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UNITED STATES GENERAL ACCOUNTING OFFICE
WASHINGTON, D.C. 20548

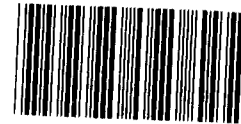
ENERGY AND MINERALS
DIVISION

SEPTEMBER 5, 1980

B-199916

The Honorable John D. Dingell
Chairman, Subcommittee on Energy
and Power
Committee On Interstate and
Foreign Commerce
House of Representatives

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Dear Mr. Chairman:

Subject: Department of Energy Procurement Activities
(EMD-80-114)

Recently, the Congress and the news media have focused considerable attention on the Federal Government's procurement and contracting practices. This focus has occurred in part because of alleged gross abuses in Federal procurement practices, and because of Congress' increased oversight as well as a desire to reduce Federal expenditures and balance the budget. The Department of Energy has come under considerable scrutiny largely because of the magnitude of its procurement expenditures--it reported contract obligations of over \$11 billion in fiscal year 1980.

Since the Department was established in 1977, we have been evaluating the Department's procurement practices both as a part of our reviews of selected procurement-related practices Government-wide, and on more narrow Department-related reviews. For example, we recently reported that the Department uses procedures which either avoid or restrict competition, such as permitting program officials to enter into informal commitments with contractors which are then subsequently approved by a contracting officer. ^{1/} This practice avoids competition and weakens the Department's overall control over contract awards since it takes place outside the usual procurement process. In another recent

^{1/}"The Department of Energy's Practices for Awarding Administrative Contracts Need to be Improved," EMD-80-21, Nov. 2, 1979.

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report, we concluded that consulting service contracts awarded by the Department of Energy and five other Federal agencies are often unnecessary, extensively awarded sole-source, and frequently modified, and that end products of such contracts are often not delivered on time. 1/

Because of the congressional interest in Federal procurement practices, and to support our own recent efforts in this area at the Department of Energy, we have worked to develop information, which may be of interest to you, showing where and how the Department procures goods and services. Basically, we sought information we believed we needed to plan and carry out future evaluations of Department procurement activities.

The information presented in the enclosure summarizes data on several important aspects of the Department's procurement processes. The enclosure includes information depicting the various contract categories, number of contracts, and amount of obligations for fiscal years 1979 and 1980; and discusses the Department's field operations offices and its contracts for operating Government-owned, contractor-operated facilities, including the Department's national laboratories.

We experienced considerable difficulty in developing information on the magnitude and scope of the Department's procurement activities, primarily because the Department does not have a fully operational system to effectively control and manage its large number of contracts. The Department has recognized the need for a procurement management system and has been in the process of developing one--the Integrated Procurement Management Information System--for almost 2 years. We had difficulty, however, in obtaining certain types of data and information from the system being developed and did not independently verify the accuracy of the information we were able to obtain. Thus, we must reserve judgment on the accuracy of the information provided in the enclosure. On the other hand, we believe this information is useful because it can serve as a basis for raising questions and planning additional analyses of the Department's procurement practices.

1/"Controls over Consulting Service Contracts at Federal Agencies Need Tightening," PSAD-80-35, Mar. 20, 1980.

The overview shows that:

- The Department spends about 90 percent of its budget by procuring goods and services. This amounted to over \$9 billion and \$11 billion in fiscal years 1979 and 1980.
- Over one-half of the Department's procurement dollars go for contracts to operate its 49 Government-owned, contractor-operated facilities, including the 12 national laboratories.
- Contracts for operating the Department's Government-owned facilities are almost never awarded competitively.
- The Department's field operations offices are critical to the effectiveness of the procurement process because the Department's policy is to "decentralize" program and procurement decisionmaking and contract administration functions to the operations offices.

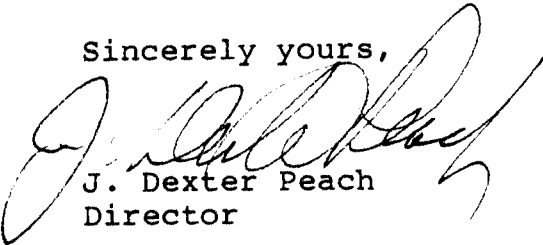
We plan to devote continued effort to evaluating Department of Energy procurement activities, with emphasis on the following important and basic questions:

- Who decides, and on what basis, that a procurement action is either the essential or preferred means of accomplishing Department objectives?
- How does the Department decide on the appropriate procurement method (competitive bidding, negotiated, sole-source, etc.)?
- How does the Department decide when goods or services are no longer necessary, and therefore, that a contract should be terminated?
- How does the Department ensure that contractors' products are used within the Department and, when appropriate, made available for use by others?

