

**Los Alamos National Laboratory
External Review of The Procurement Program
Report of Findings**

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I. Overview

The University of California (UC) Vice-President - Financial Management retained the External Review Team to conduct an administrative review of the Los Alamos National Laboratory (LANL) Procurement Program (the Program). Specifically, the External Review Team was tasked to:

- Evaluate policies and procedures;
- Evaluate current and past practices;
- Analyze identified purchase transactions and/or subcontracts;
- Identify apparent control weakness and/or vulnerabilities;
- Provide relevant observations and conclusions; and
- Recommend corrective actions for strengthening the Program.

The focus of our review was the 24-month period beginning October 1, 2000 and ending September 30, 2002 (the Review Period).

A. Review Team Organization

The External Review Team (the Review Team) is comprised of three members, Mr. John C. Layton (chair), Mr. Charles C. Masten and Mr. James W. Culpepper, and is assisted by a forensic accounting team, led by Mr. Donald J. Kintzer, from the University of California's audit firm, PricewaterhouseCoopers LLP (PwC).

B. Background

LANL's total procurement activity in FY01 was \$989.7 million. In FY02, procurement activity increased to \$1,271.3 million¹ LANL's procurement activity may be divided into three broad categories: Institutional Subcontracts, Purchase Orders (i.e., traditional procurement) and Streamlined Purchasing. Streamlined Purchasing is comprised primarily of Just-In-Time (JIT), Local Vendor Agreements (LVA), Requester Release Blankets and Purchase Card transactions.² The following table is a summary of procurement activity during the Review Period:

¹ Procurement activity is generally calculated as the change in commitment amount on new and existing subcontracts during the period. For some subcontracts, procurement activity is calculated as the actual amount invoiced or paid during the period. Procurement activity excludes non-purchase order related expenditures such as payroll.

² Streamlined Purchasing also includes a customer service function called Express Purchasing.

TABLE 1: Summary of Procurement Activity During Review Period (in millions)

Procurement Activity Type	FY01	FY02	Total
Institutional Subcontracts ³	\$268.0	\$306.9	\$574.9
Purchase Orders ⁴	604.2	825.0	1,429.2
Streamlined Purchasing			
JIT ⁵	75.4	87.0	162.4
LVA ⁶	4.2	4.7	8.9
Purchase Cards	33.8	40.7	74.5
RRB ⁷	4.1	7.0	11.1
Total	\$989.7	\$1,271.3	\$2,261.0

1. Business Operations (BUS)

The procurement function resides in LANL's Business Operations (BUS) division. Within BUS there are seven groups each reporting to a group leader who, in turn, reports to the CFO and the Associate Director of Administration. The BUS teams are as follows:

- BUS-1: Accounting
- BUS-2: Distributed Finance
- BUS-3: Budget
- BUS-4: Shipping and Receiving
- BUS-5: Procurement
- BUS-6: Property Management
- BUS-7: Systems Management

BUS-5 (Procurement) was recently divided into four functional areas: Procurement, Quality and Assurance, Small Business Office and the Purchase Card Office. Presently, there are approximately 170 BUS-5 employees and contractors.

2. Audits and Reviews

We reviewed reports of audits and reviews conducted on the procurement function during the past ten years, including two external reviews.⁸ We were also provided twelve

³ Institutional Subcontracts include the following contracts: Body Shops (Contract Labor), Fire Department, JCNNM (Johnson Controls Northern New Mexico), PTLA (Security Guard Contract) and Telecommunications.

⁴ Purchase Orders include Blanket Purchase Agreements (BPA).

⁵ JIT Procurement Activity Detail data available for the Review Period totaled \$152.8 million (\$75.3 million in FY01 and \$77.6 in FY02).

⁶ Includes LVA Gas; LVA Procurement Activity Detail data available for the Review Period totaled \$6.5 million (\$3.0 million in FY01 and \$3.5 million in FY02).

⁷ RRB Procurement Activity Detail data for the Review Period totaled \$12.1 million (\$5.5 million in FY01 and \$6.6 million in FY02).

internal reports prepared between FY93 and FY01, primarily by LANL's Audits and Assessments (AA) group. Finally, we were provided LANL's Procurement Self-Assessments for FY95 to FY02. The following are examples of findings we noted in these reports:

- Contract award problems including failure to select appropriate contract mechanisms, failure to use standard contract language, and failure to obtain proper approvals;
- Contract administration issues, including inadequate documentation, failure to perform timely reviews, improper contract modification and failure to perform appropriate cost price analyses; and
- Procurement management breakdowns, including failure to maintain appropriate policies and procedures, inadequate staffing and failure to maintain accurate, verifiable procurement activity data.

