

# **TECHNICAL APPENDIX**

## **Of BPA's Response to the IG Draft Audit Report:**

### **Bonneville Power Administration's Acquisition of Transmission-Related Materials and Equipment**

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This technical appendix supports BPA's response to the Inspector General's Draft Audit Report: Bonneville Power Administration's Acquisition of Transmission-Related Materials and Equipment. It meets the agency's responsibility to provide the Pacific Northwest region with:

- An adequate, efficient, economical, and reliable power supply;
- A transmission system that is adequate to the task of integrating and transmitting power from federal and non-federal generating units, providing service to BPA's customers providing interregional interconnections, and maintaining electrical reliability and stability; and
- Mitigation of the Federal Columbia River Power System's impacts on fish and wildlife.

In support of the agency's mission and the agency transmission function, Supply Chain Services provides a competent, professional team of Contracting Officers. Supply Chain Services accomplishes this by following the BPA Contracting Officers certification requirements modeled after the DOE Contracting Officer certification program. In addition, Contracting Officers complete coursework required by the BPI. Many Contracting Officers have also completed certification requirements of supply chain professional organizations. The training required for certification by BPA is found in BPI Appendix 2-A (Bonneville Purchasing Instructions Manual [http://www.bpa.gov/corporate/business/bpi/BPI\\_APP02-A.pdf](http://www.bpa.gov/corporate/business/bpi/BPI_APP02-A.pdf)). Supply Chain Services, like all of BPA, follows a continuous improvement process and uses the agency's balanced scorecard to measure its progress.

Limited peer review of lower dollar agreements and manager review of other contract documents insure that correct terms and conditions are used and that there is compliance with the BPI procedures. Further, these reviews insure BPA Contracting Officer purchasing decisions reflect good professional judgment.

### **Best Buy Analysis**

Contracting Officers perform a best buy analysis for all contracting actions, as required by BPI 12.8.2. Some actions valued less than the threshold (\$10K) are not required to be documented, but the process is performed for all decisions. Purchasing Operating Procedure (POP) 08-07 [April 7, 2008] is used when documentation is required. Contracting Officers follow a format that includes pre-negotiation objectives and best buy analysis in their documentation. Best buy analysis includes a review and analysis of price/estimated cost, and total cost in order to determine the best value. Flexible procedures tie the level of documentation to the scope, history, size and complexity of the proposed purchase [BPI 4.2.1].

BPA Contracting Officers use many sources for market research. These include, among others, reviews of digests and articles from subscription services; publicly available information from the Institute for Supply Management, the Bureau of Labor Statistics; and the internet. Contractor proposals and offers to BPA also provide market information.

### **Contract Extension**

Contracting Officers revise contract performance periods by amendment to the contract or to the release. HCA approval is required for some revisions [BPI 14.10.4]. In addition to delays that are solely caused by the vendor, extensions regularly occur when weather prevents performance, when a vendor is pulled to a more urgent project and must suspend work on the original project (for example vegetation management) and when the scope of work changes. Generally the contract file will contain documentation from the vendor, Contracting Officer, or the Contracting Officers Technical Representative explaining the reasons for the extension. The Contracting Officer notifies internal customers that a contract is expiring and if optional periods are available to continue the work of the contract [POP 05-1 (October 20, 2004)].

### **Acquisition Forecasts**

Forecasts are an important tool for meeting Supply Chain Services' internal customer needs. Equipment and material lead times and changes in raw material availability affect our ability to meet agency goals. Beginning in 2007, an annual call letter asks customers to forecast their needs. This requires the signature of a senior manager. In addition, regular reviews of customer activity and project information enable Contracting Officers to effectively manage their purchase priorities. Enterprise Process Improvement Project (EPIP) Forecasting Process C-6 directly addressed this issue. Supply Chain Services reviews forecasted requirements and identifies opportunities for more efficient purchasing activities. The Strategic Sourcing initiative has been utilized to identify opportunities for leveraging spend (Strategic Sourcing Website: [http://bpaweb.bpa.gov/projects/projects%20main/Strategic\\_Sourcing/default.aspx](http://bpaweb.bpa.gov/projects/projects%20main/Strategic_Sourcing/default.aspx)).

### **Technical Corrections**

References to the HCA FY2006 audit should be in quotations "HCA FY2006," although the review started in FY2006, the report was not presented until early FY 2007.

References to the HCA FY2008 audit should be in quotations "HCA FY2008," although the review started in FY2008, the report was not presented until FY 2009.

On page one, paragraph two of the draft memorandum "and delivery orders" should be deleted. Delivery Orders (Releases) are made on contracts and do not generally require a new best buy analysis where the item has already been evaluated for best buy as part of the original contract award decision.

