

REPORT BY THE U.S.

General Accounting Office

Selected Aspects Of The Department Of Energy's Operating Contract For The Solar Energy Research Institute

Since 1977 the Department of Energy has had a contract with the Midwest Research Institute for operating and managing the Solar Energy Research Institute (SERI) in Golden, Colorado. The Department extended the contract for 15 months to June 1983 and, after recompetition, recently selected the Midwest Research Institute to again operate and manage SERI for a 5-year period to begin in July 1983.

GAO's review of selected aspects of the contract showed that:

- A prescribed process was generally followed for evaluating the Midwest Research Institute's performance at SERI and the resulting evaluations should give a fair characterization of that performance.
- The extension of the contract for 15 months appeared warranted considering the circumstances existing at the time of the extension.
- The process for recompeting the contract was reasonable for selecting the best qualified contractor for operating and managing SERI.

GAO makes recommendations to the Secretary of Energy to strengthen future contractor performance evaluations.



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WASHINGTON, D.C. 20548

RESOURCES, COMMUNITY,
AND ECONOMIC DEVELOPMENT
DIVISION

B-198431

The Honorable Richard L. Ottinger
Chairman, Subcommittee on Energy
Conservation and Power
Committee on Energy and Commerce
House of Representatives

Dear Mr. Chairman:

By letter dated April 9, 1982, you requested that we examine certain aspects of the Department of Energy's (DOE's) contract with the Midwest Research Institute (MRI) for operating and managing the Solar Energy Research Institute (SERI) in Golden, Colorado. Pursuant to your request, and as agreed with your office, this report discusses whether DOE's (1) process for evaluating MRI's performance under the contract results in a fair characterization of that performance, (2) decision to extend the contract 15 months beyond its scheduled expiration in April 1982 was warranted, and (3) process for recompeting the contract is adequate for selecting a qualified contractor for SERI. A brief summary of the results of our review is discussed below. The details of our review, including our objectives, scope, and methodology, are discussed in appendix I to this letter.

Since SERI began operations in 1977, it has been carrying out federally sponsored research and development to ensure the use of solar energy as a viable source for meeting the Nation's energy needs. During this period, SERI has been managed and operated by MRI of Kansas City, Missouri. MRI's contract with DOE, which was extended for 15 months, expires in June 1983. While our report was in final processing, DOE on February 14, 1983, again selected MRI as the contractor to operate and manage SERI for the 5-year period beginning in July 1983. Contract award is to be made in May 1983 after negotiations on the contract are completed.

Based on our review, DOE generally followed its prescribed contractor evaluation process for evaluating MRI's performance and the resulting evaluations should give a fair characterization of

that performance. Our review of two completed evaluations 1/ disclosed that DOE generally adhered to its prescribed process for evaluating contractor performance. The evaluations were prepared by DOE personnel knowledgeable of MRI's activities and performance and reviewed by high-level DOE management officials. Although we noted a lack of timely performance feedback to MRI and certain required documentation for the evaluations, these deficiencies did not affect the fairness of the evaluations. However, such deficiencies, if not corrected, could affect future contractor performance evaluations.

DOE's extension of the MRI contract for 15 months appeared warranted. The extension was necessary to provide adequate time for (1) MRI to complete the then ongoing redirection and downscoping of SERI's mission and activities, (2) DOE to conduct the recompetition of the contract, and (3) DOE to phase in the new contractor, if other than MRI was selected. Recompetition of the contract without the extension would have been disruptive to the successful completion of the redirecting and downscoping efforts and could possibly have been perceived as giving MRI an unfair competitive advantage due to its involvement in the changes underway at SERI.

Our review indicates that DOE's established competitive procurement procedures are intended to result in selecting the best qualified contractor. The recompetition of the SERI contract has been in accordance with DOE's established procedures and appears to have created a competitive environment suitable for enabling DOE to select the best qualified contractor to operate and manage SERI.

A draft of this report was provided to DOE and MRI for review and comment. DOE agreed with the report's overall conclusions and has taken, or is taking, actions aimed at improving the timeliness of its performance feedback to the contractor and its documentation for the evaluations. DOE, however, did not agree with our recommendation that it formalize its procedures for providing interim performance feedback to the contractor's upper-level management during the performance period. While DOE agreed with the importance of such feedback and is taking steps to improve its feedback process, it did not believe it necessary to formalize its

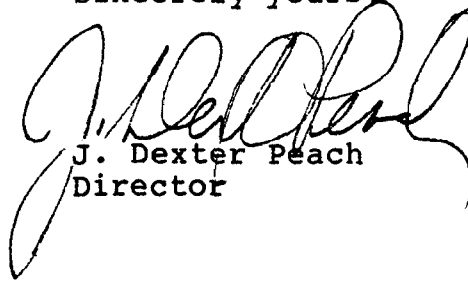
1/The evaluations covered performance periods from April 1 through September 30, 1981, and from October 1, 1981, through March 31, 1982. These evaluations were the latest completed evaluations available during our review work.

procedures. DOE's comments along with our evaluation of them appear in more detail on pages 13 and 14 of appendix I. MRI had no comments to offer on our draft report.