3. Procurement Vehicles

a. Institutional Subcontracts

Institutional Subcontracts are major agreements, negotiated with involvement from LANL personnel both inside and outside of procurement, for the provision of facility management, security, fire, contract labor and telecommunications services. LANL's Institutional Subcontracts are outside the scope of this review. However, the Institutional Subcontractors, including LANL's facilities manager, utilize LANL's procurement function to secure goods and services necessary to perform their contractual obligations. As a result, many goods and services procured by LANL's institutional subcontractors were subject to our review.

b. Purchase Orders

A purchase order (PO) is a contractual agreement between LANL and a vendor to buy supplies or services upon specified terms and conditions. Purchase orders formalize agreements on the price of goods or services to be provided; quantity; payment terms; delivery schedule; points of contact; and any other pertinent agreements. Depending on the complexity of the good or service purchased, a contract or addendum is issued in addition to the purchase order. The contract may provide further specific information regarding the terms and conditions including technical specifications and/or more detailed instructions.

A PO is initiated when a requester identifies the need for a good or service and submits a purchase requisition to BUS-5 (Procurement). All LANL employees and contractors are authorized to prepare and submit purchase requisitions.

⁸ External reports reviewed include a General Accounting Office (GAO) report from FY01 and a Department of Energy (DOE) report from FY93.

c. Streamlined Purchasing

Streamlined procurement is a means to reduce cost, stock requirements, purchasing cycle time and to encourage requesters to take ownership of their own low-value procurements. In its FY02 Self Assessment prepared for the DOE, LANL reported that 98.7% of transactions were processed using rapid or alternative procurement methods.⁹ This earned LANL a score of “Outstanding Plus” based on the DOE benchmark statistics. LANL’s rapid and alternative procurement methods are managed by BUS-5 Team 1, Streamlined Purchasing, and include Just-In-Time, Local Vendor Agreements, Purchase Cards and Requester Release Blankets.

i. Just-In-Time

The Just-In-Time (JIT) Program was introduced in 1989 as an instrument for streamlining purchasing and decreasing overhead costs associated with warehousing supplies. JIT vendors furnish LANL with commodities such as computer equipment, tools, chemicals and office products on an as needed and timely basis. Items may be ordered by LANL employees and contractors on-line or directly from the vendor (via phone or in person).

ii. Local Vendor Agreements

Local Vendor Agreements (LVA) are subcontracts with Los Alamos area vendors for the provision of low-value, in-stock items such as safety shoes, protective clothing, office supplies and protective eyewear. Items procured from LVA vendors should be less than \$500 and should not be readily available from JIT vendors.

iii. Purchase Cards

Purchase Cards are charge cards issued to selected LANL employees for the procurement of low-value goods and services. LANL’s Purchase Card Program was subject to a previous External Review and is therefore, excluded from this report.¹⁰

iv. Requester Release Blankets

Requester Release Blankets (RRBs) are similar to LVA subcontracts and are for the procurement of mechanical and printed circuit board fabrications.

C. Summary of Findings

We observed internal control weaknesses and deficiencies, including the insufficiency of policies and procedures, lack of timely and reliable data and inadequate management of the Program. These weaknesses, individually and in the aggregate, increase the vulnerability of LANL to potential fraud, waste and abuse. While UC and LANL management have taken a number of steps to improve the Procurement Program, we have recommended additional corrective actions to further reduce the exposure to these vulnerabilities. In addition, LANL management must ensure that quality procurement is recognized as essential to the accomplishment of LANL’s mission.

⁹ During our Review Period, streamlined purchasing accounted for 11% of LANL’s total dollars procured.

¹⁰ See report entitled Report of Findings: External Review of the Purchase Card Program dated December 12, 2002.

During the performance of our review, we noted the following control weaknesses that are more fully explained in our report:

- Policies and procedures are insufficiently detailed to ensure that all aspects of quality procurement are considered;
- Procurement Program data is inadequate for management decision-making and control;
- Contract file maintenance is incomplete and inconsistent;
- Inadequate management of contract administration and the various procurement vehicles;
- JIT and LVA procurements require additional controls to reduce inherent vulnerabilities;
- Controls over the recordation of acquired property are inadequate;
- Blanket Purchase Agreements without adequate controls provide a substantial risk;
- Management should assess the allowability of procurements with questionable business necessity; and
- LANL senior management should provide guidance concerning the purchase of consumer commodities to ensure that items procured meet a test of business necessity.

In connection with our procedures, we identified a number of potentially inappropriate JIT transactions. We referred these transactions to UC and LANL management and recommended that the transactions be brought to the attention of the DOE Office of Inspector General. The value of these transactions is estimated at \$14,530.

II. Procedures Performed

In conducting our review of the LANL Procurement Program, we reviewed policies and procedures in existence during the Review Period. We also conducted interviews of LANL personnel, analyzed electronic procurement data, and reviewed procurement subcontracts and supporting documentation for selected transactions. Further details on the procedures we performed are outlined below.

A. Review of Policies and Procedures

We reviewed various sources of procurement guidance, all of which are available on LANL's intranet. In particular, we reviewed the "Requester's Guide to Purchasing", which instructs requesters on how to navigate the procurement process. We also reviewed the "Buyer's Toolbox" which includes a link to LANL's Standard Practices (SP), a menu of standard contract terms and conditions, commonly used forms for

buyers¹¹ and an overview of procurement training. Finally, we reviewed program-specific guidance for the JIT and LVA programs.

