

May 2, 1997

MEMORANDUM FOR THE SECRETARY

FROM: John C. Layton
Inspector General

SUBJECT: INFORMATION: Report on "Audit of the Use of
Intra-Departmental Requisitions"

BACKGROUND:

The Department of Energy's network of management and operating contractors, as well as other prime contractors, procure over \$270 million in goods and services from each other on an annual basis through intra-Departmental requisitions. The purpose of the audit was to determine whether the use of intra-Departmental requisitions was appropriate.

DISCUSSION:

The audit disclosed that the Department's prime contractors did not always use intra-Departmental requisitions appropriately. Our review showed that 40 of 104 intra-Departmental requisitions were used to (1) acquire goods and services that were commercially available; (2) obtain goods and services which were not part of the performing contractor's mission; (3) procure the services of subcontractors; and (4) augment staffing. As a result, the Department cannot be certain that goods and services procured with these requisitions were cost effective. For example, on two requisitions the Department could have saved almost \$850,000 out of \$1.6 million if the prime contractors had used normal procurement channels and competed the acquisitions. In other instances, using intra-Departmental requisitions resulted in multiple overhead rates being added to the cost of the goods or services procured.

We recommended that the Department issue criteria to all field sites and their respective contractors. We also recommended that Operations Office managers implement policies and procedures regarding the use of intra-Departmental requisitions and instruct contractor procurement offices to be more involved in helping requesting organizations determine the most appropriate and economical method of acquiring goods and services. Department management generally agreed with the recommendations in the report.

The Department can use this opportunity to establish performance measures for contractors that ensure the proper use of the intra-Departmental requisition process. These performance measures can be included in the Business Management Oversight Program and regularly reviewed to ensure the appropriate use of the requisition process.

Attachment

cc: Deputy Secretary
Under Secretary

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U.S. DEPARTMENT OF ENERGY
OFFICE OF INSPECTOR GENERAL

AUDIT OF THE USE OF INTRA-DEPARTMENTAL REQUISITIONS

Report Number: DOE/IG-0403 Western Regional Audit Office
Date of Issue: May 1997 Albuquerque, New Mexico 87185

AUDIT OF THE USE OF INTRA-DEPARTMENTAL REQUISITIONS

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U. S. DEPARTMENT OF ENERGY
OFFICE OF INSPECTOR GENERAL
OFFICE OF AUDIT SERVICES

AUDIT OF THE USE OF INTRA-DEPARTMENTAL REQUISITIONS

Audit Report Number: DOE/IG-0403

SUMMARY

The Department of Energy's (Department) network of management and operating contractors, as well as other prime contractors, procure over \$270 million in goods and services from each other on a yearly basis by using intra-Departmental requisitions. The objective of the audit was to determine whether intra-Departmental requisitions were used appropriately. Specifically, that they were not used to (1) obtain commercially available goods and services; (2) acquire services outside the performing contractor's mission; (3) procure the services of subcontractors; and (4) augment staffing.

The audit disclosed that the Department's prime contractors did not use intra-Departmental requisitions appropriately for 40 of the 104 requisitions reviewed. As a result, the Department did not always receive the most cost effective goods and services. For example, on two requisitions the Department could have saved almost \$850,000 out of \$1.6 million if the prime contractors had used normal procurement channels and competed the acquisitions. In other instances, using intra-Departmental requisitions resulted in multiple overhead rates being added to the cost of the goods or services procured.

We recommended the Department issue criteria on the use of intra-Departmental requisitions. We also recommended operations Offices establish policies and procedures over the use of these requisitions and provide a stronger emphasis on the appropriate use of intra-Departmental requisitions through contractor instruction and yearly reviews. Department management generally concurred with the finding and recommendations and agreed to initiate action on the recommendations in the report. Management comments are included in Part III of this report.

_____ (signed) _____

OFFICE OF INSPECTOR GENERAL

PART I

APPROACH AND OVERVIEW

INTRODUCTION

Each year, the Department's network of management and operating contractors, as well as other prime contractors, procure over \$270 million in goods and services from one another by using intra-Departmental requisitions. The objective of the audit was to determine whether this use of intra-Departmental requisitions was appropriate. Specifically, that they were not used to (1) obtain commercially available goods and services; (2) acquire services outside the performing contractor's mission; (3) procure the services of subcontractors; and (4) augment staffing.

SCOPE AND METHODOLOGY

The audit was conducted between September 1995 and September 1996 at Department Headquarters and at the Operations Offices in Albuquerque, Idaho, Oakland, and Oak Ridge. In addition, audit work was conducted at management and operating contractors at Sandia National Laboratories in Albuquerque and Livermore (Sandia); Lawrence Livermore National Laboratory in Livermore (Lawrence Livermore); Lockheed Martin Energy Systems in Oak Ridge (Energy Systems); and Lockheed Idaho Technologies Company (Lockheed Idaho) in Idaho Falls.

