DEPUTY INSPECTOR GENERAL
FOR AUDITS AND INSPECTIONS
OFFICE OF INSPECTOR GENERAL

FROM: INGRID KOLB
DIRECTOR
OFFICE OF MANAGEMENT

SUBJECT: Management Comments on Draft Audit Report on "Procurement of Support Service Contracts for the Office of Energy Efficiency and Renewable Energy"

The Office of Management (MA) welcomes the opportunity to respond to the recommendations by the Office of the Inspector General (OIG) in its July 2014 Draft Report on "Procurement of Support Service Contracts for the Office of Energy Efficiency and Renewable Energy."

In general, the auditors found that MA's support of the Office of Energy Efficiency and Renewable Energy (EERE) support service contracts included in the review were competitively awarded; consistently applied established labor rates for labor hours billed; and incurred costs in accordance with contract terms. Although the auditors did not identify material concerns regarding MA's EERE support service procurement activities, they identified weaknesses in contract documentation that warrant management attention and made two recommendations, which MA will address to more effectively manage its support services contracts. MA's response is detailed below.

MANAGEMENT COMMENTS

The Office of Inspector General had the following recommendations in its Draft Audit Report:

- (1) Ensure documentation, such as task assignments prepared outside the contracting office, is entered into and maintained in STRIPES, the Department's official contract file.
- (2) Ensure communication is sufficiently documented to constitute a complete history of contractual actions and forwarded to the contracting office for inclusion in STRIPES.

In response, the Office of Headquarters Procurement Services (MA-64) issued interim guidance to the MA-64 contracting staff on June 26, 2014 to address the above recommendations. See attached. Final Guidance will be issued by November 2014.

Attachment



FEEDBACK

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