B. Interviews

We conducted interviews of 63 individual employees including LANL procurement management, Contract Administrators (CA), Procurement Contract Administrators (PCA) and technical requesters.¹² We also met with individuals from other Business Operations groups, including BUS-1 (Accounting), BUS-2 (Distributed Finance), BUS-4 (Shipping and Receiving), BUS-6 (Property Management) and BUS-7 (Systems Management) and members of the Information Management group.

C. Analytical Procedures

We obtained and analyzed electronic procurement activity data for the Review Period. Specifically, we analyzed procurement activity data by purchase order as developed by BUS-7 (Systems Management).¹³ We also analyzed procurement activity detail data for the JIT and LVA programs and reviewed payment data. In addition, we reviewed data from other subsidiary sources including property, receiving, personnel (Z-numbers) and the JIT catalog. Finally, we verified that all paid invoices were included in the procurement activity data.

Based on the information obtained, we performed various analyses, including:

- Review of procurement data for completeness;
- Limited manual reconciliations between procurement data and accounts payable data;
- Data mining procedures including key word searches and criteria queries (i.e., purchases greater than \$500);
- Manual review of data mining results; and
- Stratification of the purchase order population.

D. Contract Reviews

Based on our stratification of procurement activity, we selected a sample of purchase orders and performed a contract file review for the selected transactions. In making our selection, we targeted subcontracts with higher perceived risk to LANL. For example, we considered cost-type subcontracts that were not competed to be a higher risk than a

¹¹ Technically, the designation “buyer” applies exclusively to Contract Administrators (CAs). In recent years, however, LANL has informally extended the buyer designation to administrative-level Procurement Contract Assistants (PCAs).

¹² Interviews were conducted with members of all six teams within BUS-5.

¹³ Procurement activity data is summarized by PO line item and is an output of a derivative system of PAID. See Section III. A. 1. a.

competitively bid fixed price subcontract. Following is a summary of the results of our stratification and contract selection:

TABLE 2: Summary of Purchase Orders Reviewed

Original Contract Type	PO Activity		Sample Reviewed	
	# of Pos	Procurement Activity (in millions)	# of POs	Procurement Activity (in millions)
Competitive	3,737	\$693.8	7	\$16.4
Non-Competitive ¹⁴	31,901	628.2	41	27.4
BPA ¹⁵	2,226	107.2	27	4.7
Total	37,864	\$1,429.2	75	\$48.5

For the 75 selected purchase orders, we obtained the contract file from the appropriate buyer. We reviewed the files for content, specifically looking for evidence of documentation required in accordance with SP 4.3 (“Document Requirements”). In addition, we looked for documentation to support assertions made by buyers during our interviews.

In addition to our purchase order contract file reviews, we also reviewed eleven JIT subcontracts, 31¹⁶ LVA subcontracts and two RRB subcontracts.

E. Transaction Reviews

Based on the results of our data analyses, we targeted a selection of PO, JIT and LVA purchases and requested supporting documentation and/or confirmation from the requester. In total, the sampled items represent 291 purchases for 229 different requesters. Documentation supporting the selected purchases was requested directly from the BUS-7 (Systems Management), who retrieved the information from Documentum.¹⁷ The following table summarizes our sample selection:

¹⁴ Includes sole source contracts.

¹⁵ BPA sample population includes a non-negotiated, firm-fixed price contract incorrectly coded as a blanket contract.

¹⁶ Includes one LVA Gas subcontract.

¹⁷ Documentum is a document management software that is used by LANL to store scanned copies of supporting documentation for procurements.

TABLE 3: Transactions Selected (Number of Transactions)¹⁸

Procurement Program	FY01	FY02	Total
Purchase Order	31	37	68
JIT	48	40	88
LVA	85	50	135
Total	164	127	291

In addition, we selected 51 JIT items that reflected price changes during our Review Period. For each selected item we asked the responsible buyer to request from the vendor support for each price change. We then reviewed the provided documentation to determine if the price changes were appropriate.

F. Review of Property Recordation Procedures

We reviewed LANL's procurement activity data to identify items, which appear to be subject to property control, including items with a purchase or manufacture cost greater than \$5,000 or items on LANL's sensitive property listing. We then compared these items to LANL's property management system (Sunflower) and selected a sample of 50 items that could not readily be identified. We provided this sample to LANL's Property Management Group (BUS-6) to determine if these items are bar-coded and in LANL's property control system.¹⁹

III. Findings, Observations and Corrective Actions

Based on the procedures described above, including the review of policies and procedures, interviews, analysis of data and review of specific transactions, we formulated a number of observations with respect to the LANL Procurement Program. Some observations are relevant to LANL's overall procurement function, while others are specific to each of the reviewed procurement programs. For each observation, we considered corrective actions taken by LANL and assessed whether these changes were sufficient to rectify the observed issue.

¹⁸ We received a response rate of 90% on sampled transactions. On March 21, 2003 we provided a list of non-responses to LANL management.