On page two, paragraph two of the draft memorandum, second sentence “Head of Contracting Authority” should be changed to “Head of Contracting Activity” a function and roll well understood by most employees involved in contracting and contracting policy at BPA.

On page two, paragraph two of the draft memorandum, third sentence, replace “in Fiscal Year 2006” with “In early FY 2007.” The “HCA 2006 Audit” was conducted in FY 2006, but the findings were not presented until FY 2007.

On page two, paragraph two of the draft memorandum, last sentence, a correction: BPA initiated its first forecast call letter in December of 2007, not 2008. The HCA had agreed with Supply Chain Services that the findings brought to light in its audit of procurement functions could be rolled into our Enterprise Process Improvement Project (EPIP) process. A Material Forecast EPIP team was formed as part of that process in 2007 and a final report was issued October 30, 2007. BPA’s response to the HCA audit was not delayed.

On page two, paragraph three of the draft memorandum the IG contends that BPA may not have used ratepayer dollars in a cost effective manner. While we agree that a best buy analysis was not done on all of these purchases, this does not suggest that the whole dollar value of the procurements was misspent (\$12.3M). Consistent best buy analysis by our contracting officers would have avoided this uncertainty. We are committed to improving our documentation in this area.

Additionally, BPA received the transmission equipment and material and used it to meet project and operations and maintenance requirements on our transmission system. BPA could not have procured the material from another source for zero dollars nor met its transmission-related requirements. The dollar amount should be substantially reduced in the final report. A similar issue is presented in the Appendix of the draft audit report titled “MONETARY IMPACT OF REPORT.” The dollar amount should be substantially reduced here as well.

On page two, paragraph four of the draft memorandum, second sentence, it is suggested that the increased borrowing authority will have substantial impact and pose increased contracting risk. Since these expenditures are capitalized the availability of these funds will enable earlier work on some projects. This does not suggest that there is substantially more risk associated with the continued work practices of the Supply Chain Services.

On page one, paragraph two, of the draft audit report under “Best Buy Analysis,” sentence three, the word “regulations” should be replaced with “instructions” or “guidance” since the BPI is an agency guidance document and not part of the federal regulatory scheme.

On page one, paragraph three, sentence three, of the draft audit report suggests all things being equal “cost” should be a determining factor in material purchase decisions. While

BPA agrees that “cost” is indeed important, it is not always the most important factor as implied here. BPA’s organic acts give it substantially more flexibility to operate like a business. Sometimes engineering technical requirements impact the reliability of our system and may be more vital than cost so the phrase “rather than cost” should be removed from the paragraph.

On page two of the draft audit report, Forecasting section, please note that prior to implementation of the formal forecasting process in 2007 forecasting at BPA was and continues to be an ongoing and continuous interactive process between the Contracting Officers and the clients of Supply Chain Services. Particularly in the high voltage and structural steel area, forecasting has been documented in many of the Contracting Officers files and notebooks. This was not a key part of the contracts for the Contracting Officers since they reflect on the overall commodity pricing and timing of acquisitions, not the price or choice of an individual vendor or product. These personal assessments were therefore not provided as part of the material submitted to the IG. Also, no specific request for them was made. Although we acknowledge this as a mistake in light of the concern expressed by the IG, forecasts are an important tool used by our Contracting Officers especially when high impact items are concerned, like those specifically identified in the draft audit report.

On page two of the draft audit report, paragraph four “Corrective Actions,” third sentence, remove “In Fiscal Year 2006,” replace with “In early Fiscal Year 2007.”

On page three of the draft audit report, paragraph two, last sentence, replace “2008” with “2007.” BPA formed the Materials Forecast EPIP team in 2007, to take action on the “HCA 2006 Audit” findings. BPA’s response to the HCA audit was not delayed.

On page three of the draft audit report, “Recommendations” section a reference is made to “policies.” This should be deleted. BPA has in place procedures that insure that the issues identified in the draft audit report and reflected in the recommendations are effective in managing the planning, procurement, and management of contracts and the accountability of Contracting Officers. BPA believes that the broad strokes of policy in the BPI should not be encumbered with proscriptive guidance since the heart of the BPI and BPA’s procurement process is the use of flexibility fitting to the particular procurement. These are discussed further in BPA’s response and this Appendix. The HCA and other BPA management elements continue to monitor material procurement performance by the Supply Chain Services to address whether other measures for management and accountability of materials contracting would be more effective.

## **Conclusions**

Contracting Officers at BPA are experienced, conscientious, and strive to perform their work in a professional manner. BPA expects its Contracting Officers to exercise their responsibilities with a strong emphasis on compliance with policies and procedures, and to focus on how to achieve the best-value for BPA and its ratepayers.