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Office of Inspector General
Office of Audits and Inspections

SPECIAL REPORT

Allegations Regarding Information
Technology Procurement at Bonneville Power
Administration

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August 2015



Department of Energy
Washington, DC 20585

August 3, 2015

MEMORANDUM FOR THE SECRETARY

FROM: 
Gregory H. Friedman
Inspector General

SUBJECT: INFORMATION: Special Report: "Allegations Regarding Information Technology Procurement at Bonneville Power Administration"

BACKGROUND

The Department of Energy's Bonneville Power Administration (Bonneville), which markets wholesale power produced primarily from Federal hydroelectric projects in the Pacific Northwest, operates and maintains about three-fourths of the high voltage transmission in the area. Bonneville has about 3,000 Federal employees, which represents approximately 20 percent of the Department's total Federal workforce. In support of its various mission activities and human resources needs, Bonneville makes a number of procurements each year. By statute, Bonneville is exempt from the requirements of the Federal Acquisition Regulation and is permitted to acquire goods and services using its own requirements published as the Bonneville Purchasing Instructions (Purchasing Instructions). In an effort to streamline its recruiting and hiring processes, Bonneville acquired the automated Talent Acquisition System (hiring system) in July 2012.

The Office of Inspector General received a hotline complaint alleging fraud, waste, and abuse related to the acquisition of information technology (IT) systems. The complaint included specific concerns regarding the acquisition of the hiring system, as well as general concerns about the procurement organization's operations. For example, the complainant alleged that contracting officers were not complying with the Purchasing Instructions, which establish requirements for Bonneville's procurement authorities. We initiated this audit to determine the facts and circumstances surrounding the allegation that Bonneville's procurement of IT systems was mismanaged and resulted in the waste of ratepayer funds.

RESULTS OF AUDIT

The allegations made in the complaint were, in part, substantiated. Most prominently, regarding the acquisition of the hiring system, we found that Bonneville spent about \$5.2 million for a system that did not meet its needs. We identified significant weaknesses with the system planning, acquisition, and contract administration:

- Bonneville's hiring system contract was poorly constructed and did not comply with Bonneville's own Purchasing Instructions. Bonneville did not ensure that 28 of 36

mandatory contract clauses required by its Purchasing Instructions were adequately included in the contract. In some cases, the clauses were excluded, while in other cases, changes to the clauses resulted in that portion of the contract not sufficiently protecting Bonneville's interests. For example, the "order of precedence" clause that Bonneville included in the contract was ambiguous and did not conform to its Purchasing Instructions. The clause failed to clearly distinguish which contract terms took precedence, an issue that later impaired Bonneville's ability to enforce the contract. Further, an attorney from Bonneville's Office of General Counsel (General Counsel) asserted that the contract did not clearly identify requirements and obligations of the parties.

- Although specifically required, a total cost analysis was not adequately conducted for the hiring system procurement. Further, the Document of Award Decision (Award Decision), which provided the justification for the vendor selection, lacked necessary detail. For example, there was no evidence included in the Award Decision or elsewhere in the procurement documentation we received that major requirements of the contract and the vendor's proposed pricing were analyzed from a detailed and itemized perspective. Without an adequate analysis of price reasonableness, Bonneville increased its risk of not having negotiated the most cost-effective solution. Also, given that the Award Decision would have been the primary document Bonneville would have used had it been necessary to justify its purchasing decision in the event of a protest, the lack of analyses increased Bonneville's risk of losing a protest.
- Bonneville did not fully consider past vendor performance during the procurement process. Bonneville employees were aware that another Federal agency was the largest customer for the selected vendor, yet we found no evidence that the other customer was contacted for reference checks. We found this other Federal customer had experienced issues with the same hiring system, as identified by the Government Accountability Office (GAO), in a publicly issued report titled *Forest Service Business Services: Further Actions Needed to Re-examine Centralization Approach and to Better Document Associated Costs* (GAO-11-769, August 2011). The failure to consider available information precluded the possible identification and recognition of certain vendor risks related to contract structure, implementation, and payment.
- Bonneville did not enforce several requirements of the hiring system contract. According to Bonneville's Human Capital Management (HCM) group, the hiring system was unable to provide critical functionality specified as deliverables in the contract. Further, Bonneville failed to ensure the vendor complied with cybersecurity requirements contained in the contract. Although these concerns were brought to the Contracting Officer's attention, there were no indications that the vendor was held accountable for meeting these particular requirements.
- The planning and approval processes for the hiring system were inadequate and, in some cases, incomplete. For example, a Bonneville review board did not adequately evaluate important technical aspects of the project, such as the ability to integrate the new hiring system with its legacy HCM system, prior to approval. The project team also did not

follow a mandatory Bonneville-specific IT process meant to improve project success. Bonneville conducted a root cause analysis in 2013 of the hiring system implementation and ultimately confirmed that significant management controls had been circumvented, which contributed to the poor implementation of the hiring system.

The issues we identified were due, in large part, to the accelerated planning, development, and deployment approach used by Bonneville for this particular project. Other contributing factors included a lack of adequate due diligence and accountability on the part of key personnel responsible for acquisition and monitoring of the hiring system and insufficient involvement of Bonneville's IT Project Management Office. Finally, we noted that Bonneville failed to apply lessons learned from a previous IT system failure, leading to the repeat of past mistakes.

As a result of not following its own procurement policies and IT processes, Bonneville accepted and paid approximately \$5.2 million for a hiring system that Bonneville officials asserted did not meet all of its requirements. Additionally, as a result of system shortcomings, Bonneville had to reallocate resources to perform workarounds. For example, because the system did not have the automated capability to export hiring case files in support of personnel audits, a requirement in the contract, Bonneville found that its HCM employees had to perform a time-consuming and tedious process, taking up to 16 hours to reconstruct a single case file for audit. Further, a poorly written contract led to disputes with the contractor that affected Bonneville operations. For example, at one point, a Bonneville attorney asserted that the vendor had breached the contract by revoking access to the system for officials from the Department's Office of the Chief Human Capital Officer.