¹⁹ Because LANL is in the process of conducting a wall-to-wall physical inventory of property-controlled items, we did not physically verify items that were located in Sunflower.

A. Procurement Program Observations

1. Information Management (Data)

a. Observation

LANL has several front-end procurement data systems,²⁰ which feed into the core procurement and accounts payable system (PAID).²¹ PAID tracks cumulative obligations, invoice and payment amounts and feeds this information (in a summarized format) into LANL's Financial Management Information System (FMIS).²² Financial reports, including outstanding obligations, are generated in FMIS and transmitted to the UC and the DOE.

The PAID system is a cumulative rather than a transaction based system. It tracks only cumulative balances on purchase orders and does not record or maintain transactional detail. In addition, PAID is an overwrite system and can only provide cumulative data at the moment the system is queried; historical data is not available in the PAID system.

The above limitations impact LANL's ability to generate procurement statistics that are necessary for management decision-making and external reporting. For example, PAID cannot provide historical information nor can it report on procurement activity during a specified period of time.

Business Operations (BUS) has attempted to compensate for the shortcomings of the PAID system by developing a number of workarounds. In order to capture procurement activity, for example, LANL has created a derivative system. This system, created and maintained by BUS-7 (Systems Management), takes month-end "snapshots" of PAID and calculates the difference between periods in order to determine procurement activity in that month. BUS-7 personnel then make a series of electronic and manual adjustments to this data in order to more accurately reflect procurement activity.

Procurement activity data, as calculated by the derivative system, is reported to procurement management on a monthly basis.²³ In addition, this data is used to generate socioeconomic procurement statistics as required by the DOE. Finally, procurement activity data is used to assess LANL's performance with respect to Appendix F: Objective Standards of Performance.²⁴ Procurement activity data is used, among other things, to calculate the cost-to-spend ratio, a statistic designed to provide assurance to the DOE regarding the effectiveness and efficiency of the procurement organization. In its Appendix F assessments, LANL reported \$989.7 million of procurement activity in FY01 and \$1,271.3 million in FY02 based on numbers generated by the above-described derivative system.

²⁰ These systems include Procurement Desktop, PD Web, STORES and the Invoice Approval System.

²¹ PAID is an acronym for "Purchasing, Accepting, Invoicing, Disbursing".

²² We did not perform detailed system assessments of PAID or FMIS.

²³ This derivative data does not flow into the FMIS system.

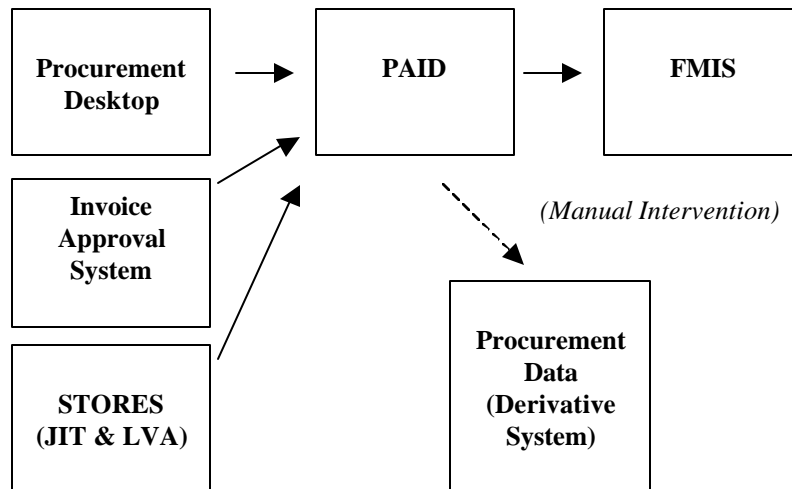
²⁴ The Prime Contract between the DOE and the UC sets forth performance measures for various LANL functions including procurement. LANL's specific performance objectives are defined in Appendix F of the contract.

The limitations of the PAID system also impact the availability of data for procurement management decision-making. Procurement managers must rely on programmers to extract simple reports.

We reviewed the current processes in place to generate procurement activity data and identified a lack of internal controls. Specifically, we noted that supporting documentation is not retained. We further noted that there is a lack of knowledge and involvement of other LANL employees in this process, other than the individual responsible for generating the data. We noted a lack of understanding at any level within the procurement organization regarding how this data is created and what it, in fact, represents.

In light of the derived nature of this data, we attempted to validate the LANL procurement activity data. Because of the overwrite nature of the PAID system and because LANL’s BUS-7 team does not retain its PAID snapshots for more than a few months, we were unable to confirm the accuracy of LANL’s total procurement activity data. The following chart illustrates the flow of procurement data through these data systems:

TABLE 4: Procurement Activity Data Flowchart



b. Corrective Actions Taken

We understand that LANL is in the process of implementing an Oracle enterprise system that will replace several of LANL’s current data systems, including PAID. We believe that a transaction-based system will eliminate the need to calculate procurement activity in a derivative system.