To accomplish the audit objectives, we:

- o reviewed applicable laws, regulations, and policies;
- o reviewed local guidance and procedures over intra-Departmental requisitions;
- o obtained Departmental contracts to identify mission statements;
- o reviewed prior audit reports;
- o reviewed intra-Departmental requisitions; and,
- o interviewed Department and contractor officials concerning the goods and services provided from the sampled requisitions.

We judgmentally sampled and reviewed, based on the description of services, 104 intra-Departmental requisitions valued at approximately \$46.1 million, from contractor provided listings for Fiscal Years 1994, 1995, and 1996. Some of the requisitions were initiated prior to the fiscal years reviewed and as far back as 1988. Of the 104 requisitions sampled, we questioned the appropriateness of 40 for one or more reasons. Therefore, some duplication may exist for requisitions with multiple discrepancies. Because the contractors' systems did not readily identify or distinguish between the initial requisition and related modifications, we were unable to determine the total population of requisitions at the sites audited.

Since the audit did not rely extensively on computer-processed data, we did not fully examine the reliability of that data. The audit was conducted according to generally accepted Government auditing standards for performance audits, which

included tests of internal controls and compliance with laws and regulations to the extent necessary to satisfy the audit objectives. We assessed significant internal controls with respect to the audit objectives. 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. Internal control weaknesses disclosed by the audit are discussed in Part II. In our opinion, the finding in this report disclosed material internal control weaknesses that the Department should consider when preparing its year-end assurance memorandum.

Department officials waived an exit conference.

BACKGROUND

Department acquisition regulations require that contractors' purchasing systems and methods ensure competitive subcontracting for supplies and services essential for their missions. The Department, however, recognizes that its contractors may occasionally require specialized or unique goods, services, and expertise available only from within its network of contractors. In order to facilitate the acquisition of such goods and services, the Department implemented an intra-Departmental requisition process. In Fiscal Year 1995, the Department's network of prime contractors procured over \$270 million in goods and services by using intra-Departmental requisitions. Prior to Fiscal Year 1995, Department contractors could purchase goods and services from each other by using Memorandum Purchase Orders or Integrated Contractor Orders (purchase orders). In response to deficiencies identified in an Office of Inspector General (OIG) audit report, Audit of Controls Over Superconducting Super Collider Subcontract Expenditures (DOE/IG-0336), the Department implemented an Inter-Office Work Order (work order) process for work exceeding \$100,000. For purchases under \$100,000, contractors could continue to use purchase orders. In this report, both acquisition methods (purchase orders and work orders) are referred to as intra-Departmental requisitions. The audit focused on the appropriate use of the intra-Departmental requisition process, not the specific intra-Departmental method used to procure the services. Additionally, we did not determine whether the products or services were needed and therefore do not comment in this audit report on the necessity of products or services procured.

The OIG has addressed the issue of intra-Departmental requisition process as far back as 1988. In July 1988, an OIG report on the "Audit of Selected Aspects of the Management of the Engineering Prototype Group Rocky Flats Plant, Golden, Colorado" (DOE/IG-0256), identified improper charges for items provided to other Department contractors. Further, the production of these items and the associated costs were expressly prohibited by the Department's contract with the contractor operating the Rocky Flats Plant. The "Audit of Lawrence Livermore National Laboratory Orders for Memorabilia" (DOE/IG-0263) was a follow-up to the Rocky Flats audit. The audit disclosed that certain Livermore program groups had avoided conventional requisition procedures to procure plaques, memorabilia and similar items from the Engineering

Prototype Group at Rocky Flats. Additionally, the documentation was not sufficient to determine the basis for most of the procurements or their cost. As a result of these audits and certain parallel actions, the operating contractors for Livermore and Rocky Flats agree to a \$1.1 million settlement of related issues. The current audit identified additional problems with the intra-Departmental requisition process at Livermore in 1996.