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As arranged with your office, we are sending a copy of this report today to the Chairman and to the Ranking Republican Member, House Committee on Science and Technology. Unless you publicly announce its contents earlier, we plan no further distribution of this report until 5 days from the date of its issuance. At that time we will send copies to interested parties and make copies available to others upon request.

Sincerely yours,



J. Dexter Peach
Director

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ABBREVIATIONS

DOE	Department of Energy
MRI	Midwest Research Institute
PEB	Performance Evaluation Board
RD&D	research, development, and demonstration
RFP	request for proposals
SEB	Source Evaluation Board
SERI	Solar Energy Research Institute



SELECTED ASPECTS OF DOE'S OPERATINGCONTRACT FOR THE SOLAR ENERGY RESEARCH INSTITUTE

By letter dated April 9, 1982, the Chairman of the Subcommittee on Energy Conservation and Power, House Committee on Energy and Commerce, asked the General Accounting Office to examine certain aspects of the Department of Energy's (DOE's) contract with the Midwest Research Institute (MRI) for operating and managing the Solar Energy Research Institute (SERI), located in Golden, Colorado. Specifically, the Chairman's office was interested in knowing whether DOE's (1) process for evaluating MRI's performance under the contract results in a fair characterization of that performance, (2) decision to extend the contract 15 months beyond its scheduled expiration in April 1982 was warranted, and (3) process for recompeting the contract is adequate.

SERI'S ESTABLISHMENT AND OPERATION

SERI was established by the Solar Energy Research, Development, and Demonstration Act of 1974 (Public Law 93-473, Oct. 26, 1974). The purpose of the act was, in part, to establish a vigorous Federal program of solar research, development, and demonstration (RD&D) to ensure the use of solar energy as a viable source for meeting the Nation's energy needs. Section 10(a) of the act authorized SERI's establishment and provided that it perform research, development, and other functions necessary to achieve the purposes and objectives of the act. DOE ¹/ subsequently designated SERI as its lead institute for solar RD&D.

During its first 4 years of operation, SERI experienced significant growth. From fiscal years 1977 through 1980, for example, employment at SERI grew from a level of 86 to 730 scientific, professional, and support staff, and SERI's budget increased from \$3.5 million to \$124.3 million. It was during this same period that SERI began its mission as lead institute for DOE's solar RD&D program, and each successive year it assumed responsibility for a greater proportion of the program's activities.

During fiscal year 1981, SERI's mission and activities were redirected in accordance with the administration's new emphasis on long-term, high-risk energy research and development activities with high-payoff potential and away from demonstration and commercialization activities. Consequently, much

¹/SERI was under the former Energy Research and Development Administration when it began operations in July 1977.

of SERI's work, particularly that relating to demonstrations and commercialization activities, has been discontinued, and SERI's employment and budget in fiscal year 1982 decreased to 550 people and about \$59 million, respectively.

Since its creation in 1977, SERI has been managed and operated by MRI of Kansas City, Missouri. MRI's contract with DOE, which was extended for 15 months, expires in June 1983. After a recompetition effort, DOE on February 14, 1983, again selected MRI as the contractor to operate and manage SERI for the 5-year period beginning in July 1983. Contract award is to be made in May 1983 after negotiations on the contract are completed.

The existing DOE/MRI contract is a cost-plus-award-fee contract that uses performance as a factor for determining the amount of fee MRI receives. The fee consists of two parts: (1) a base fee which does not vary with performance and (2) an award fee which varies with performance. This type of contract is designed to reward the contractor for performance above minimum acceptable levels.

DOE evaluates MRI's performance and determines the appropriate award fee based on criteria set forth in the contract. In accordance with that criteria, each of MRI's major activities are assigned a descriptive and numeric rating as shown below:

<u>Descriptive rating</u>	<u>Numeric rating</u>
Superior	93-100
Excellent	80-92
Good	61-79
Satisfactory	41-60
Fair	0-40

Over the past 5-year period (April 8, 1977 through March 31, 1982), MRI's evaluations have ranged from "good" to "high-good" or "low-excellent." During this period, MRI has received over \$2.2 million in base fees and over \$3.5 million in award fees. While performance periods have varied in length during this 5-year period, evaluations during the past 3 years have been performed every 6 months. Appendix II shows the total fees MRI received for each performance period.