We also found that the exclusion of mandatory clauses, such as a rights in data clause, from the hiring system contract created confusion and weakened Bonneville's position when disputes with the vendor later occurred. For example, the vendor asserted it was owed approximately \$2 million for exceeding the terms of the contract and that Bonneville had violated its data ownership clause. Bonneville had allowed the vendor to include its own version of rights in data clauses in the contract, and questions later arose regarding whether those clauses conformed to standard copyright laws. A Bonneville attorney stated that the Government would have been in a much stronger position to assert data ownership rights if the contract was negotiated properly up front, to adequately protect Bonneville's interests.

In June 2014, Bonneville notified the vendor that it was terminating the contract for convenience, citing reasons unrelated to the issues we identified in our audit. Specifically, a Bonneville Contracting Officer stated there was a change in the Government's requirements resulting in Bonneville not using most of the hiring system's functionality. Bonneville decided to use the Department's hiring system, rather than maintain its own system. In September 2014, a settlement agreement was reached with the vendor that resulted in the complete resolution of all claims and issues related to the contract. The agreement included paying approximately \$1.6 million, an amount equivalent to the remainder of the contract's base period.

Despite the issues uncovered by our audit, we did observe some encouraging actions designed to improve Bonneville's IT and procurement processes. We found, for example, that Bonneville continuously reviews and refines its system lifecycle project management process after each

major IT project to ensure challenges and possible solutions are identified. In addition, the recently hired procurement director indicated that Bonneville had since emphasized procurement staff training and increased supervisor accountability for contract reviews.

While these are positive actions, additional effort is necessary to ensure Bonneville is constructively incorporating lessons learned from challenged procurements. Without further improvement, Bonneville could encounter similar challenges associated with its IT purchases. As such, we have made several recommendations designed to assist Bonneville in strengthening its procurement, planning, and approval processes.

MANAGEMENT RESPONSE

Management concurred with the report's recommendations and provided corrective actions to address the issues identified in this report. We consider management's comments and corrective actions to be responsive to our recommendations.

Management's comments are included in Appendix 3.

Attachments

cc: Deputy Secretary
Chief of Staff
General Counsel
Administrator, Bonneville Power Administration

SPECIAL REPORT: ALLEGATIONS REGARDING INFORMATION TECHNOLOGY PROCUREMENT AT BONNEVILLE POWER ADMINISTRATION

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DETAILS OF FINDING

While we did not substantiate all of the allegations made in the complaint, we identified issues related to the Talent Acquisition System (hiring system) procurement and implementation. Specifically, we found that in the procurement of the hiring system, Bonneville Power Administration (Bonneville) did not adequately safeguard its business interests by failing to ensure the inclusion of contract clauses mandated by its own Bonneville Purchasing Instructions (Purchasing Instructions). In addition, we found Bonneville did not adequately document important details supporting the award decision, adequately consider past performance of the selected vendor prior to signing the contract, follow processes in its system lifecycle (SLC) procedures for planning and implementing the system, and enforce certain requirements of the hiring system contract related to functionality and cybersecurity.

In February 2012, Bonneville issued a solicitation to four hiring system vendors. By statute, Bonneville is exempt from the requirements of the Federal Acquisition Regulation and is permitted to acquire goods and services using its own requirements published as the Purchasing Instructions. Bonneville selected a vendor after conducting an assessment of the two vendors that submitted proposals. During the procurement process, Bonneville learned that the selected vendor was available through a General Services Administration (GSA) Federal Supply Schedule and made the decision to procure the hiring system using a task order on the existing GSA contract rather than developing and executing its own contract. As a result, Bonneville awarded a firm-fixed-price task order (contract) for the implementation and maintenance of the hiring system with a base period of 3 years starting June 25, 2012, for about \$5.2 million. Additionally, there were five 1-year option periods for about \$2 million per option period. The contract included clauses in multiple sections: clauses adopted from the GSA Federal Supply Schedule contract, clauses prepared by Bonneville, and clauses prepared by the vendor.

Hiring System Contract

We determined that Bonneville's hiring system contract was poorly constructed and did not comply with the Purchasing Instructions. Specifically, we found that Bonneville's Supply Chain Services organization (procurement organization) did not ensure that 28 of 36 mandatory contract clauses required by the Purchasing Instructions were adequately included in the contract. Without including these clauses, it was difficult for Bonneville to enforce certain critical contract requirements. Ultimately, Bonneville paid approximately \$5.2 million for a system that it asserted did not fully meet its requirements. In some cases, the clauses were excluded, conflicted with other clauses within the contract, and/or had been changed and did not sufficiently protect Bonneville's interests. Finally, a Bonneville Contracting Officer failed to obtain waivers from the Head of Contracting Activity (HCA) for the exclusion of mandatory clauses prior to contract award, as required by its Purchasing Instructions. The more notable deficiencies included the following:

- Order of Precedence – This clause defines which contract clauses take priority when inconsistencies exist within a contract. We found the contract contained three separate clauses addressing order of precedence and each clause claimed a different variation of the order of precedence. As a result, collectively, the clauses failed to adequately protect

Bonneville's interests. For example, one of the contract clauses in the vendor-prepared section of the contract did not provide for a reduction in price if the contract was terminated early. During subsequent contract disputes with the vendor in 2014, Bonneville's Office of General Counsel (General Counsel) was unsuccessful in its attempts to convince the vendor that the GSA termination clause, also included in the contract, should have been followed instead of the vendor's version of this clause. Therefore, Bonneville ultimately elected to follow the vendor's version of the termination clause, to avoid the potential for lengthy and costly litigation. While a quality assurance review detected the deficiency related to the order of precedence clause prior to contract signing, the Contracting Officer did not adequately address the issue. Instead, the Contracting Officer noted in response to the quality assurance review, "I will discuss this with the vendor, but they insist on an order that does not suit us." However, we were provided no evidence to indicate that the Contracting Officer followed through and subsequently resolved this issue with the vendor. Consequently, the order of precedence clauses remained unchanged.