PART II

FINDING AND RECOMMENDATIONS

Use of Intra-Departmental Requisitions

FINDING

In its most recent position on the use of intra-Departmental requisitions to acquire goods and services from contractors, the Department concluded that such actions would be appropriate only if the goods, services, or expertise were unique to the Department and, thus, not commercially available. In addition, the Department required that the work requested be part of the performing contractor's mission; otherwise, the contractors should use existing procurement procedures (subcontracting) to acquire the necessary goods, services, and expertise. As such, the intra-Departmental requisition process should not be used to support staffing requirements under normal operating conditions. The Department's contractors, however, did not always use intra-Departmental requisitions appropriately. Specifically, they did not limit acquisitions to unique goods, services, or expertise or assure those services were within the performing contractors mission. Intra-Departmental requisitions were used to (1) acquire goods and services that were commercially available; (2) obtain goods and services which were not part of the performing contractor's mission; (3) procure the services of subcontractors; and (4) augment staff. This occurred because contractor procurement officials have not adequately implemented policies and procedures regarding the use of intra-Departmental requisitions. Personnel at both the Department and contractor level used the intra-Departmental requisition process because they assumed that this process was more efficient and more cost effective. In addition, the Department's position on the use of intra-Departmental requisitions, based on a prior OIG audit report, was not effectively publicized and circulated as specific guidance to Department field offices/elements and their respective contractors. As a result of not limiting the intra-Departmental requisitions to acquiring unique goods, services, and expertise, the Department cannot be certain that the goods and services procured with these requisitions were at the least cost to the Government. On two requisitions, for example, the Department could have saved almost \$850,000 out of approximately \$1.6 million if the contractors had used normal procurement channels to compete the work. In other instances, using intra-Departmental requisitions resulted in multiple overhead rates being added to the cost of the goods or services.

RECOMMENDATIONS

1. We recommend that the Director, Office of Contractor Management and Administration, issue the criteria established under the Departmental position for the Superconducting Super Collider audit as policy and distribute it to all Department sites.
2. We recommend that the Managers, Albuquerque, Idaho, Oakland, and Oak Ridge Operations Offices:
 - a) develop policies and procedures that include, but are not limited to, the applicable Departmental position criteria addressing the appropriate use of intra-Departmental requisitions;
 - b) instruct contractor procurement officials to take a stronger role in helping requesters determine the most appropriate and economical method of acquiring goods and services; and,
 - c) include the intra-Departmental requisition method as part of the Business Management Oversight Program reviews.

MANAGEMENT REACTION

The Department and management of the Albuquerque, Idaho, Oakland, and Oak Ridge Operations Offices generally concurred with the finding and recommendations. Part III of this report includes detailed management and auditor comments.

DETAILS OF FINDING

The Department of Energy Acquisition Regulation requires that contractors' purchasing systems and methods ensure competitive subcontracting for goods and services. The Department, however, recognizes that a contractor may occasionally require unique goods and services available only from other contractors in the Department's network of management and operating and integrated contractors. In order to facilitate the acquisition of these unique goods, services, and expertise, the Department implemented an intra-Departmental requisition process. Using this requisition process, which is essentially a form of sole-sourcing, contractors could eliminate many routine procurement actions such as cost estimates, cost or price analyses, rate verifications, and contract clauses inherent in the normal procurement process. Thus, requisitions made to other Departmental contractors could be completed in as little as two days compared to up to 90 days for requisitions through normal procurement channels.

In order to protect against the inappropriate use of intra-Departmental requisitions, the Department established a management position indicating when these requisitions could be used and gave ultimate responsibility for making that determination to its contractors. This position, which resulted from recommendations in a 1993 OIG audit report, Audit of

Controls Over Superconducting Super Collider Laboratory Subcontractor Expenditures (DOE/IG-0336), calls for a senior procurement official at the contractor level to approve intra-Departmental requisitions for unique goods, services, or special expertise acquired from another Department contractor. In addition, in its formal Departmental position on the 1993 audit, the Department concluded that approval should be given only if the work was not available from the private or public sector and only if the scope of work was consistent with the performing contractor's mission. By not specifying the use of intra-Departmental requisitions to procure goods and services from subcontractors, the Department confirmed that these requisitions were to be limited to Departmental contractors. Thus, if contractors want to obtain goods, services, or expertise from subcontractors, they should use normal procurement channels, not intra-Departmental requisitions. Requisitions to supplement normal staffing requirements, therefore, should also use the normal procurement channels or process.

USE OF INTRA-DEPARTMENTAL REQUISITIONS

The Department's contractors, however, did not always limit their use of intra-Departmental requisitions to procure unique goods, services, and expertise. Specifically, Department contractors used these requisitions to (1) acquire goods and services that were commercially available; (2) obtain goods and services which were not part of the performing contractor's mission; (3) procure the services of subcontractors; and (4) augment staff.