OBJECTIVES, SCOPE, AND METHODOLOGY

We reviewed in detail three areas that the Chairman asked us to examine. Our work was performed at DOE headquarters in Washington, D.C., and at SERI in Golden, Colorado.

In determining whether DOE's evaluation process results in a fair characterization of MRI's performance, we examined the process actually followed and compared it to applicable DOE procurement regulations and guidelines. As agreed with the Chairman's office, we did not perform our own independent evaluation of MRI's performance and our examination covered DOE's two evaluations made for the contractor performance periods from April 1, 1981, to September 30, 1981, and from October 1, 1981, to March 31, 1982. We discussed the process and evaluations with DOE headquarters officials, DOE personnel located at DOE's site office at SERI, the President of MRI, and MRI officials at SERI (hereinafter referred to as SERI personnel). In addition, we reviewed (1) the individual evaluations prepared by the DOE performance monitors to determine if they were prepared in accordance with DOE guidance and (2) supporting documentation. We compared the final evaluation reports to the individual performance monitor's evaluations and to other supporting documents.

In determining whether the contract extension was warranted, our objective was to identify and assess the reasons and circumstances leading to the extension. We obtained and analyzed documents supporting the extension, reviewed applicable DOE procurement regulations, and discussed the circumstances leading to the extension with SERI officials and with officials at DOE headquarters and the DOE site office at SERI.

Finally, to assess the adequacy of the process for recompeting the SERI contract, our work was primarily aimed at documenting the steps actually followed, and comparing the process with applicable DOE procurement regulations and guidelines. The matters discussed in this report pertain to work we performed as of early December 1982 when we completed our field work. Nevertheless, we have recognized DOE's recent selection of MRI on February 14, 1983, as the contractor to operate and manage SERI for the 5-year period beginning in July 1983.

Our review was performed in accordance with generally accepted government auditing standards.

DOE GENERALLY FOLLOWED ITS PRESCRIBED
EVALUATION PROCESS AND THE RESULTING
EVALUATIONS SHOULD GIVE A FAIR
CHARACTERIZATION OF MRI'S PERFORMANCE

DOE generally followed its prescribed contractor evaluation process for evaluating MRI's performance. DOE's prescribed process for evaluating contractor performance is embodied in its procurement guidelines governing cost-plus-award-fee contracting. The process, if adhered to, should result in arriving at a fair

and equitable evaluation of performance. Our review of two evaluations of MRI's performance disclosed that DOE generally adhered to its prescribed process. The only exceptions we noted where DOE did not strictly adhere to its prescribed process were in the areas of feedback and documentation. We noted instances where feedback on performance was either lacking or untimely and where some required documentation for evaluations was missing. However, through discussions with DOE and SERI officials involved in the evaluation process and our analysis of the justifications for these evaluations, we were able to satisfy ourselves that these deficiencies did not affect the fairness of DOE's evaluations.

DOE's prescribed process
should result in fair
performance evaluations

DOE's process for evaluating MRI's performance is set forth in its Cost-Plus-Award-Fee Contracting Procurement Guide and in an appendix to the MRI contract. The process provides that contractors will be evaluated in their major areas of performance. For the MRI contract, these areas are identified as technical, management, and cost performance. Evaluations are to be prepared by DOE personnel knowledgeable of the contractor's activities and performance and be subject to a review by high-level managers who are not involved in daily operational interface with the contractor.

More specifically, this process involves designating DOE individuals familiar with the contractor's activities as monitors to assess and evaluate the contractor's performance in light of established criteria. A Performance Evaluation Board (PEB), comprised of relatively high-level managers responsible for the primary technical and business functions associated with the contract, is to be established to review and evaluate contractor performance based on performance monitor reports, contractor input, ¹/ and other information, and to complete the final report. The PEB is intended to bring to the evaluation process a broader management perspective than exists at the level of the performance monitors.

The guidelines require the PEB to submit its final report to DOE's fee-determining official and to the contractor for

¹/DOE allows contractors to submit self-evaluations as input to the evaluation process, but DOE guidelines and contract provisions do not require such evaluations.

review and comment. The fee-determining official is responsible for reviewing the PEB report, the contractor's comments, and any other pertinent facts and circumstances and for making the fee determination. This determination is final and cannot be disputed by the contractor. The fee-determining official, according to the guidelines, is to be an individual who is at an organizational level above the persons involved directly in the performance evaluation. He or she is also required to be at a management level high enough to assure the kind of attention and objectivity that will preserve the integrity of the evaluation process.

This multiple-level system of evaluation, plus affording the contractor an opportunity to present matters on its behalf during the evaluation process through self-evaluation reports, is intended to assure both the contractor and the Government that informed and reasonable judgments have been made in arriving at the evaluation. The process is also intended to assure the contractor that the evaluations are fair and protect the contractor against arbitrary or capricious determinations.