- Inspection and Acceptance – This clause defines Bonneville's right to ensure that products and services it receives from contractors conform to contract requirements prior to payment. The Contracting Officer did not include the Purchasing Instructions' version of this clause, which would have explicitly provided Bonneville rights to seek adequate consideration for accepting nonconforming supplies or services. Instead, Bonneville permitted the inclusion of two different versions of this clause, one within the GSA portion of the contract, and the other within the vendor's portion of the contract. Bonneville followed the vendor's version of this clause, which deemed acceptance of deliverables as complete upon the vendor permitting access to the hiring system. Bonneville did not inspect the system prior to acceptance and payment even though it had the right to do so, according to the GSA portion of the contract.
- Rights in Data – This clause restricts contractors' rights to use Bonneville data. Although Bonneville had intended to include its own clause in the hiring system contract, it ultimately decided to use the vendor's rights in data clauses, in which the vendor purported to take ownership of data produced by Bonneville employees. Further, a Bonneville attorney asserted that the Government would have been in a much stronger position to assert data ownership rights if the contract had been negotiated properly up front. For example, during the period of contract performance, the vendor asserted that Bonneville had violated the vendor's rights in data clauses in the contract, and that the vendor owned all of the applicant data that was entered in the system from individuals applying for jobs. Further, the lack of an adequate rights in data clause left Bonneville officials with few remedial options in September 2013, when the hiring system vendor issued a report to external parties, without Bonneville's consent, that exposed potentially sensitive business information to the public.

We also identified other instances of policy violations that contributed to the poorly constructed contract. For example, the Contracting Officer failed to include the mandatory infringement indemnification clause, which would indemnify Bonneville from a third-party lawsuit for claims that the use of the vendor product or service infringed patented or proprietary rights.

Additionally, we noted that the contract contained a clause that committed Bonneville to "serve as an active reference to other customers and potential customers," which was not compliant with the Purchasing Instructions. In November 2013, a Bonneville attorney conducted a review of the hiring system contract and noted similar deficiencies and policy deviations. For example, the attorney noted that the contract statement of work made it "[i]mpossible to clearly identify requirements and obligations of the parties."

Document of Award Decision

Bonneville's Document of Award Decision (Award Decision) lacked detail regarding total cost and price reasonableness analyses, cost comparisons, and the information technology (IT) system classification as required by the Purchasing Instructions. An Award Decision is the summary and analysis of the acquisition's competition, evaluation, price/cost analysis, and justification for the selection of the vendor as the superior offeror. The Purchasing Instructions only allow Contracting Officers to use GSA Federal Supply Schedule contracts if they represent a best buy for Bonneville and meet the requirements for total cost and price reasonableness analyses. Specifically, we found the following:

- An adequate analysis of the total cost of the hiring system was not conducted. The Purchasing Instructions require procurements to be documented in greater detail when they are considered high risk and when a significant variation between the offerors' proposed prices exist, which was the case with the hiring system procurement. The vendor proposals differed by roughly \$3 million for the 3-year base period. Although the selected vendor had the higher quoted price, the Contracting Officer concluded in the Award Decision, without providing any further detail or rationale, that the selected vendor would yield significant cost savings and the nonselected vendor would require significant additional expenses and time. In addition, the vendor offered an "all you can eat" pricing model, which provided things such as training, help desk and audit support, and other support that the client "reasonably" needs throughout the life of the subscription. We found no evidence that the Contracting Officer assessed the details, composition, and value included in this "all you can eat" price. In February 2014, this pricing model came into question when the vendor requested approximately \$1.5 million in equitable adjustments for costs incurred that exceeded the "reasonable" amount of services. Bonneville ultimately denied the vendor's claim for an equitable adjustment.
- An adequate analysis of price reasonableness was not documented in the Award Decision. We found that the Contracting Officer did not document an assessment of the selected vendor's proposed price against the vendor's expected level of effort, past performance, complexity of the software, and Bonneville's expectations, as required by the Purchasing Instructions. Instead, the Award Decision stated that the final price Bonneville agreed to pay for the hiring system, which was approximately \$5.2 million, was reasonable because it had negotiated reduced pricing from the GSA vendor price of approximately \$6.4 million. However, we concluded that simply receiving a discount from the price in the GSA Federal Supply Schedule did not satisfy the requirement to assess price reasonableness. We found no evidence that the Contracting Officer reviewed the major requirements of the contract and the vendor's proposed pricing from

a detailed and itemized perspective. Without an adequate analysis of price reasonableness, we believe Bonneville increased its risk of not having negotiated the most cost-effective solution. In addition, the Award Decision stated that the cost of the hiring system was compared to other systems of comparable complexity and the other systems had very similar pricing. However, the Award Decision did not document this comparison, and our review of these system contracts did not support the Contracting Officer's assessment that they were of similar complexity and price.

We also noted that the contract file did not meet various other minimum documentation requirements, as defined in the Purchasing Instructions. For example, the Award Decision lacked a required discussion of the basis for determining that the hiring system met the definition of a commercial-off-the-shelf product. Further, a Bonneville attorney informed us that the lack of adequate documentation in the official contract file later impaired its ability to defend Bonneville when contract disputes arose with the vendor.

An inadequate Award Decision document exposed Bonneville to unnecessary business risks and weakened its position to defend its selection of the vendor should a protest of the award occur. Further, without conducting an adequate cost/price analysis and determining the costs of deliverables, such as integrating with the legacy Human Capital Management (HCM) system, Bonneville missed an opportunity to later be able to recover some of those costs when it cancelled this particular requirement.

Evaluation of Past Performance

Bonneville did not fully consider past vendor performance during the procurement process. The Purchasing Instructions required full consideration of all information to reach a sound business decision and specifically cited vendors' past performance as an imperative item to be reviewed prior to contract award. We found that the Contracting Officer did not appear to have given adequate consideration to past performance information and bid protest decision reports issued by the Government Accountability Office (GAO) prior to executing the hiring system contract. Further, Bonneville was aware that another Federal agency was the largest customer for the selected vendor, yet we found no evidence that it contacted the agency as part of its reference checks.