Commercially Available Goods and Services

Departmental contractors issued intra-Departmental requisitions to other contractors for goods and services that were commercially available. Of the 104 intra-Departmental requisitions reviewed under the scope of this audit, 25 procurement actions valued at approximately \$14.4 million were for goods or services that were available in the commercial and private sector and, thus, should have been obtained through the competitive procurement process. For example:

- o Lockheed Idaho. Lockheed Idaho issued an intra-Departmental requisition to Reynolds Electrical and Engineering Company, the prime contractor for the Nevada Test Site at that time, for bioassay analyses at a cost of \$777,500. A Lockheed Idaho representative stated that at least two commercial firms capable of conducting these analyses had originally bid on the bioassay work. Although the subcontract was initially awarded to the lowest commercial bidder, this company could not perform the analyses to the contractor's satisfaction. Rather than issue a subcontract to one of the remaining bidders or re-issue the bid, the Idaho Operations Office directed the contractor to issue an intra-Departmental requisition to Reynolds Electrical and Engineering. In this case, the cost of performing the work within the Department's network of contractors ranged from \$303 to \$567 per sample as compared to other bidders' sample costs of \$250 to \$283.

- o Sandia. Sandia also issued an \$855,000 intra-Departmental requisition to Reynolds Electrical and Engineering Company for bioassay sample analyses. According to Sandia, it used the intra-Departmental requisition process as an interim step until it could establish a new commercial contract. However, this interim period began in April 1994 and was to run through October 1996. Sandia established a new contract with a commercial firm in August 1996. Under the new commercial contract, the average unit sample cost is \$292; this amount was in contrast to the \$1,644 cost per sample incurred under the intra-Departmental requisition. We were unable to determine why Reynolds' cost per sample varied so significantly between this example and the Lockheed Idaho example.
- o Energy Systems. Energy Systems also used a \$225,360 intra-Departmental requisition to obtain services which were commercially available. For example, at least seven commercial entities in the Oak Ridge area were capable of performing the water sample analyses needed by Energy Systems. However, Energy Systems used an intra-Departmental requisition to sole-source the analytical work to Oak Ridge Associated Universities. According to procurement specialists in the environmental area and the technical representative overseeing the project, the work was commercially available and, in fact, several firms currently had or were performing similar subcontracts for Energy Systems.

Mission Related Requisitions

Departmental contractors used intra-Departmental requisitions to acquire services outside of the performing contractors' missions. The Department position on a prior OIG audit report stated that approval should be given only if the scope of work was within the performing contractor's mission. However, 9 of 104 requisitions reviewed during the audit, valued at nearly \$10.5 million, were used to acquire services outside of the performing contractors' missions as defined in their contracts with the Department.

- o Energy Systems. Energy Systems issued a requisition, valued at over \$6.9 million, to Oak Ridge Associated Universities for the recruiting, hiring, and training of personnel in both technical and administrative areas. According to the statement of work, these individuals, which were integrated with Energy Systems' survey teams and administrative support staff, made up nearly one half of Energy Systems' total staff at their Grand Junction office. The contract between the Department and Oak Ridge Associated Universities, however, stipulated that its mission was to arrange for and conduct special research and studies in energy related areas and to provide training programs related to energy related fields. Thus, Oak Ridge Associated University's mission did not include providing staff to supplement the work force of other contractors nor did it include recruiting and hiring personnel in technical and administrative functions to supplement staffs of other management and operating contractors.

- o Lockheed Idaho. Lockheed Idaho issued three requisitions, totaling almost \$1.6 million, to obtain services from a Department prime contractor in Butte, Montana -- Mountain States Energy. These services, however, were not part of Mountain States' mission which was to investigate and evaluate new technologies for treating mining wastes. The work obtained through the requisition, in contrast, included taking samples, logging sample data, and compiling the data into a report to support remedial investigation/feasibility studies. While these requisitioned services may have been needed to complete the remedial investigation/feasibility studies at the Idaho National Engineering Laboratory's waste sites, they were not within Mountain States' mission. Lockheed Idaho justified using the intra-Departmental requisition process rather than a competitive procurement because many Mountain States' employees were former Laboratory employees and, thus, were familiar with its operations. Familiarity with the Laboratory's operations, however, is not an adequate justification for using another Departmental contractor when commercial firms in the area are able to provide the needed service. Since these services were not in Mountain States' mission or unique to the Department, the requisitions should have been issued as competitive bids.

Requisitioning Services from Subcontractors

Contractors also used intra-Departmental requisitions to obtain services from subcontractors of other Departmental contractors. In these instances, the intra-Departmental requisitions actually functioned as pass-through procurements, thereby avoiding the competitive procurement process. In this pass-through procurement process, contractors who were requisitioned to perform the work only handled the money transfer and added their applicable indirect charges; thus, they did not provide any significant value-added to the work. Of 104 requisitions reviewed, 9 valued in excess of \$4.9 million were issued as pass-through procurements.