Evaluations generally
based on prescribed process

We found that DOE generally followed its prescribed process for evaluating MRI's performance, and thus the resulting evaluations should give a fair characterization of that performance. At the end of the two performance periods we reviewed, DOE performance monitors, consisting of DOE headquarters program managers for the various programs carried out at SERI, cognizant personnel having operational responsibility over SERI within DOE's Chicago Operations Office, and personnel within the DOE/SERI Site Office, completed evaluations of MRI's performance in their respective program areas. For these two periods, MRI received evaluations on 110 technical, management, and cost performance areas. Our review of these evaluations showed that they were generally based, as required by DOE guidelines, on the contractor's success in completing authorized tasks in accordance with planned milestones and deliverables.

Upon completion of the evaluations, a PEB made up of high-level DOE technical, contracting, and budget personnel met, reviewed the individual evaluations and prepared an overall evaluation for each of the three major performance areas. In arriving at its overall evaluations, the PEB also considered self-evaluation reports which were submitted by the SERI program managers. The PEB's evaluation reports were sent to the fee-determining official, who was a senior official in DOE's Chicago Operations Office, for use in determining the award

fees. At the same time, in accordance with DOE's guidelines and the MRI contract, copies were sent to MRI for review and comment. After receiving MRI's comments, the fee-determining official determined the final award fees.

We believe that the PEB and fee-determining official provide the appropriate checks and balances for maintaining the integrity of the evaluation process. Our review of the PEB actions showed that most of the PEB's evaluations for individual performance areas varied slightly from those submitted by the DOE performance monitors. The variations were due to the PEB's consideration of the SERI self-evaluation and information not available to the performance monitors. Based on discussions with PEB officials and our review of the support in the final PEB report, we found that most of the PEB ratings were justified; a few, however, lacked documentation, as discussed in the following section.

The fee-determining official reviewed and concurred in the PEB's evaluation for the period ending September 30, 1981, but raised slightly the PEB's evaluation for the period ending March 31, 1982. Our review of supporting documentation showed that the fee-determining official raised the evaluation based on his perceptions of MRI's performance and his detailed review of the PEB final evaluation report.

Deficiencies noted in DOE's evaluations

We found that DOE was not strictly adhering to certain established provisions set forth in its procurement guidelines and/or in the SERI contract requiring timely performance feedback to MRI and documentation of performance evaluations where the PEB evaluations differed from those of the DOE performance monitors. While we were able to satisfy ourselves that these deficiencies did not affect the fairness of the evaluations, we believe DOE needs to correct them to assure the fairness of future contractor performance evaluations.

DOE's procurement guide for cost-plus-award-fee contracting contains numerous references to the importance of timely performance feedback to the contractor. It states that unless interim and final evaluation results are transmitted to the contractor's upper management personnel in a timely manner, the opportunity to have the desired influence on contractor performance during the follow-on evaluation period will be missed. In implementing this guide, DOE had included in the MRI contract provisions requiring DOE to complete the evaluation within 45 days after the end of the performance period and to inform the

contractor in writing of areas requiring improvement, as needed, to enable MRI to improve performance.

Despite the importance placed on timely feedback to the contractor, DOE took over 145 days to complete the evaluation for the period ending March 31, 1982, and over 120 days to complete the prior evaluation. MRI was not presented the evaluation results to comment on until 118 and 105 days, respectively, after the performance period ended. In addition to compromising the benefits that otherwise would accrue from timely reporting, we believe delays such as those experienced on these two evaluations could impair the fairness of the evaluation process. For example, if DOE noted that a contractor had been performing poorly and took more than 100 days to communicate that assessment, insufficient time could remain in the subsequent performance period for the contractor to take corrective measures. Under those circumstances the contractor could be cited again--albeit unfairly--for poor performance in that subsequent period.

In our discussions of the untimely performance feedback, DOE headquarters officials agreed that the evaluations took too long. The Deputy Assistant Secretary for Renewable Energy cited the numerous staff changes within the headquarters solar RD&D program as one of the major reasons for the delays. He also stated that efforts were being made to improve the timeliness of the evaluations.

We noted, however, that as part of the evaluation process, allowances are made to assure that contractors are not unjustly rated downward on performance where untimely feedback on an earlier evaluation may have been a contributing cause. In this connection, we identified at least two instances associated with earlier evaluations where the fee-determining official adjusted MRI's award fee upward due to the lateness of PEB reports.