B-199916

We hope that the enclosed overview will provide your Committee with information of assistance in planning and conducting your oversight of the Department's extensive procurement activities. We will be pleased to brief you, members of your Committee, and/or Committee staff members on any details contained in this letter. Also, we are sending identical letters to other congressional committees and subcommittees interested in the subject of Federal procurement.

Sincerely yours,

A handwritten signature in cursive script, appearing to read "J. Dexter Peach".

J. Dexter Peach
Director

Enclosure

Identical letters were sent to the following people:

The Honorable Henry M. Jackson
Chairman, Committee on Energy
and Natural Resources
United States Senate

The Honorable David H. Pryor
Chairman, Subcommittee on Civil
Service and General Services
Committee on Governmental Affairs
United States Senate

The Honorable Lawton Chiles
Chairman, Subcommittee on Federal
Spending Practices and Open Government
Committee on Governmental Affairs
United States Senate

The Honorable Robert Morgan
Chairman, Subcommittee on Government
Procurement
Select Committee on Small Business
United States Senate

The Honorable Morris K. Udall
Chairman, Subcommittee on Energy
and Environment
Committee on Interior and
Insular Affairs
House of Representatives

The Honorable Bob Eckhardt
Chairman, Subcommittee on Oversight
and Investigations
Committee on Interstate and Foreign
Commerce
House of Representatives

The Honorable James J. Florio
Chairman, Subcommittee on Transportation
and Commerce
Committee on Interstate and Foreign
Commerce
House of Representatives

The Honorable Mike McCormack
Chairman, Subcommittee on Energy
Research and Production
Committee on Science and Technology
House of Representatives

The Honorable William Proxmire
Chairman, Subcommittee on Priorities
and Economics in Government
Joint Economic Committee

The Honorable Neal Smith
Chairman, Committee on Small
Business
House of Representatives .

DEPARTMENT OF ENERGYPROCUREMENT OVERVIEW

Approximately 90 percent of the Department of Energy's budget passes through procurement. This amounted to over \$11 billion in fiscal year 1980, and over \$9 billion in fiscal year 1979. The Department has 40 procurement offices throughout the United States, making 4,400 prime contract awards and 51,000 purchase orders to over 2,100 contractors. The Department presently administers more than 13,000 contracts and over 1,000 financial assistance actions. The following chart summarizes amounts obligated by the Department for contracts for fiscal year 1979, as of February 1980.

DEPARTMENT OF ENERGY CONTRACTS AND
AMOUNT OF OBLIGATIONS FOR FY 1979

<u>Category</u>	<u>Number of Contracts</u>	<u>Obligations</u> (\$000)
Government-owned, contractor-operated	49	\$ 5,100,539
Research & develop- ment.	3,685	1,598,704
Rents & utilities	29	686,060
Services (including "consultants")	835	657,075
Materials, supplies, and equipment	391	607,452
Construction	714	426,928
Architect and engineer	<u>189</u>	<u>152,670</u>
Total	<u>5,892</u>	\$ <u>9,229,428</u>

As shown in the above table, the major portion of the Department of Energy's contracting budget goes for contracts to operate government-owned contractor operated facilities (GOCOs). An example of a Department of Energy GOCO is a national laboratory. Recognizing that the GOCOs represent over 50 percent of the Department's procurement dollars, we briefly looked at how the GOCO contracts are awarded.

GOCO CONTRACTS ARE ALMOST
NEVER COMPETITIVELY AWARDED

Although GOCO contracts represent a large dollar volume in contract renewals, they have seldom been scrutinized in detail by Department officials to determine whether the Department should seek competition. According to one high-level Department official, there have been only a few occasions in which major GOCO contracts have had an "opportunity to compete." This official stated that only a few people within the Department believe it is possible to have competition with GOCO's. For major GOCO contracts, there have been only three contractor changes in the past 30 years; and in each case, the changes were made in only the top management of each contractor, with the work force remaining in place.

The expenditure for the Department's 12 national laboratories--the backbone of the Department's science and technology base--make up a substantial portion of the Department's GOCO's expenditures. These laboratories were originally created as a part of the Nation's nuclear weapons and commercial nuclear power programs. Of the 12 laboratories (listed on p. 4), 9 are now available to serve all of the Department's programs, and 3 are still primarily restricted to nuclear weapons-related work. The three limited-use laboratories are Lawrence Livermore, Los Alamos, and Sandia Laboratories.