GAO's report *Forest Service Business Services: Further Actions Needed to Re-examine Centralization Approach and to Better Document Associated Costs* (GAO-11-769, August 2011) found that the selected vendor's largest Federal customer asserted that the hiring system was difficult to use and did not always perform properly, which frequently resulted in managers having to conduct manual and time-consuming workarounds. Further, we found there were previous GAO bid protest decisions that described, and validated, other Federal agencies' reasons for deciding not to enter into a contract with the hiring system vendor that Bonneville selected. Specifically, a GAO decision from January 2010 stated that another Federal Contracting Officer had refused to consider the hiring system vendor's proposal because it required an unacceptable number of deviations from the terms and conditions in the solicitation. GAO validated the Contracting Officer's determination to disqualify this vendor based on its refusal to use Government contract clauses regarding order of precedence, Government rights in data, and

inspection and acceptance. Although the Contracting Officer attested to having researched the GAO decisions, it did not appear that an attempt was made to strengthen the contract structure and content to best protect Bonneville's interests, as noted earlier in our report, regarding missing, conflicting, and ambiguous contract clauses.

We also found that, in contrast to Federal Government best practices, Bonneville did not adequately value the consideration of past performance during its source selection process. According to the Office of Management and Budget (OMB) *Best Practices for Collecting and Using Current and Past Performance Information*, dated May 2000, it is recommended that Federal agencies assign a weight of at least 25 percent of the total evaluation to past performance data. OMB stated that a very low weighting of 5–10 percent may reduce the overall perception of how important good contract performance is as an element of the source selection process. However, in Bonneville's weighted evaluation criteria for the hiring system procurement, it only assigned the "Experience - References and Customer Success" factor a 3 percent weight. The Purchasing Instructions lacked specific guidance regarding how contracting officers should value and check past performance information.

Additionally, 2 weeks before the hiring system contract was signed in July 2012, Bonneville's HCA and the Contracting Officer received a letter from the nonselected vendor that described the GAO decisions noted above and alleged other Federal agencies' adverse actions related to contracts with the selected vendor. The nonselected vendor provided this information after the evaluation team had recommended the selected vendor for selection and disbanded; however, the Contracting Officer did not follow up on whether there was any validity to the nonselected vendor's claims. When we asked about this information, the Contracting Officer indicated to us that the warning was not taken seriously because it was from the vendor that was likely upset for not being selected for the hiring system contract. However, we determined that the vendor's warning taken in conjunction with the GAO findings merited further attention.

Based on information that was publicly available before contract signing in July 2012, we were able to confirm that the nonselected vendor's warnings had merit. We concluded that if Bonneville would have adequately researched the vendor's past performance, it could have identified potential risks up front and created a mitigation plan to properly address those risks and included it in the hiring system contract.

Contract Administration

Throughout our review we were informed by various Bonneville personnel that the Contracting Officer did not enforce several requirements included in the contract. There were significant requirements that Bonneville officials asserted were not adequately met by the vendor, specifically:

- The automated functionality to export hiring case files in support of Bonneville audits did not function as required. The vendor stated in its solicitation response/proposal, which was incorporated into the contract, that its hiring system would allow Bonneville to automatically export entire case files into a single file for audits (by Bonneville, the Office of Personnel Management, and the Department's Office of the Chief Human

Capital Officer). However, once installed, the system never actually provided this automated functionality. The vendor had initially offered a workaround solution to be able to meet this requirement, and a Bonneville project manager informed us that after approximately 1 year of using the hiring system, the vendor had indicated that it would begin to charge additional fees to continue performing the workaround. Therefore, Bonneville officials explained that its HCM employees performed the workaround moving forward, which was a time-consuming and tedious process. Bonneville determined that the workaround required its HCM staff members to commit 4 to 16 hours of time to reconstruct a single case file for audit. Although aware of this deficiency, the Contracting Officer did not take action to ensure the vendor either met the contractual requirement or that Bonneville received a price adjustment due to the vendor's failure to meet a contract requirement.

- The hiring system was not able to be integrated with Bonneville's legacy HCM system. The evaluation team did not validate the chosen vendor's ability to meet this contract deliverable, even though a third-party consultant that assisted Bonneville with the evaluation and selection process had raised a red flag regarding the vendor's true ability to integrate these systems. The project lead for the implementation of the hiring system told us that the integration did not occur because Bonneville decided to focus on obtaining higher priority requirements and functionality from the system first, and ultimately never returned to complete the integration between these two systems. Although an HCM employee asserted that Bonneville had decided not to move forward with this integration project, the contract for the hiring system was never modified to reflect this change and the Contracting Officer did not attempt to have the contract price reduced.
- The vendor did not provide up-to-date third-party IT audits and system security plans to Bonneville, as required by the contract. Specifically, the vendor was required to submit a copy of the results from an annual third-party audit to Bonneville's Office of Cyber Security throughout the course of the 3-year contract, but the vendor failed to do so during the second year of the contract. We saw no evidence that the Contracting Officer insisted the vendor meet this contract requirement, which could have been done by issuing the vendor a cure notice. Without a third-party audit, Bonneville had no way to determine if the hiring system was consistently protecting its data adequately. By failing to enforce this contract requirement, Bonneville was not in compliance with Federal IT requirements, and there was an unquantifiable risk that employee personally identifiable information could have been accessed if a breach of the hiring system had occurred.
- The vendor had not provided required proof of insurance certifications. The Purchasing Instructions require Contracting Officers to obtain proof of insurance certifications from contractors prior to starting work to ensure, for example, that Bonneville and the vendor are protected against potential loss or harm in case of a worker's compensation claim; however, the vendor did not do this until Bonneville requested it in February 2014 as a result of our audit.