DOE and SERI program officials also pointed out that the frequent daily informal contacts between program managers at DOE and at SERI ensure timely feedback on performance. During our review we noted that daily contacts between DOE and SERI program managers do occur and may afford the opportunity for providing feedback on performance. However, we found no instances where feedback resulting from these contacts was documented. In addition, we could find no documented instances where interim evaluations or discussions about MRI's performance occurred between DOE's and MRI's upper management personnel during the performance periods. We believe discussions at this level are often necessary to better ensure that actions will be taken to improve performance. We noted that MRI apparently shares

this belief. In its comments on the evaluation ending March 31, 1982, MRI suggested that DOE meet with MRI at least once or twice during the performance period to review progress toward meeting performance objectives and establish areas of emphasis for the ensuing period.

The other area where we found exceptions to DOE's prescribed process relates to the documentation of PEB evaluations. DOE's procurement guide calls for PEB evaluations to be supported by minutes showing how they were arrived at, and the bases for differences between the PEB's positions and those in the DOE performance monitors' evaluations. For the two evaluations we reviewed, this type of support was not contained in the minutes.

From our review of DOE files, we found minutes of one PEB meeting for each of the two evaluations. The minutes in each case primarily documented the fact that the PEB met to review the draft performance evaluation reports and compare them to the DOE performance monitors' input and the SERRI self-evaluation reports. The minutes also point out that the PEB results were set forth in the final evaluation reports. The minutes, however, did not discuss how the PEB evaluations were arrived at or the bases for differences between the PEB's positions and those in the DOE performance monitors' evaluations.

PEB officials told us that the recommended ratings in the PEB final report should be supported by the facts in the report itself. We reviewed the PEB reports for the last two performance periods and were able to satisfy ourselves that the bulk of the PEB evaluations were reasonably supported by the reports' narrative, the DOE performance monitors' evaluations, or by explanations provided to us by PEB officials. We could not determine, however, the reasons why the PEB evaluations varied from those of the performance monitors in six instances. We noted in these instances that the wording in the PEB evaluation reports was identical or similar to that in the DOE performance monitors' evaluations even though the evaluations were different. PEB officials could not provide any additional support for the differences. While this points out a deficiency in DOE's process, we believe that since these 6 evaluations represented such a small portion of the 110 evaluations received and were only slightly different from the DOE performance monitors' evaluations, they had no significant impact on the fairness of the overall evaluations.

CONTRACT EXTENSION APPEARED
WARRANTED

DOE's 15-month extension of the MRI contract from April 7, 1982, to June 30, 1983, appeared warranted considering the

circumstances existing at the time of the extension. The extension allowed DOE to defer competition on a new contract for SERI until MRI completed its efforts to redirect and down-scope SERI's mission and activities. Recompetition of the contract without the extension could have proven disruptive to the successful completion of these efforts and could possibly have been perceived to give MRI an unfair competitive advantage due to its involvement in the changes underway at SERI. The extension also was intended to provide adequate time for DOE to conduct the recompetition of the contract and to phase in the new contractor, if a contractor other than MRI was selected.

Early in 1981, DOE initiated actions on the recompetition of the SERI contract so that a new contract could be awarded by April 1982 when the current contract with MRI was to have expired. Shortly after initial actions were taken to begin the recompetition, DOE realized that SERI's mission and activities would have to be redirected and downscoped in accordance with the administration's new emphasis on long-term, high-risk energy research and development with high-payoff potential and away from demonstration and commercialization activities.

Implementation of SERI's redirected activities was expected to result in a complete restructuring of SERI, including changes in the number of professional and support staff and changes in certain existing and planned laboratory facilities. These changes were expected to continue throughout fiscal year 1982. DOE believed that recompetition before mid-1982 would complicate and prove disruptive to the ongoing changes at SERI. MRI also believed this and had informed DOE that redirection of the activities at SERI would require a relatively stable contract period of at least 18 months. Without an extension of its contract, MRI stated that it would be difficult to attract the necessary senior management level personnel to SERI, hire the required new research and development staff members, and retain key senior researchers and staff members to provide continuity of performance during the transition to SERI's new mission.

Another factor DOE considered in arriving at its decision to extend the contract was the uncertainty in the fiscal year 1982 budget for the DOE solar program. The budget had not yet been approved by the Congress, and without an approved fiscal year 1982 budget and appropriation, which was expected to be reduced by as much as 50 percent of the fiscal year 1981 budget, DOE believed that it was not possible at that time to prepare a reliable statement of work for inclusion in a request for proposals (RFP) to operate and manage SERI that would encourage meaningful competition. In addition, DOE believed that an RFP

with so tentative a scope of work could have been perceived to give MRI an unfair competitive advantage due to its involvement in the changing circumstances.

Based on the above reasons, DOE believed that it was prudent to extend the MRI contract. After consideration of alternative extension periods, DOE on July 23, 1981, decided that an extension until June 30, 1983, would be appropriate to allow for the redirection and downscoping of SERI activities and the recompetition of the SERI contract. DOE considered the extension as providing adequate time to conduct the recompetition process, phase in a new contractor if other than the incumbent were selected, and ensure the orderly completion of the ongoing redirection and downscoping of SERI activities.