In addition, LANL recently initiated a Group Leader Business Stewardship Reporting program, which provides group managers with monthly reports of procurements and other data. Managers are required to review and confirm that resources used were for the

benefit of the LANL mission, allowable under the terms of the Prime Contract and reasonable.

c. Recommendations for Further Corrective Action

Until Oracle is implemented, we recommend that LANL implement a number of internal controls over the creation of procurement activity data, including:

- Formally document procedures used to develop procurement activity data and disseminate information to procurement management;
- Create an audit trail by retaining PAID snapshots at quarter and year end as well as documentation in support of data manually entered by BUS-7;
- Develop formal procedures for reviewing and updating automated functions annually; and
- Incorporate quarterly reviews of the data processes and output.

2. Organizational Structure

a. Observation

BUS-5 (Procurement) is comprised of six teams. With the exception of Team 1, Streamlined Purchasing, the teams are divided by the group or directorate served as illustrated in the table below:

TABLE 5: Procurement Teams

Team	Directorates Served	Distributed
1	All	No
2	Directors Office and Administration	No
3	Threat Reduction and Strategic Research	Non-Proliferation & National Security (NIS)
4	Nuclear Weapons	Nuclear Material Technology (NMT), Weapons (ESA), Dynamic Experiments (DX)
5	Associate Director of Operations Division, Facility Waste Operations, JCNNM, PTLA	Facilities Waste Operations, Cerro Grande Fire Team
6²⁵	Laser Facility, Risk Reduction & Environmental Stewardship, Health & Safety	LANSCE

²⁵ Team 6 was formed in January 2002. Prior to this date, Teams 2 through 5 served these directorates.

Distributed teams physically reside with the technical group they serve (i.e., the customer). LANL moved to a distributed procurement model approximately two years ago. Previously, teams were divided by the commodity procured (e.g., construction, technology equipment, services, etc.). During the transition, buyers specializing in the procurement of a specific commodity were asked to become generalists.²⁶ A member of the BUS-5 leadership indicated that the pendulum has swung too far in favor of customer service and that procurement quality has suffered as a result. Buyers also indicated that in some specific areas, LANL is migrating back to a commodity-based structure (i.e., University Subcontracts, Research and Development, etc.). Until April 2002, buyers on distributed teams reported to and were evaluated by their customer rather than by a procurement team leader. This created an environment in which buyers may have been incentivized to place the needs/desires of the customer above other aspects of quality procurement.

Responsibility for the contract audit function is split between BUS-5 and LANL's Audits and Assessments (AA) group. BUS-5 performs routine contract reviews but relies upon AA to perform cost and pricing functions including pre-award audits, interim audits and closeout audits. AA, subject to its own staffing constraints, has struggled to keep up with these functions. For example, in FY00, LANL had a backlog of 1,007 contracts requiring closeout. While this backlog was reduced to 59 in FY01, we understand it has subsequently increased. BUS-5's reliance on AA for these key procurement functions has resulted in tension between the groups. As a result, the Procurement Quality Assurance Project Leader has submitted a position paper proposing that the cost and pricing function be transitioned out of AA to his team.

During interviews, we consistently heard that LANL's procurement function is substantially understaffed. Buyers report heavy workloads and a lack of senior personnel to provide technical guidance. LANL buyers stated that because the award of new subcontracts is more urgent and time sensitive than many contract administration functions, they give contract award a higher priority than contract administration. Often, this means that contract administration functions are repeatedly overlooked.

In accomplishing the DOE procurement benchmarks, LANL has succeeded in reducing its cost to spend ratio, which is approximately 50% less than the benchmark for an outstanding rating. In achieving this rating, it appears LANL has compromised key contract administration functions. Furthermore, LANL's low cost to spend ratio indicates that the procurement organization could increase resources, improve contract administration and still meet the DOE's benchmark.

b. Corrective Actions Taken

In April 2002, LANL changed the distributed procurement reporting structure, making distributed buyers report directly to a BUS-5 Team Leader. Buyers we interviewed indicated that their respective BUS-5 Team Leader now prepares their performance evaluations.

²⁶ Some of these commodity specialists have been designated as "subject matter experts". In addition to their regular job responsibilities, they are available to provide guidance to other Buyers.

In addition, LANL recently created a Procurement Quality Assurance function, reporting directly to the Procurement Functions leader rather than the BUS-5 Group Leader. When fully staffed this team is expected to have sixteen full-time members and be comprised of four teams as follows:

- **Self-Assessment and Procurement Review Team-** responsible for conducting on-going reviews of the procurement organization to assess compliance with stated policies and procedures and to evaluate the overall “effectiveness, efficiency, health and contractual compliance of the procurement operation”,²⁷
- **Policies and Procedures Team-** responsible for maintaining and/or developing policies and procedures that are useful to both requesters and buyers;
- **Training Team-** responsible for developing and maintaining a comprehensive training program; and
- **Customer Service Team-** responsible for interfacing with buyers and requesters to ensure that these constituencies have the necessary resources to make quality procurements.

c. Recommendations for Corrective Action

In addition to the creation on the Procurement Quality Assurance Group, we recommend that LANL:

- Evaluate staffing needs across all procurement functions;
- Consider creating a hybrid organization in which distributed buyers remain as generalists and core procurement staff return to the commodity-based specialist model; and
- Reclaim ownership over the routine contract audit functions and/or develop better relationships between BUS-5 and Audits and Assessments.