- o Lawrence Livermore. Livermore issued two intra-Departmental requisitions totaling \$982,740 that we classified as pass-through procurements. A review of invoices and direct labor charges supporting the requisitions found that the requested management and operating contractors provided no significant benefit to the requisition. One requisition valued at \$128,134 acquired the technical services of an individual subcontractor for Raytheon Corporation, a prime contractor at Nevada. This individual, a recently retired Livermore employee, became a "technical advisor" to Raytheon for use on an as-needed basis; however, 95 percent of the work performed during his time as a technical advisor was performed for Lawrence Livermore, not Raytheon. By using an intra-Departmental requisition rather than subcontracting directly, Lawrence Livermore incurred charges not only for the services of the technical advisor but also for Raytheon's indirect and general and administrative costs. In fact, even though this individual was considered a part-time casual employee at Raytheon and did not receive

any fringe benefits, the charges to Lawrence Livermore included a 33 percent fringe rate. These and other added costs resulted in a 49 percent increase for the services provided.

Livermore also issued another intra-Departmental requisition for \$854,606 to Sandia to perform a records inventory. This requisition, too, was a pass-through procurement because Sandia subcontracted the majority of the work to a commercial firm. Since this firm had previously provided assistance to Sandia in performing its record inventory, Department Headquarters directed Sandia to modify its subcontract to include the inventory work at Lawrence Livermore. In this case, Sandia's role was limited to providing a previously developed database of document types and overseeing the subcontractor's inventory efforts. Out of about \$847,000 in billings to Livermore for inventory services, for example, Sandia incurred only \$939 in direct labor and overhead charges. The remaining charges included Sandia's applicable indirect charges which were added to the cost of services performed by the subcontractor.

- o Sandia. Sandia issued an intra-Departmental requisition to Energy Systems for \$102,000 to decontaminate and decommission contaminated rooms in three Sandia facilities. However, Energy Systems did not perform the work itself; instead, it issued a subcontract to IT Corporation. The deliverable, which was a draft final report outlining an action plan, had the phrase "Prepared by IT Corporation / Nuclear Services" inscribed on the cover. In addition, one invoice -- from Energy Systems to Sandia -- for approximately \$45,000 showed that over \$42,000 of the invoice was for subcontract work performed by IT. Instead of using an intra-Departmental requisition, Sandia could have subcontracted directly with IT Corporation and, thus, would have eliminated Energy Systems' indirect costs.

Pass-through procurements, however, were not limited to subcontractors. In at least one instance, Sandia passed work received from one prime contractor to another prime contractor. In this case, Westinghouse Hanford issued an intra-Departmental requisition to Sandia for the construction of a command trailer. Instead of performing all of the work itself, however, Sandia issued an intra-Departmental requisition for almost \$322,700 to Allied Signal because it had more experience in trailer construction. Thus, Sandia did not provide a significant amount of effort to accomplish the scope of work; i.e., to construct a command trailer. Consequently, this may not have been the most economical method of procuring the trailer.

Augmentation of Staff

In other instances, contractors used intra-Departmental requisitions to augment staff levels. Of the requisitions reviewed, six valued at approximately \$1.9 million were used to augment contractor staffs.

- o Energy Systems. Energy Systems used an intra-Departmental requisition for \$1.43 million to augment the staff of the Y-12 Plant at Oak Ridge. For the past eight years, Energy Systems used these requisitions to obtain the services of three environmental monitoring technicians. Although these employees purportedly worked for Oak Ridge Associated Universities, the technical representative from Energy Systems has approved all leave requests, completed performance ratings, and verified and approved timecards for these technicians for at least three years. During this time period, therefore, these technicians appeared to be Energy Systems employees.
- o Lawrence Livermore. Lawrence Livermore had issued two consecutive requisitions for a total of almost \$87,000 to a specific Energy Systems employee to perform environmental risk assessments. This individual, previously assigned to Energy Systems' Grand Junction office, relocated to the Livermore area and established residence. A discussion with this individual affirmed the employee's intention of continuing to work at Livermore indefinitely. Energy Systems' own actions also confirmed these employment plans. Energy Systems provided this employee with a cost of living allowance rather than paying the normal travel costs for temporary assignments such as intra-Departmental requisitions.

While these two examples show that intra-Departmental requisitions were used to augment staffs, other requisitions resulted in the individuals eventually obtaining full-time employment with the requesting contractor. For example, one individual was on an intra-Departmental requisition to Lawrence Livermore for seven years before continuing in that same position as a full-time Lawrence Livermore employee. While we do not criticize the eventual hiring of these individuals, or any of the individuals discussed in this section, we do question the use of the intra-Departmental requisitions process to acquire their services for extended periods.