We found that DOE's decision on the extension was well documented and appeared warranted given all the factors involved. As it turned out, MRI completed the redirection of SERI activities between October 1, 1981, and March 31, 1982. This involved a complete reorganization of SERI and a reduction in staffing. In addition, SERI's fiscal year 1982 budget was, as expected, reduced by about 50 percent of the fiscal year 1981 budget. Further, the statement of work to be used in the RFP for the SERI contract recompetition was approved in April 1982 and reflected the changes in SERI's activities and funding.

DOE'S RECOMPETITION PROCESS WAS
REASONABLE FOR SELECTING THE
BEST QUALIFIED CONTRACTOR

DOE's process for recompeting the SERI contract was reasonable for selecting the best qualified contractor for carrying out the work at SERI. DOE's procedures for competitive procurements are set forth in its Procurement Regulations and Source Evaluation Board Handbook. These procedures, when followed, are intended to result in the selection of a contractor whose proposal is determined to be most advantageous to the Government. DOE has followed its established procedures in recompeting the SERI contract and appears to have created a competitive environment suitable for enabling DOE to select the best qualified contractor to operate and manage SERI.

DOE's procedures require the establishment of a Source Evaluation Board (SEB) consisting of a carefully selected group of experienced professionals representing various disciplines and organizations within DOE. Use of such a SEB is expected to result in an impartial, equitable, and thorough evaluation of proposals by an unbiased, multidiscipline board. The SEB is responsible for reviewing and approving the RFP for issuance,

evaluating proposals, preparing SEB evaluation reports, and presenting its findings to selection officials.

Initially, the SEB is responsible for assisting in the preparation and review of the RFP, which is to include a complete description and scope of work being procured and information on how the proposals will be evaluated. The SEB also publishes an announcement in the "Commerce Business Daily" stating DOE's plans to compete a contract.

After the RFP is approved and released, SEB members hold a preproposal conference to permit prospective offerors the opportunity to gain a better understanding of the procurement objective. After proposals are received, the SEB evaluates and ranks them in accordance with criteria set forth in the RFP. In addition to evaluating the proposals, DOE procurement procedures require the SEB to verify offerors' experience by encouraging the SEB to visit the offerors' facilities to gain a first-hand knowledge of their capabilities and to consider their past performance on comparable work.

The SEB then prepares a final report and presents it with a briefing to the DOE source selection official who makes the final selection. The report is to contain, among other things, the SEB's findings and conclusions, including its final ranking of the proposals and discussions of all the proposals in descending order of competitive ranking. The report and presentation are intended to provide the source selection official with sufficient information to select an offeror for negotiation.

DOE's actions for recompeting the SERI contract have been in line with the above procedures. DOE established the SEB on May 13, 1982. The SEB consists of professionals representing various disciplines--i.e., a high-level DOE management official and a technical specialist from the DOE/SERI site office; a contract specialist, a program manager, and a legal representative from the Chicago Operations Office; ex officio members consisting of the Assistant Secretary for Conservation and Renewable Energy and the Manager of the Chicago Operations Office; and a DOE headquarters procurement advisor.

The SEB helped prepare and review the RFP and prepared the announcement of DOE's plans to request proposals for the operation of SERI which appeared in the "Commerce Business Daily" on May 18, 1982. The RFP was subsequently issued on June 4, 1982, and mailed to over 120 interested organizations, including two national university associations. Over 30 organizations were represented at the preproposal conference held at SERI on June 26, 1982, where DOE representatives answered questions and

provided a tour of SERI facilities. As of September 29, 1982, the cutoff date for receipt of proposals, DOE had received four proposals.

The SEB evaluated and ranked the proposals in October 1982 and began visiting the offerors' facilities in December 1982. After our field work was completed, the SEB submitted its report and provided a final briefing to the source selection official on February 10, 1983. The source selection official on February 14, 1983, selected MRI as the contractor to operate and manage SERI for the next 5 years.

CONCLUSIONS

In making its evaluations of MRI's performance, DOE generally adhered to its prescribed process for evaluating contractor performance and the resulting evaluations should give a fair characterization of that performance. DOE's evaluations of MRI's performance included a multilevel system of evaluation and review in which DOE personnel knowledgeable of MRI's activities and performance prepared evaluations in light of established criteria. In addition, the contractor was afforded the opportunity to present matters on its behalf during the evaluation process.