3. Performance Measurement

Appendix F of the Prime Contract delineates specific performance objectives relative to various business functions, including procurement. Specifically, Appendix F defines the procurement performance objectives in four categories. The following table summarizes LANL’s ratings with respect its procurement performance objectives:

²⁷ Per the Procurement Quality and Assurance Project Team overview.

TABLE 6: Summary of Performance Objective Ratings

Performance Objective	FY01 Weight	FY01 Rating²⁸	FY02 Weight	FY02 Rating
Management of Internal Business Processes	65%	O	70%	O
Customer Satisfaction	10%	O	10%	O
Learning and Growth	15%	O	10%	O
Managing Financial Aspects	10%	O	10%	O
Total	100%	O	100%	O

LANL’s compliance with Appendix F is measured largely through a self-assessment process. Each quarter, members of the procurement team gather data necessary to measure LANL’s performance relative to the above objectives. At the conclusion of the fiscal year, the procurement group prepares a Final Self-Assessment Report, which is submitted to the DOE.

There are several characteristics of a procurement that should be considered:

- Price/value;
- Quality;
- Timing;
- Delivery; and
- Socioeconomic Impact.

We noted that the performance objectives established by the DOE focus largely on the characteristics of quality, timing and socioeconomic impact and less on the price of goods and services procured. This focus may foster an environment in which accommodation and expediency are valued above other aspects of quality procurement.

We noted one vehicle used by LANL to achieve an outstanding rating from the DOE is its reliance on streamlined purchasing, which accounted for 98% of total procurement transactions and 11% of the total dollar amount procured. Additional resources spent on managing these programs would not adversely affect the cost to spend ratio.

In recent testimony before the House Committee on Government Reform, DOE Inspector General Gregory H. Friedman stated that LANL’s "excellent rating in both personal property management and procurement management" raised concern about the meaningfulness of the DOE’s evaluation process.

²⁸ “O” indicates outstanding performance.

4. Contract Award

a. Observation

Contract award is the process by which an organization determines with whom funds will be spent and under what conditions including tasks such as vendor selection, contract writing and negotiation. Contract administration is an ongoing function, which includes managing vendor relationships, approving invoices for payment, monitoring spending against the total subcontract value, issuing modifications as necessary and performing routine reviews of vendor performance.

With respect to contract award, we noted that LANL does not have a definitive listing of required Terms and Conditions (T&C) that must be included in subcontracts. Buyers are responsible for selecting the T&Cs that are applicable to the subcontract from an overall listing of contract clauses that are maintained in Forms 7500 and 765 on LANL's intranet. This process may result in the exclusion of required T&Cs from the subcontracts, and inconsistency in the T&Cs across teams and buyers. We further noted instances of modifications that were issued to incorporate T&Cs that were excluded from the original contract language.

We noted that the majority of LANL's new contract awards are for sole source or non-competitive subcontracts. During our Review Period, 53% of dollar amounts committed on new subcontracts related to non-competitive awards. When calculated on the number of subcontracts awarded, the percentage of non-competitive subcontracts is 87%.

b. Recommendations for Further Corrective Action

We recommend that LANL develop a template of all required terms and conditions. Buyers should have to elect to exclude T&Cs that are not applicable to the subcontract, rather than to include all T&Cs that are applicable. In addition, we recommend that procurement management scrutinize new awards of non-competitive subcontracts to ensure that subcontracts are competitively awarded when necessary and appropriate.

5. Accounting for Property-Controlled Items

a. Observation

LANL policy requires that items with a purchase or manufacture cost of greater than \$5,000 as well as items defined as "sensitive" and "attractive" be property-controlled.²⁹ The DOE approves LANL's sensitive items list. Property control procedures include the assignment of a barcode and property custodian to every controlled item. Furthermore, all controlled property is to be entered and tracked in LANL's property management system (Sunflower).

The procedures by which property-controlled items are captured in Sunflower differ by procurement method. For purchase orders, BUS-1 (Accounting) reviews all purchase orders that are issued and identifies property-controlled items based on description information entered by the buyer. If the item is determined to be subject to property

²⁹ Sensitive items are defined in SP 45 and the Property Management Manual and include computers, recording devices and cameras among other items.

control, BUS-1 creates a property control tag number within Sunflower. When BUS-4 (Shipping and Receiving) receives the incoming shipment and creates a receiving report, a barcode sticker is created and applied to the item. For JIT purchases, the vendor is responsible for identifying property-controlled items in the JIT catalog. The JIT system requires that for all items that are flagged as property-controlled, a barcode number be entered before the order may be finalized.³⁰ The LVA policies and procedures do not specifically prohibit the procurement of property-controlled items, however there are no defined procedures for the accounting for property items purchased through LVAs.