System Lifecycle Process

In fiscal year 2013, Bonneville initiated a root cause analysis (RCA), to determine why its expectations for the hiring system were not met, and found that key steps of Bonneville's SLC process were only partially completed or not completed at all. The SLC specifies required planning and approval procedures for IT system development and operations. The RCA identified that the project had insufficient planning and approval processes, which contributed to the project failing to meet some of Bonneville's functional requirements, specifically:

- The Agency Prioritization Steering Committee (APSC), which is the committee responsible for overseeing the SLC, did not conduct a thorough project review of the hiring system, as required, prior to contract award. The APSC is responsible for reviewing the project's business case and overall progress of IT projects at Bonneville. Because Bonneville's Business Operations Board, made up of senior executives, had earlier approved funding for the project, members of the APSC stated that they believed the hiring system was approved in its entirety and were reluctant to further scrutinize it. Therefore, the hiring system was not approved based on a thorough review of its business case, but rather because of the system's perceived support from senior executives. The RCA found that the APSC could have prevented insufficient project planning, risk management, and change management, with a thorough review of the hiring system project, prior to approving it.
- Bonneville's HCM group did not follow the SLC's guidance regarding user acceptance testing prior to going live. Instead, Bonneville elected to have the vendor test its own system. Consistent with the RCA's finding, we concluded that Bonneville did not adequately validate the performance of the selected hiring system prior to implementation, as required by the SLC. While the project team created a list of significant deliverables it wanted to see demonstrated, officials were unable to provide us evidence to support that those deliverables were ever validated as meeting functional requirements. The project lead for the hiring system told us that the HCM group had requested to access and test the hiring system before the contract award, but the vendor refused to allow them access. We determined that prior to the hiring system going live in September 2012, Bonneville paid the vendor approximately \$1.4 million without adequately exercising its right as a buyer to independently and fully inspect the hiring system and verify that it met the functional requirements as defined in the solicitation and contract.
- Bonneville did not adequately conduct a gap analysis, as required by the SLC, to be able to plan for the changes and risks that were involved with implementing the hiring system. The RCA noted that because a formal gap analysis was not conducted, the HCM group and hiring managers were not prepared to align Bonneville's hiring processes to the new hiring system's functionality.

We noted in the prior Office of Inspector General report *Management of Bonneville Power Administration's Information Technology Program* (DOE/IG-0861, March 2012) that project managers and their teams did not always adhere to the previous version of the SLC planning

requirements, and the report recommended Bonneville fully implement and use it as intended to avoid previously identified problems in the future. However, it appears that project managers continued to bypass SLC steps, just months after this report was issued, by circumventing steps within the system planning phase of the hiring system.

Contributing Factors

The issues we identified were due, in part, to the accelerated planning, development, and deployment approach used by Bonneville for this particular project. By accelerating the hiring system procurement, Bonneville failed to give adequate consideration to its procurement requirements and SLC guidance, which would have helped ensure successful implementation of the hiring system. Other contributing factors included a lack of adequate due diligence and accountability on the part of key personnel responsible for acquisition and monitoring of the hiring system and insufficient involvement of the IT Project Management Office.

Accelerated Planning, Development, and Deployment Schedule

We found that the issues were due, in large part, to the accelerated planning, development, and deployment of the hiring system. In July 2011, Bonneville executives created a Key Agency Target to improve its time-to-hire metric, which required the HCM group to rapidly improve its hiring processes beginning September 2012. The HCM group determined it would need to implement an automated hiring system to meet this target. Ultimately, Bonneville committed to having a fully implemented hiring system by September 2012 without adequately considering the feasibility of such a goal. In January 2012, Bonneville acknowledged that the September 2012 target date created an aggressive timeline and planned to mitigate such risks by removing some of its requirements from the hiring system project. However, the HCM group did not remove any requirements and instead appeared to have skipped a key phase of the SLC, in an effort to meet the target date. Bonneville's own RCA noted that the Key Agency Target was poorly defined because it incorrectly focused on completing a task by a certain date instead of defining a feasible objective. IT management officials acknowledged they thought the project task was unlikely to be achieved within the set time frame. Additionally, during a strategy panel meeting, the Contracting Officer indicated to Bonneville executives that there were doubts surrounding the vendor's claim that the hiring system could be implemented within 60 days, from contract signing in July 2012 to the go live date in the beginning of September 2012. However, we saw no evidence of discussions with management regarding the need to revise this Key Agency Target date. We concluded that the accelerated implementation of the project contributed to the establishment of a poorly constructed contract and Bonneville's acceptance and implementation of the system without fully ensuring that it met Bonneville's requirements.

Due Diligence

We found that another contributing factor was a lack of adequate due diligence on the part of key personnel, as evidenced by the absence or inadequacy of required contract reviews and the failure of personnel to address known issues.

Specifically, we found the following:

- Insufficient contract reviews. The inadequacy and lack of mandated clauses in the contract resulted, in part, from insufficient contract reviews. Specifically, we found that the contract had not been sufficiently reviewed by procurement managers and Bonneville's General Counsel prior to execution, as required. The contract received two levels of review prior to signing, with the first being performed by the Contracting Officer's supervisor, who ultimately signed the contract, and the second being performed by the Chief Supply Chain Officer's designee. The review by the Chief Supply Chain Officer's designee was required for all contracts in excess of \$5 million, as was the case with the hiring system procurement, and was meant to ensure compliance with Bonneville's best buy objectives and to reduce risk to the organization. Neither review detected the majority of the inadequacies we discovered, including the exclusion of mandatory clauses, clauses that conflicted with each other, and a clause that was in direct opposition to Bonneville policy. The Contracting Officer's supervisor and the Chief Supply Chain Officer's designee both stated that they had not read the contract in its entirety prior to the contract being executed. Further, the absence of certain mandatory clauses, such as the infringement indemnification clause, required that the contract receive a legal review by General Counsel; however, the inadequate procurement reviews did not trigger this additional scrutiny, and the Contracting Officer was not aware that a General Counsel review was required. In a November 2013 review of the Award Decision, more than 1 year after the contract was signed, a Bonneville attorney identified similar issues, including a lack of sufficient documentation regarding the required legal review of the contract prior to award and the Contracting Officer's reasoning for excluding required mandatory clauses or requesting waivers as required by the Purchasing Instructions.
- Failure to ensure compliance with Purchasing Instructions requirements. Several of the compliance issues we identified appeared to be due to the Contracting Officer's lack of awareness of the requirements. For example, we were informed that the mandatory clauses were not included in the final contract because the Contracting Officer did not believe some of the clauses applied when incorporating terms and conditions from GSA Federal Supply Schedule contracts into Bonneville's contracts. However, the Purchasing Instructions noted that when using GSA contracts, the Contracting Officer will negotiate appropriate terms and conditions to address Bonneville requirements. Further, we found that Bonneville did not have an effective and consistent process in place to ensure that all mandatory clauses were included in the contract and that all of the required documentation was included in the official contract file or in the Award Decision. For example, Bonneville did not maintain a complete checklist of all of its mandatory contract clauses for Contracting Officers to refer to, and the Purchasing Instructions only included a partial list of the necessary documentation that should be included in the official contract files.
- Failure of the Contracting Officer to act on known issues. The project lead for the implementation of the hiring system asserted to us that the vendor did not fulfill its contractual obligations, and concerns were raised multiple times to the Contracting