There is some recent sentiment within the Department that some national laboratories may even be proceeding with program objectives that are contrary to headquarters policies. This, along with the broadening of national laboratory roles from nuclear to other energy technologies, raises basic questions as to whether or not the Department has assigned specific program objectives to each laboratory and is ensuring that these objectives are being met.

Within the last 2 years, the Department has developed an Institutional Planning Process as its principal means of administering multiprogram national laboratories. The process presents an annually updated baseline for current laboratory operations, and a 5-year resource projection. It provides a description of areas of work to be pursued by each laboratory, along with staff and financial resources to be applied. It also provides a mechanism for scrutinizing the activities of each laboratory to determine whether the laboratories are following headquarters' policies and guidance.

The national laboratory contracts must also go through the Department's "Compete/Extend" process and a "Source Evaluation Board." These processes should also subject the laboratories to greater scrutiny. In the Compete/Extend process, a decision is normally made every 5 years as to whether to continue a contract with an existing contractor of a laboratory, or open the contract to competition. Eighteen months before a contract expires, all the paperwork for the Compete/Extend contract is required, together with recommendations from appropriate field offices. A decision is then made by Headquarters on whether to extend the contract with the laboratory contractor or look for a new contractor. Only three times in history, however, has the Department or its predecessor agencies decided to seek competition for major GOCO contracts.

For the Compete/Extend process, a Source Evaluation Board is formed. This board consists of several officials from various offices within the Department. A Board is formed for any Department procurement in excess of \$5 million. The Board communicates the Department's needs through solicitations, evaluates proposals, and presents findings to selecting officials on whether a laboratory contract should be competed or extended.

The following table shows expenditures, numbers of employees, and cumulative contract amounts since each laboratory was established for the 12 Department national laboratories.

EXPENDITURES FOR NATIONAL LABORATORIES

<u>Laboratory</u>	<u>DOE annual operating budget-FY 79</u>	<u>Number of contractor employees-FY 79</u>	<u>Cumulative contract amounts</u>
	(millions)		(millions)
Ames Lab.	\$ 11.6	450	undetermined
Argonne Nat'l Lab.	191.1	5,166	\$ 2,560
Brookhaven Nat'l Lab.	93.7	3,460	1,534
Hanford Engineering Development Lab.	154.8	3,187	undetermined
Idaho Nat'l Engineering Lab.	144.4	9,365	518
Lawrence Berkeley Lab.	74.5	3,370	4,895
Lawrence Livermore Lab.	262.5	7,014	included in above figure
Los Alamos Scientific Lab.	253.3	6,560	2,827
Oak Ridge Nat'l Lab.	202.4	4,980	8,760
Pacific Northwest Lab.	96.9	1,950	632
Sandia Lab.	336.2	7,498	6,768
Savannah River Lab.	54.2	968	3,171

PROGRAM/PROCUREMENT MANAGEMENT
RESPONSIBILITIES ARE DECENTRALIZED
TO THE FIELD OPERATIONS OFFICES

The current philosophy of the Department is to decentralize day-to-day program and procurement decisionmaking to the various Department field operations offices. The Department believes that the field operations offices are close to the work being performed, and can maintain more effective oversight of such work. Under this organizational philosophy, all of the various headquarters offices make their decisions with the intent to decentralize their policies to the field operations offices for implementation.

This philosophy places considerable importance on the role of field operations offices. They not only serve to implement headquarters policy and guidance, but they must also oversee and interface with the various national laboratories and their contractors--while maintaining their own independence.

The following table shows that the field operations offices are extensively involved in the procurement process. For example, the Chicago Operations Office administers over 2,000 active contracts with a cumulative value of over \$28 billion.

DOE OPERATIONS OFFICES

(Data as of Dec. 3, 1979)
FY 1979

<u>Office</u>	DOE annual operating budget	Number of Government employees	Number of contractor employees	Number of active contract awards	Cumulative amount of total awards
	(millions)				(billions)
Albuquerque	\$1,065	1,346	29,800	481	\$ 15.0
Chicago	700	428	11,400	2,003	28.2
Idaho	144	370	6,119	263	1.1
Nevada	202	255	5,200	253	3.2
Oak Ridge	134	672	26,500	1,078	15.7
Richland	366	254	11,600	423	8.8
San Francisco	800	282	12,963	1,379	7.4
Savannah River	284	206	7,557	207	3.3
Washington, D.C., Procurement Office	-	-	-	4,318	8.3