We learned that several controls designed to ensure that items subject to property control are bar-coded and entered into Sunflower were not functioning. For example, the JIT catalog contains a field designed to alert vendors that a particular item requires a property barcode. Because LANL relies on vendors to maintain the JIT catalog, this fundamental control may be circumvented. We reviewed the JIT catalog and identified 985 items that should have been flagged as requiring a property barcode but were not so identified.

We assessed compliance with LANL's property accounting policy by querying LANL's FY01 and FY02 procurement data for items that appear to be sensitive or items with a purchase price of greater than \$5,000. We then compared these items to the Sunflower system³¹ to determine if the items were included. We identified 2,485 items that we could not readily identify in the property management system.³² Of this population, we selected a sample of 50 items and requested the assistance of LANL's Property Management Group (BUS-6) to determine if the items are property controlled. After consultation with BUS-6 personnel, we determined that of the 50 items selected, 24 (48%) are not subject to property control.³³ Of the remaining 26 items, which are subject to property control, we confirmed that 22 items (85%) are included in LANL's property management system (Sunflower). Four items were not found in the LANL property control system, including one that carried a barcode sticker but was never entered in Sunflower. All four items were physically validated by BUS-6 personnel and were subsequently added to the property management system.

b. Corrective Actions Taken

In January 2003, LANL's Director of Administration commissioned a cross-functional team to document the property management process from "cradle to grave" and to identify and remedy system failures by April 30, 2003. This team is lead by the BUS-4 (Shipping and Receiving) Group Leader and includes members from the accounting, receiving, property procurement, property management and systems management groups.

³⁰ Vendors are responsible for flagging property-controlled items and entering the assigned property number into the "Special Instructions" portion of the Materials Requisition (MR).

³¹ We matched items based on the procurement document number (invoice or MR number) and acquisition date.

³² The complete list of items subject to property control that could not be readily located in the Sunflower system was provided to LANL on March 27, 2003 for resolution in the wall-to-wall inventory.

³³ Four of the sample items not subject to property control are label-maker printers. Contrary to LANL's sensitive items list (which implies that all printers are sensitive), BUS-6 stated that label-maker printers are not property-controlled.

c. Recommendations for Further Corrective Action

We understand that LANL has made significant progress with respect to identifying and eliminating long-standing control weaknesses and process breakdowns. We recommend that these cross-functional meetings continue after the team's assigned mission has been accomplished. In addition, we recommend that LANL perform monthly data mining of new JIT catalog additions to ensure that items are properly flagged as requiring property barcodes. We further recommend that LANL revise its sensitive items list to specify the types of printers subject to property control.

6. Business Necessity

a. Observation

We observed that employees and contractors are often provided items including shoes, clothing, hand lotion, eyeglasses and outerwear. In some cases, we question whether the items purchased meet the test of business necessity. For example, we identified that LANL procured 2,461 pairs of street shoes (brands include Nike, Doc Martens and Skechers) from LVA vendors during our Review Period. The contracts with safety shoe vendors specify that certain LANL divisions are authorized to purchase these types of shoes and states that these "street shoes" are for workers in divisions requiring electrostatic discharge shoes. In addition, 1,410 outerwear jackets were procured through LVA and JIT during the Review Period.³⁴ In some cases, we contacted the requester to inquire about the business purpose for the purchase and several requesters replied that they perform outdoor work (roof repairs, snow removal, etc.) and testing in outdoor Technical Areas (TA). Finally, we determined that 6,899 bottles of hand lotion (totaling approximately \$60,000) were procured from JIT vendors during our Review Period.

While we are aware that situations exist in which it may be appropriate for an employer to procure such items for an employee (e.g., safety garments required by OSHA), the volume of these purchases suggests that there may not exist adequate guidance to ensure that such items are only purchased by LANL when they are specifically required to perform the job.

We identified a number of purchases that, based on the abbreviated description available from the PAID system, did not appear to meet the test of business necessity but which we ultimately determined to be appropriate purchases. These examples solidify our opinion that data analysis without follow-up and understanding can result in inaccurate conclusions.

b. Recommendations for Corrective Action

We recommend that LANL review and assess the procurement of clothing, shoes, lotion, eyewear and other personal items that may not meet an obvious test of business necessity and establish policies and procedures that may be warranted for these types of procurements.

³⁴ Excludes outerwear identified as fire retardant.

B. Program-Specific Observations

1. Purchase Orders

a. Program Overview

Purchases Orders (PO) are the prime vehicle used to procure goods and services. A purchase order is issued to the vendor and represents a binding contractual agreement between the vendor and LANL.

A comprehensive purchase order, detailing the specifications of the procurement, is issued for commodity procurements and other straightforward transactions. A formalized subcontract is issued, in addition to the purchase order, for services, transactions with technical specifications, and other procurements requiring detailed specifications. The buyer is responsible for processing the procurement requisition,³⁵ issuing the purchase order and subcontract, administering the subcontract, including processing modifications, change orders, and task orders, and closeout procedures.