Officer within the first year of the contract. Further, we noted that the HCM group provided the Contracting Officer with multiple analyses displaying its specific functionality concerns with the hiring system vendor, such as a lack of the automated functionality to export hiring case files. However, the Contracting Officer maintained the belief that the contract requirements had been met and instead asserted to Bonneville executives, via email communications, that the vendor had gone above and beyond its obligations from the contract.

Finally, we found no evidence to show that the Contracting Officer included the Contracting Officer's Technical Representative (COTR), who was assigned to oversee the contract administration phase of the hiring system contract, in determinations regarding the validity of concerns raised by the HCM group that the vendor was not fulfilling contract requirements. However, the Purchasing Instructions define the COTR as an indispensable, key member of the contracting team, whom Contracting Officers designate to adequately monitor the contract for technical compliance and to approve payments. Additionally, we also found that the COTR approved payments to the hiring system vendor without receiving documented acknowledgement that the contract deliverables were met from the proper system users, as required by the Purchasing Instructions. Even though the COTR had a responsibility to monitor deliverables, our review concluded that the poor contract structure did not enable the COTR to link the deliverables to payments, thus Bonneville paid vendor invoices based on a schedule in the contract.

Involvement of IT Project Management Office

According to the RCA, Bonneville did not follow the SLC process, in part, because the HCM group assumed the roles and responsibilities normally assigned to the IT Project Management Office. The IT Project Management Office is the primary advocate and coordinator of the SLC process, which helps align systems' development and implementation, and ensures systems meet business needs. According to the RCA, the HCM group controlled the process integration and change management steps, which deviated from the prescribed SLC processes. Bonneville personnel and contractors told us that HCM's attempts to exclude the IT Project Management Office resulted in tension between the HCM group and the IT Project Management Office. Further, documentation provided to us by Bonneville evidenced that the evaluation team was concerned that the HCM group did not plan to perform the testing phases of the SLC. Even though we were told that this issue was raised to various senior managers, it appeared no action was taken to ensure the IT Project Management Office was empowered or given the authority to perform its responsibilities as outlined in the SLC. Based on discussions with several Bonneville employees, it appeared that the tension resulted in employee turnover within the IT Project Management Office, which adversely affected the continuity of the hiring system project.

Failure to Apply Lessons Learned

We found that Bonneville failed to effectively apply lessons learned from a previous IT procurement that could have improved the implementation of the hiring system. Specifically, in 2008, Bonneville encountered similar IT procurement challenges when it initiated the Work Planning and Scheduling System (scheduling system) project. Bonneville stopped the

unsuccessful project in February 2012 after investing approximately \$6.4 million over 4 years and commenced an RCA to determine why the scheduling system did not meet expectations and to better understand what policy and process improvements were needed to prevent a repeat occurrence. Although the final report from the RCA for the scheduling system was not issued until August 2012, approximately 2 months after the hiring system contract was signed, the procurement organization and the IT Project Management Office were aware of the issues with the scheduling system and had addressed them with updates to the SLC, which was mandatory for the hiring system project.

Despite the hiring system project team being aware of the challenges that emerged from the terminated scheduling system project, the two systems shared several disturbing characteristics. For example, the scheduling system project also had an aggressive timeline, was prematurely launched, lacked continuity because of the turnover of project managers in the IT Project Management Office, and resulted in the acceptance of nonconforming deliverables. Additionally, we noted that the hiring and scheduling system procurements shared a lack of due diligence regarding customer references. With regard to the scheduling system references, Bonneville found that it had not sought out and conducted the customer references independently by permitting the vendor to facilitate and attend the customer reference visits. This resulted in Bonneville's failure to identify that customers were using the system differently than how Bonneville intended. In the case of the hiring system references, as previously discussed, Bonneville was unable to demonstrate that it contacted the vendor's largest customer which had encountered issues with the system.

The introspective RCA process that took place for both the hiring and scheduling systems provided a valuable learning opportunity to understand gaps in both policy and procedures related to IT procurements. As a result of the recommendations from the latest hiring system RCA, Bonneville's IT Project Management Office informed us that it had completed implementing the corrective actions that addressed the RCA's recommendations. Implementation of these corrective actions should help reduce repeat occurrences thus providing additional assurance that ratepayer funds are used effectively.

Impact and Path Forward

As a result of not following its procurement policies and IT processes, Bonneville accepted and paid approximately \$5.2 million for a hiring system that did not meet its requirements. Based on documentation provided by Bonneville, it realized little of the estimated \$6.4 million in savings proposed by the HCM business case, which was required to justify its need to develop or purchase a system. According to the project manager, Bonneville actually incurred additional, unexpected costs to implement the hiring system. For example, Bonneville hired additional contractor employees to assist with unexpected change management issues that developed during implementation of the hiring system. These costs will ultimately be borne by Bonneville ratepayers.