However, timely performance feedback to MRI and certain required documentation for the evaluations were lacking. Even though these deficiencies did not affect the fairness of the evaluations we reviewed, they nevertheless need to be corrected to assure the fairness of future contractor performance evaluations. Despite the importance placed on timely feedback to contractors in DOE's procurement guide, DOE took over 145 days to complete the evaluation for the period ending March 31, 1982, and over 120 days to complete the prior evaluation, thus diminishing the usefulness of such feedback in correcting weaknesses. Delays in communicating weaknesses to the contractor could result in insufficient time remaining in the subsequent performance period for the contractor to take corrective measures. Under these circumstances the contractor could be cited again--albeit unfairly--for poor performance in that subsequent period.

While daily contacts between DOE and SERI program managers did occur during the performance period and offered the opportunity for providing feedback on performance, any feedback from these contacts was not documented. Also, no documented instances existed where interim performance feedback occurred between DOE's and MRI's upper management personnel during the performance periods. We believe discussions at this level are often necessary to ensure that actions will be taken to improve performance.

Required minutes documenting how the PEB arrived at its evaluations and the bases for differences between the PEB's positions and those in the DOE performance monitors' evaluations were lacking. Although we were able to satisfy ourselves as to the overall fairness of the PEB evaluations, we believe documentation of the complete evaluation process is needed to assure the fairness of future contractor performance evaluations. In a draft of this report, we therefore proposed that the Secretary of Energy direct the Performance Evaluation Board having responsibility for future SERI contractor performance evaluations to fully document its evaluations and explain differences between such evaluations and those arrived at by DOE performance monitors.

In commenting on our report, DOE stated that it agreed this aspect of its evaluations needed improving and it has taken action on our proposal. DOE added that the recent evaluation covering the period April 1 through September 30, 1982, was fully documented, particularly when the Performance Evaluation Board's results differed from the evaluations of the DOE performance monitors and that this would be the practice for all future evaluations. Thus, DOE's actions on its most recent evaluation, and its planned actions for future evaluations, appear to address the concerns in our earlier proposal.

DOE's extension of the MRI contract for 15 months appeared warranted. The extension provided adequate time for (1) MRI to complete the then ongoing redirection and downscoping of SERI's mission and activities, (2) DOE to conduct the recompetition of the contract, and (3) DOE to phase in the new contractor, if other than MRI was selected. Recompetition of the contract without the extension would have been disruptive to the successful completion of the redirecting and downscoping efforts and could possibly have been perceived as giving MRI an unfair competitive advantage due to its involvement in the changes underway at SERI.

Our review indicates that DOE's established competitive procurement procedures are intended to result in selecting, from among interested parties, a qualified contractor whose proposal is determined to be most advantageous to the Government. DOE has followed its established procedures and appears to have created a competitive environment suitable for enabling DOE to select the best qualified contractor to operate and manage SERI.

RECOMMENDATIONS TO THE SECRETARY OF ENERGY

The Secretary of Energy should require stricter adherence to established requirements set forth in DOE's procurement

guidelines and the SERI contract relating to timely performance feedback. Specifically, we recommend that the Secretary

- facilitate timely performance feedback to the contractor by complying with the completion time frame set forth in the contract and
- establish procedures requiring that interim performance feedback be provided formally to the contractor's upper-level management at least once during the performance period.

AGENCY AND CONTRACTOR COMMENTS AND OUR EVALUATION

A draft of this report was provided to DOE and MRI for review and comment. MRI had no comments to offer on our draft report. DOE agreed with the report's overall conclusions and stated that it is taking actions aimed at improving its performance evaluation process.

With respect to our recommendation aimed at DOE providing feedback on performance evaluations in a more timely manner, DOE informed us that it has recognized the problem and that its feedback is now more timely. In this regard, DOE was able to reduce the time for providing feedback for the evaluation covering the period April 1 through September 30, 1982, to approximately half of that for past performance evaluations. DOE transmitted the performance evaluation report to MRI for comment 54 days after the performance period ended. Although this is still longer than the time specified in the contract--45 days after the end of the performance period to complete the evaluation and processing of award fees--it is a substantial improvement over past evaluations and a step toward meeting the completion time frame set forth in the contract.

Concerning the need for DOE to formalize interim performance feedback, it agreed that such feedback is important. DOE added, however, that its current informal process of providing feedback allows it to respond on a more timely basis and that it is taking steps to improve that process. DOE stated that a formalization of the process could result in delays similar to those experienced in the formal, twice yearly evaluations. DOE did not, however, identify what steps it is taking to improve its informal process of providing interim feedback and of assuring that such feedback would reach upper-level management--those who can ultimately take corrective action to influence performance. Therefore, we remain concerned whether such feedback will reach the contractor's upper-level management and continue to believe that DOE needs to

establish procedures to assure that such feedback reaches the contractor's upper-level management.