MANAGEMENT CONTROLS

The audit showed that, similar to other audit findings by the OIG, weaknesses occurred in issuing intra-Departmental requisitions because contractor procurement officials have not adequately established or implemented policies or procedures. These recent OIG audits (see appendix) showed that contractors' procurement systems lacked adequate controls over justifying sole-source procurements. Recent audit reports at the Idaho National Engineering Laboratory and Los Alamos National Laboratory, for example, criticized the adequacy of justifications when contractors issued sole-source subcontracts for consulting agreements. These reports recommended that internal controls be established to reject subcontracts if they are not adequately justified. Our audit found a similar problem; that is, contractors have not established adequate policies and procedures over issuing intra-Departmental requisitions. Out of the four contractor sites visited, for instance, only Lawrence Livermore had established a comprehensive policy for acquiring goods or services from another contractor. Further, based on the audit

results, even Livermore still needed to establish internal controls to ensure the policy was followed.

In addition, as requests for intra-Departmental requisitions were received from the contractor's technical representatives, contractor procurement officials were reluctant to scrutinize the requests and require the requester to issue a subcontract rather than an intra-Departmental requisition. Several procurement officials stated that they were in a customer service role with their main goal to meet their requesters' needs. As such, procurement officials rarely criticized or questioned a customer's request for an intra-Departmental requisition when it was accompanied by a sole-source justification form.

Further, contractor personnel routinely used the intra-Departmental requisition process because they believed that the process was more efficient and that the services acquired from other prime contractors were more cost effective. Personnel also pointed out that procuring goods or services using an intra-Departmental requisition took a matter of days rather than the months needed to issue a contract. One individual estimated it could take as long as six months to get a new subcontract issued. According to one procurement official, as a result of streamlining efforts, the average time to issue a subcontract was reduced to approximately five weeks at one site. Even if the intra-Departmental requisition process was more convenient, its use does not justify bypassing the controls inherent in the competitive procurement process. A review of 25 requisitions disclosed that no comparisons had been conducted that demonstrated procuring goods and services from prime contractors was more cost effective than obtaining goods and services from the commercial or private sector.

Also, intra-Departmental requisitions continue to be used inappropriately because the Departmental position for the Superconducting Super Collider audit (DOE/IG-0336), which defined the use of intra-Departmental work orders, was not adequately publicized or circulated for implementation. For example, the 1993 audit report recommended that the Department establish appropriate policy and procedures for procurement actions between the Department's laboratories. Rather than establish or publish specific guidance, however, Department management issued a position paper stating that senior procurement officials at the contractor level would determine whether the scope of work justified using intra-Departmental requisitions. If these officials determined that the requisition was not procuring unique goods, services, or special expertise, they were to utilize normal procurement channels. This position, however, was never officially implemented as Department guidance or policy. For example, procurement officials were neither told what kind of goods, services, or expertise would constitute "unique," nor were they provided with specific limitations for using intra-Departmental requisitions. Furthermore, the Department did not disseminate this general position either to contractor procurement officials or to cognizant field offices/elements for implementation. During the course of this review, none of the contractor procurement personnel we visited, and only a few of

the operations office personnel, were familiar with the Departmental position. None recalled receiving any guidance on the use of intra-Departmental requisitions.

Finally, the Department established the Business Management Oversight Program process in March 1995 to reduce the number of reviews being conducted by the Department over its contractors' operations. The process now calls for an annual two week multidisciplinary review or a "for cause" review based on weaknesses identified during self-assessments or by other outside reviews. Since this process was established after the Departmental position on the Superconducting Super Collider, not all Department sites included the intra-Departmental requisition process as part of the Business Management Oversight Program review process. The Department could establish an effective control for ensuring appropriate use of intra-Departmental requisitions by including these requisitions as part of this new review process. Given the scope of the finding in this report, we concluded a material internal control weakness existed and that "for cause" reviews into the widespread use of intra-Departmental requisitions should be initiated.

PROGRAM SAVINGS

As a result of inappropriately using the intra-Departmental requisition process, the Department did not always receive the most cost effective goods or services possible. If prime contractors had competed the two intra-Departmental requisitions for bioassay analysis, for example, we estimated that almost \$850,000 of the approximate \$1.6 million cost could have been saved. In addition, the pass-through procurements discussed in this report resulted in the contractors unnecessarily incurring additional overhead costs. In fact, individuals at three different sites commented on what they described as the "taxation effect" inherent in issuing intra-Departmental requisitions. One individual pointed out that intra-Departmental requisitions resulted in the Department's spending from \$3 to \$6 to receive \$1 of effort. Consequently, if the Department restricted the intra-Departmental requisition process to acquiring only those goods, services, and expertise that are unique to Department contractors, it would have more direct funding available to carry out its programs.