Additionally, a poorly written contract led to disputes with the vendor that adversely affected Bonneville operations. For example, at one point, a Bonneville attorney asserted that the vendor had breached the contract by disabling certain access rights to the hiring system; however,

without the mandated clauses in place to clearly protect its rights, Bonneville endured lengthy discussions with the vendor to resolve the issue. Access was restored in March 2014, after Bonneville issued a cure notice to the vendor.

In June 2014, Bonneville notified the vendor that it was terminating the contract for convenience, citing reasons unrelated to the issues we identified in our audit. Specifically, a Bonneville Contracting Officer stated that there was a change in the Government's requirements resulting in Bonneville not using most of the hiring system's functionality. Bonneville decided to use the Department's hiring system, rather than maintaining its own system. In September 2014, a settlement agreement was reached with the vendor, which resulted in the complete resolution of all claims and issues related to the contract. The agreement included paying approximately \$1.6 million, an amount equivalent to the remainder of the contract's base period.

RECOMMENDATIONS

We recommend the Administrator, Bonneville Power Administration, direct appropriate Bonneville officials to:

1. Reinforce supervisory accountability and the contract review process to strengthen compliance with the Purchasing Instructions and to increase the quality of contracts.
2. Develop a process to ensure that the contract clauses mandated by the Purchasing Instructions are included in contracts and required documentation is included in the official contract files.
3. Clarify the requirements in the Purchasing Instructions and strengthen respective procurement processes related to (1) use of mandatory contract clauses, (2) COTR roles and responsibilities, (3) proper use of GSA schedule contracts, and (4) General Counsel review of contract actions.
4. Develop guidance for evaluation of past performance to increase the value of past performance data during the source selection process.
5. Provide Contracting Officers training for GSA contracting and cost/price analyses documentation, as well as emphasis of the need to enforce contract terms, conditions, and deliverables.
6. Ensure the SLC process for IT projects is followed, including reinforcing the oversight role of the APSC, validating system performance, and conducting gap analyses.
7. Ensure corrective action plan items from the August 2013 hiring system RCA have been successfully implemented.

MANAGEMENT RESPONSE

Management concurred with the report's recommendations and provided corrective actions, some of which have already been taken, to address the issues identified in this report. Specifically, Bonneville has established procedures that provide a more thorough compliance and quality review process of contracts and ensure appropriate management oversight. In addition, Bonneville created compliance processes to provide clear guidance on the use of clauses and post-award audit controls to ensure policy compliance. Bonneville also planned to modify the Purchasing Instructions to clarify the use of GSA schedule contracts and standardized the Award Decision to require details on the past performance evaluation. Further, to clarify contract administration activities and duties, Bonneville will enhance training for contract specialists and COTRs and will develop and conduct training on the use of GSA schedule contracts. Lastly, Bonneville revised its SLC guidance in April 2015 that clarified the APSC's role in IT project oversight and improved processes and tools.

Management's comments are included in Appendix 3.

AUDITOR COMMENTS

Management's comments and corrective actions were responsive to our recommendations.

OBJECTIVE, SCOPE, AND METHODOLOGY

Objective

The objective of the audit was to determine the facts and circumstances surrounding allegations that the Bonneville Power Administration's (Bonneville) procurement of information technology systems were mismanaged resulting in the waste of Bonneville funds.

Scope

The audit was conducted between November 2013 and August 2015, at the Bonneville Power Administration in Portland, Oregon. Our audit included a review of the Bonneville Purchasing Instructions and system lifecycle process in effect at the time of the procurement of the Talent Acquisition System (hiring system) in fiscal year 2012. We also performed a limited review of the Bonneville root cause analysis for the Work Planning and Scheduling System project which terminated in fiscal year 2012. The audit was conducted under Office of Inspector General project number A14DN007.

Methodology

To accomplish our objective, we:

- Interviewed key Bonneville officials associated with the hiring system project.
- Reviewed and evaluated applicable laws, regulations, policies, and procedures pertaining to Bonneville procurement activities.
- Reviewed and evaluated Bonneville documentation associated with the procurement of the hiring system.
- Reviewed and evaluated the root cause analysis of the Work Planning and Scheduling System.

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 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. In particular, we assessed the implementation of the *GPRA Modernization Act of 2010* as it related to our objective and found that Bonneville had established performance measures related to the procurement of the hiring system. 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 relied on computer-processed data to some extent related to contract payments. We confirmed the validity of such data, as appropriate, by reviewing source documents. Management waived the exit conference.

RELATED REPORTS

Office of Inspector General

- Audit Report on [*The Department of Energy's Management of Cloud Computing Activities*](#) (DOE/IG-0918, September 2014). This review identified that the Department of Energy (Department) had not always established contracts with cloud computing service providers that ensured effective controls over the management of stored or transmitted information. Specifically, contract clauses that permitted the Department access to the cloud service provider's operations, documentation, and databases were not always incorporated into a majority of contracts with cloud computing service providers reviewed.
- Special Inquiry Report on [*Review of Allegations Regarding Prohibited Personnel Practices at the Bonneville Power Administration*](#) (DOE/IG-0895, October 2013). The special inquiry identified that Bonneville's hiring practices disadvantaged veterans and other applicants by consistently manipulating its applicant rating processes. Despite specific requirements to do so, Bonneville did not fully disclose to the Department that the inappropriate personnel practices had occurred, nor did it disclose the adverse impact on veterans and other applicants. In addition, Bonneville neither notified the affected applicants nor did it initiate corrective actions required to remedy the inappropriate practices. Further, the report identified that Bonneville refused to use the Department's common hiring information system, and instead, Bonneville elected to use a different system rather than using the system all of the Department's other 17 human resources offices are using.
- Audit Report on [*Management of Bonneville Power Administration's Information Technology Program*](#) (DOE/IG-0861, March 2012). This review identified concerns in the areas of cybersecurity, project management, and procurement of information technology (IT) resources. Specifically, Bonneville had not fully implemented access and operational controls designed to address known system vulnerabilities. Further, several system development efforts suffered from cost, scope, and schedule issues. Bonneville's IT software was not always procured in a coordinated manner, which also increased security risks. The issues identified were due, at least in part, to inadequate implementation of policies and procedures related to security and project management.