FEEES PAID TO MIDWEST RESEARCH INSTITUTE

<u>Period</u>	<u>Base fee</u>	<u>Award fee available</u>	<u>Award fee earned</u>	<u>Percent of award fee earned to that available (note a)</u>
4/08/77 - 4/07/78	\$ 54,570	\$ 327,519	\$ 220,657	67.4
4/08/78 - 12/31/78	220,000	420,000	231,000	55.0
1/01/79 - 9/30/79	405,000	810,000	494,100	61.0
10/01/79 - 3/31/80	325,000	675,000	374,625	55.5
4/01/80 - 9/30/80	325,000	675,000	424,035	62.8
10/01/80 - 3/31/81	325,000	825,000	540,000	65.5
4/01/81 - 9/30/81	325,000	781,000	653,228	83.6
10/01/81 - 3/31/82	<u>250,000</u>	<u>725,000</u>	<u>600,000</u>	82.8
	<u>\$2,229,570</u>	<u>\$5,238,519</u>	<u>\$3,537,645</u>	67.5

a/Percent of award fee earned should not be confused with the numeric ratings shown on page 2 of appendix I. Percent of award fee earned is determined by converting the numeric scores arrived at during the evaluation process to percentages of available award fee through the use of a conversion chart included in the MRI contract.

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 WASHINGTON, D.C. 20515

April 9, 1982

The Honorable Charles Bowsher
 Comptroller-General
 General Accounting Office
 441 G Street, N.W.
 Washington, D.C. 20548

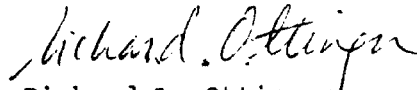
Dear Mr. Bowsher:

The Midwest Research Institute of Kansas City, Missouri, has held the DOE contract to operate the Solar Energy Research Institute for the past five years. The Department of Energy has announced its intention to grant a 15-month extension to MRI to "support the orderly redirection of SERI's activities focusing on long-term, high risk research and development." Currently, the Department is in the process of developing a notice to solicit competitive proposals from organizations seeking the SERI operational contract.

The Subcommittee requests that your office conduct a review of the management performance of MRI, to include an evaluation of the appropriateness of the contract extension. Moreover, I request that you examine the adequacy of DOE's competitive search and evaluation process on this contract.

If you have any questions about this request, please address all inquiries to my subcommittee staffer, Alison Freeman, at 226-2424.

Sincerely,



Richard L. Ottinger
 Chairman

RLO:hp



Department of Energy
Washington, D.C. 20585

DEC 30 1982

Mr. J. Dexter Peach
Director, Resources, Community and
Economic Development Division
U.S. General Accounting Office
Washington, D.C. 20548

Dear Mr. Peach:

The Department of Energy (DOE) appreciates the opportunity to review and comment on the General Accounting Office (GAO) draft report entitled "Selected Aspects of the Department of Energy's Operating Contract for the Solar Energy Research Institute" (SERI). The report assessed three aspects of the SERI contract: 1) the evaluation process for assessing MRI's performance; 2) the rationale for extending MRI's contract until June 1983; and 3) the adequacy of the ongoing contract recompetition.

We basically agree with the conclusions of the report that in these three areas there are no major problems. The report does address several minor areas for improvement, and these cover problems that have been noted by DOE management. As a result, action has been taken to rectify the problems which are the subject of two of the GAO recommendations. DOE recognized the problem concerning the delay in providing feedback from the performance evaluation. On November 24, 1982, the MRI/SERI Award Fee Performance Evaluation Report for the period April 1, 1982 through September 30, 1982, was transmitted to MRI/SERI. This accomplishment represents a substantial speed-up (54 days vs. 118 days) over past evaluations. DOE was able to cut the evaluation time approximately in half over past performance evaluations.

The recommendation that the DOE Performance Evaluation Board fully document the evaluation process, particularly when their results differ from the evaluations of the DOE performance monitors, has already been acted upon. The most recent evaluation was fully documented, and this will be the practice for all future evaluations.

GAO has also recommended that DOE establish formal procedures for providing interim performance feedback to the contractor's upper-level management during the performance period. While we agree that interim feedback is important, we believe that the current informal methods of providing such feedback allow us to respond on a more timely basis, and we are taking steps to improve this process. A formalization, i.e., documented record, of this interaction could result in delays of the kind experienced in the formal, twice-yearly evaluation.

Comments of an editorial nature have been provided directly to members of the GAO audit staff. We appreciate the opportunity to comment on this draft report, and trust that GAO will consider our response to their recommendations in preparing the final report.

Sincerely,

A handwritten signature in black ink, appearing to read 'M. Hesse', with a horizontal line extending to the right.

Martha O. Hesse
Assistant Secretary for
Management and Administration



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