PART III

MANAGEMENT AND AUDITOR COMMENTS

Department management generally concurred with our report. Responses were received from the Department's Deputy Assistant Secretary for Procurement and Assistance Management and the Albuquerque, Idaho, Oakland, and Oak Ridge Operations Offices. A summary of management comments and our responses follows. The Deputy Assistant Secretary for Procurement and Assistance Management's comments are included in their entirety as Appendix B.

Recommendation 1. Issue the criteria established under the Departmental position for the Superconducting Super Collider audit as policy and distribute it to all Department sites.

Management Comments. The Deputy Assistant Secretary concurred and stated that additional guidance should be developed in this area to ensure the appropriate use of these instruments, as well as the economy and effectiveness of the purchase. The Department plans to issue an instrument (either regulation or acquisition letter) describing the proper use of intra-Departmental requisitions and establishing controls over their use.

Auditor Comments. Management's comments and actions taken are generally responsive to the recommendation.

Recommendation 2a. To the Managers, Albuquerque, Idaho, Oakland, and Oak Ridge Operations Offices: Develop policies and procedures that include, but are not limited to, the applicable Departmental position criteria addressing the appropriate use of intra-Departmental requisitions.

Management Comments. Management concurred with the recommendation and provided the following responses.

Albuquerque Operations Office. Albuquerque will develop policies and procedures that include applicable Departmental position criteria addressing the appropriate use of intra-Departmental requisitions. Furthermore, Albuquerque will review all management and operating contractor purchasing policies and procedures to ensure that they are compatible with the Departmental position criteria.

Idaho Operations Office. Idaho intends to coordinate with Department Headquarters on the policies and procedures that should be followed. Lockheed Idaho will be tasked to develop and implement local policies and procedures to ensure that appropriate and adequate competition is considered. The new policies and procedures will be in place by June 1997.

Oakland Operations Office. Upon receipt of the Department Headquarters criteria, Oakland will write Lawrence Livermore and request that policies and procedures be revisited and changed to reflect the latest criteria. Livermore will be required to submit changes for contracting officer's approval. These procedures will likely be "tri-lab" procedures (Livermore, Lawrence Berkeley, and Los Alamos National Laboratories) coordinated through the University of California.

Oak Ridge Operations Office. Management agreed to establish local policies and procedures once Department Headquarters policy was received.

Auditor Comments. Management's comments and actions planned are responsive to the recommendation.

Recommendation 2b. To the Managers, Albuquerque, Idaho, Oakland, and Oak Ridge Operations Offices: Instruct contractor

procurement officials to take a stronger role in helping requesters determine the most appropriate and economical method of acquiring goods and services.

Management Comments. Management concurred with the recommendation and provided the following responses.

Albuquerque Operations Office. Albuquerque will instruct contractor procurement officials to take a stronger role in helping requesters determine the most appropriate and economical method of acquiring goods and services.

Idaho Operations Office. This recommendation will be implemented in accordance with the terms and conditions of the contract. The policies and procedures developed by Lockheed Idaho will also address the role of procurement officials in helping requesters determine the most appropriate and economical method of acquiring goods and services. A review will be conducted by June 1997 to ensure Idaho Operations Office and Lockheed Idaho procurement and program representatives understand the new policies and procedures.

Oakland Operations Office. Upon receipt of the Department Headquarters criteria, Oakland will provide guidance for Lawrence Livermore procurement to help define the most economical method to procure goods and services considering uniqueness, cost, time, and other considerations.

Oak Ridge Operations Office. When policy is received from Department Headquarters, the contractor will be requested to develop and implement appropriate procedures.

Auditor Comments. Management's comments are responsive to the recommendation.

Recommendation 2c. To the Managers, Albuquerque, Idaho, Oakland, and Oak Ridge Operations Offices: Include the intra-Departmental requisition method as part of the Business Management Oversight Program reviews.

Management Comments. Management concurred with the recommendation and provided the following responses.

Albuquerque Operations Office. Albuquerque will provide this report to its management and operating contractors so that the issues will be addressed and assessed in contractors' business system self-assessment reports. The contractors' self-assessments of intra-Departmental requisitions will be reviewed during the annual Business Management Oversight Program reviews.

Idaho Operations Office. The Business Management Oversight Program review will become the primary means to ensure the new policies and procedures are being adhered to. The review referred to in management comments to recommendation 2b will baseline these type of transactions. Thereafter, the Business Management Oversight Program will be used to review these acquisitions.

Oakland Operations Office. Upon receipt of the Department Headquarters criteria, Oakland will consider whether intra-Departmental requisitions should be part of the Business Management Oversight Program review. However, the two individual methods of procurement are different and should be addressed separately (Interoffice versus Intraoffice).