Government Accountability Office

- Report to Congressional Committees on [*Forest Service Business Services: Further Actions Needed to Re-examine Centralization Approach and to Better Document Associated Costs*](#) (GAO-11-769, August 2011). This review analyzed whether centralization of Forest Service's budget and finance, human resources management, and IT divisions achieved its intended efficiencies and cost savings. The Forest Service could not reliably demonstrate cost savings resulting from centralization. The report also found that negative repercussions and inefficiencies for field unit employees

occurred from centralization. For example, an automated hiring system was difficult to use, which reportedly disrupted and delayed the business operations for the human resources management division.

MANAGEMENT COMMENTS



Department of Energy

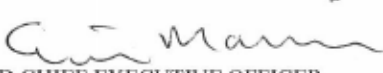
Bonneville Power Administration
 P.O. Box 3621
 Portland, Oregon 97208-3621

EXECUTIVE OFFICE

July 9, 2015

In reply refer to: NS

MEMORANDUM FOR RICKEY R HASS (IG-30)
 DEPUTY INSPECTOR GENERAL FOR AUDITS
 AND INSPECTIONS

FROM: ELLIOT E. MAINZER 
 ADMINISTRATOR AND CHIEF EXECUTIVE OFFICER

SUBJECT: RESPONSE TO DRAFT SPECIAL REPORT: "ALLEGATIONS REGARDING
 INFORMATION TECHNOLOGY PROCUREMENT AT BONNEVILLE POWER
 ADMINISTRATION"

The Bonneville Power Administration appreciates the opportunity to comment on the Office of Inspector General's draft special report. We agree with the recommendations and have placed a high priority on strengthening our information technology procurement process. Our response to each of the recommendations is below.

Recommendation 1: *Reinforce supervisory accountability and the contract review process to strengthen compliance with the Purchasing Instructions and to increase the quality of contracts.*

Management Response: Concur: BPA has established a Procurement Operating Procedure that provides a more thorough compliance and quality review process and ensures appropriate management oversight. New performance standards reinforce accountability, from the supervisory level down to the contract specialist. We are developing and delivering training for contracting professionals to strengthen compliance and contract quality. This recommendation will be fully implemented by June 30, 2016.

Recommendation 2: *Develop a process to ensure that the contract clauses mandated by the Purchasing Instructions are included in contracts and required documentation is included in the official contract files.*

Management Response: Concur: We have developed a clause matrix that provides clear guidance on the use of clauses within BPA procurements. We also developed and integrated a requirements checklist into the contracting process to track metrics on procurement compliance requirements and document review findings. We established post-award audit controls to ensure policy compliance. This recommendation will be fully implemented by June 30, 2016.

Recommendation 3: *Clarify the requirements in the Purchasing Instructions and strengthen respective procurement processes related to (1) use of mandatory contract clauses, (2) Contracting Officer's Technical Representative (COTR) roles and responsibilities, (3) proper use of General Services Administration (GSA) schedule contracts, and (4) General Counsel review of contract actions.*

Management Response: Concur: The Head of Contract Activity and the operational contracting office will modify the Bonneville Purchasing Instructions to clarify the use of GSA schedule contracts and the requirements for deviating from procurement policy. BPA will develop and conduct training on the use of GSA schedule contracts and review and update COTR training to clarify roles and responsibilities. The operational contracting office will require General Counsel's review, per Purchasing Instructions. This recommendation will be fully implemented by June 30, 2016.

Recommendation 4: *Develop guidance for evaluation of past performance to increase the value of past performance data during the source selection process.*

Management Response: Concur: BPA standardized its requirement within the Document of Award Decision, which now requires details on the past performance evaluation. Quality controls for this requirement are established in the compliance and quality procedure. BPA is also developing training for contract specialists on requesting and analyzing past performance. This recommendation will be fully implemented by June 30, 2016.

Recommendation 5: *Provide Contracting Officers training for GSA contracting and cost/price analyses documentation, as well as emphasis of the need to enforce contract terms, conditions, and deliverables.*

Management Response: Concur: BPA will enhance training for contract specialists and COTRs to clarify contract administration activities and duties. Additional training will be conducted to reflect Purchasing Instruction amendments on the use of GSA schedule contracts. Specific training on the use of GSA schedule contracts is now required for level 1 contract specialist certification. This recommendation will be fully implemented by June 30, 2016.

Recommendation 6: *Ensure the SLC process for IT projects is followed, including reinforcing the oversight role of the APSC, validating system performance, and conducting gap analysis.*

Management Response: Concur: The Systems Life Cycle version 4.2, published in April 2015, clarifies the Agency Prioritization Steering Committee's role in IT project oversight, and includes improved processes and tools around the Business Readiness Assessment, Technical and Quality Assessment, and Project Health Assessment. This recommendation has been fully implemented and is pending verification from internal audit.

Recommendation 7: *Ensure corrective plan items from the August 2013 hiring system RCA have been successfully implemented.*

Management Response: Concur: All of the recommended actions in the Root Cause Analysis were completed by April 2015. This recommendation has been fully implemented and is pending verification from internal audit.

We are committed to addressing the remaining weaknesses in our procurement practices and establishing first-rate purchasing procedures and IT program management, which are critical to maintaining the region's trust in BPA to carry out its mission.

FEEDBACK

The Office of Inspector General has a continuing interest in improving the usefulness of its products. We aim to make our reports as responsive as possible and ask you to consider sharing your thoughts with us.

Please send your comments, suggestions, and feedback to OIG.Reports@hq.doe.gov and include your name, contact information, and the report number. You may also mail comments to us:

Office of Inspector General (IG-12)
Department of Energy
Washington, DC 20585

If you want to discuss this report or your comments with a member of the Office of Inspector General staff, please contact our office at (202) 253-2162.