Oak Ridge Operations Office. Management stated that it would be beneficial to include the intra-Departmental requisition method as part of the Business Management Oversight Program review process.

Auditor Comments. Management's comments and actions planned are generally responsive to the recommendation. The new policy to be issued by Headquarters will establish an internal control and review process that operations offices will have to follow.

APPENDIX A

PART IV

APPENDIX

Summary of Related Office of Inspector General Audit Reports

Listed below are prior OIG audit reports on internal control weaknesses with the contractors' procurement systems which are consistent with the results of this audit.

DOE/IG-0336, Audit of Controls Over Superconducting Super Collider Laboratory Subcontractor Expenditures, October 1993

The audit reported that inadequate justifications, accountability, and cost controls existed for \$143 million in expenditures made and \$47 million planned with other Department laboratory contractors. The OIG recommended establishing Departmental guidance for procurement actions between the laboratories.

WR-B-95-07, Consultant Subcontracting at the Idaho National Engineering Laboratory, June 1995

The audit reported that management and operating contractors generally did not award consultant subcontracts competitively and objectively. These problems occurred because the management and operating contractors' internal controls did not ensure sole-source procurements were adequately justified and potential conflicts of interest were avoided.

WR-B-96-05, Audit of Consultant Agreements at Los Alamos National Laboratory, February 1996

The audit showed that Los Alamos may not have acquired consultant agreements at the lowest cost because it did not prepare adequate sole-source justifications for 17 sole-source consultant agreements valued at \$842,900. The OIG recommended

the Department ensure proper sole-source justifications and enhance internal controls over consultant agreements.

DOE/IG-0351, Audit of Costs and Management of the Yucca Mountain Project, June 1994

The audit found that, if procurement and fund allocation practices were streamlined, significant savings in overhead costs could be achieved over the remaining life of the project. The audit concluded that a greater degree of Federal control of the project and a stronger role for the Project Office was needed.

DOE/IG-0256, Audit of Selected Aspects of the Management of the Engineering Prototype Group Rocky Flats Plant, Golden, Colorado, July 1988

The audit identified improper charges for items provided to other Department contractors. The production of these items and the associated costs were expressly prohibited by the Department's contract with the contractor operating the Rocky Flats Plant.

DOE/IG-0263, Audit of Lawrence Livermore National Laboratory Orders for Memorabilia, December 1988

The audit disclosed that certain Livermore program groups had avoided conventional requisition procedures to procure plaques, memorabilia and similar items from the Engineering Prototype Group at Rocky Flats. Additionally, the documentation was not sufficient to determine the basis for most of the procurements or their cost. As a result of these audits and certain parallel actions, the operating contractors for Livermore and Rocky Flats agreed to a \$1.1 million settlement of related issues.

APPENDIX B

April 15, 1997

MEMORANDUM FOR: GREGORY FRIEDMAN
OFFICE OF INSPECTOR GENERAL

FROM: RICHARD H. HOPF
DEPUTY ASSISTANT SECRETARY FOR
PROCUREMENT AND ASSISTANCE MANAGEMENT

SUBJECT: RESPONSE TO OFFICE OF INSPECTOR GENERAL
"AUDIT OF THE USE OF INTRA-DEPARTMENTAL
REQUISITIONS"

In response to your recommendations contained in the subject audit report, we have reviewed the process involving the use of Intra-Departmental Requisitions (IDRs) for the acquisition of property and services among the Department's major facilities management contractors. The review was conducted in conjunction with the Office of Financial Policy. We concur that additional guidance should be developed in this area to ensure the appropriate use of the IDR instrument, as well as the economy and

effectiveness of the purchase.

We propose to issue guidance which will:

- o Define IDRs as a procurement action when used for the transfer of goods and services between contractors.
- o Establish the standards or criteria for use of IDRs for purposes of acquiring goods and services from a contractor. Define the circumstances under which IDRs may be used as well as define the type of goods and services that would be appropriate.
- o Establish internal control processes necessary to ensure conformance with the standards or criteria.
- o Define the steps to be taken when standards or criteria relating to IDR use are not met.

If the described approach is acceptable, an appropriate instructional instrument (e.g. regulation, acquisition letter) will be drafted and coordinated with your office, the Chief Financial Officer and the field office elements. Our Office of Policy will lead in the development and coordination of the acquisition letter. If you would like to discuss this matter further, please call me at 586-8613 or Stephen J. Michelsen at 586-9956.

cc:

Helen Sherman, CR-20
Gwen Cowan, HR-51

Report No _____: DOE/IG-0403

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