In addition to standard purchase orders, buyers may also enter into blanket purchase contracts, referred to as Blanket Purchase Agreements (BPA). The primary purposes of a BPA are to avoid the administrative cost of issuing multiple POs and subcontracts and to obtain quantity discounts when a recurring need for goods or services is anticipated.

When a PO is created, a ceiling is established, which represents the estimated total value of the procurement. The accounting department commits an amount equal to the contract ceiling. This funding is known as the cumulative commitment. Payments are made against the cumulative commitment amount up to the contract ceiling and as a result, invoices cannot be paid if the value of the invoice exceeds the contract ceiling.

The following is a summary of purchase order procurement activity by fiscal year during the Review Period:

TABLE 7: Summary of Purchase Order Procurement Activity

Fiscal Year	Number of POs	Commitment Amount (in millions)	Payment Amount (in millions)
FY01	17,776	\$604.2	\$434.3
FY02	20,088	825.0	686.3
Total	37,864	\$1,429.2	\$1,120.6

The buyer, with assistance from the technical requester, determines whether the procurement will be negotiated competitively, non-competitively or awarded as a sole source contract. A competitive award is sent out for bid to two or more potential vendors, and the subcontract is awarded to the vendor who is most responsive to the bid requirements. A non-competitive or sole source award is not competed due to limited

³⁵ A division technical requester, via the LANL Total Integrated Procurement System (TIPS), generally initiates procurement requisitions.

sources or exemption from competition, such as published pricing, small business set asides, etc.

b. Observations

i. Policies and Procedures

LANL's Procurement Standard Practices (SP) include Department of Energy approved policies and procedures and are designed to ensure compliance with Prime Contract requirements and University of California policies and requirements. The SPs are developed and maintained by the Procurement Manager and address operational aspects that are tied to specific business planning, organization, and program execution requirements. In some cases, more specific guidance is available in the form of Supplemental Instructions (SI). The SPs and SIs can be found on the LANL's intranet and are intended to be a reference guide for conducting business at LANL.

During the course of our interviews, numerous buyers expressed that some procurement SPs are overly broad and often do not address specific procedural practices. In general, LANL does not maintain detailed procedures buyers can consult when they are navigating the procurement process. As a result, some LANL buyers do not have confidence in the applicability of the SPs and are developing independent operating procedures. We observed that buyers do not consistently apply guidance provided in the SPs or waive guidance without sufficient justification. We also noted that non-authoritative procurement procedures in use by procurement personnel deviate from the SPs and there is the perception among buyers that SPs are out of date.

One buyer with more than ten years of LANL procurement experience indicated that she recently referred to personal notes from 1997 to obtain information on how to complete a procurement transaction because the relevant SP did not adequately address the buyers' questions.

During our contract file review, we identified an instance in which a procedurally required Contract Review Board approval (required for contracts exceeding \$5 million) was waived because the transaction "was an urgent requirement." We also noted an instance in which the BUS-5 Group Leader increased the signature authority of a CA for the specific purpose of allowing this individual to process a transaction without additional review. This purchase order was originally issued for three years and had a contract ceiling of \$8.4 million. Within the first two years of the contract, the ceiling has been increased by \$10 million.

According to the SPs, Buyers are responsible for competing procurement requisitions to ensure that LANL is getting the best value for the goods and services acquired. If a technical requester elects a non-competitive/sole source procurement, and the estimated requisition value exceeds \$100,000, the requester must provide a Sole Source Justification indicating the reasons the subcontract need not be competed. Approximately 87% of new subcontracts awarded during the Review Period were issued as non-competitive or sole source contracts. Buyers indicated that they are overworked and understaffed and often accept the sole source justification provided by requesters even if the justification is, in the buyer's opinion, unconvincing or if they know of other sources where the bid could generally be competed. Although buyers indicated that urgent time

requirements are not appropriate justification for a sole-source procurement, we identified instances in which “urgent time constraints” were cited as sole-source justification. In three cases, the sole-source award was approved. Additionally, buyers indicated that many of the goods and services procured by LANL are highly technical and specialized, thereby increasing the number of non-competitive/sole source contracts that are issued.

We observed that buyers do not adhere to the SPs and can potentially develop operating procedures that best suit their needs. Without detailed procedures to which buyers may be held accountable, is difficult to develop and implement an effective review program.

ii. Contract Administration

Our findings indicated that LANL’s contract administration is deficient in many respects. LANL uses a modified three-way matching process in order to approve invoices for payment. In most cases where the invoice, PO, and receiving report can be electronically matched, the buyer need not approve the invoice.

During our interviews buyers explained that contract administration is limited to the review and approval of the on-line invoices as received from Accounts Payable and the suppliers. If the invoice is for services (i.e., no receiving report exists) the invoice is routed to the technical requester and buyer for approval. The technical requester is responsible for approving that the services were rendered while the buyer is responsible for verifying that the amount invoiced is in compliance with the terms of the contract. This invoice approval process does not provide for segregation of duties with respect to ordering and payment and exposes LANL to the potential risk that LANL employees have the opportunity to verify receipt and authorize payment for services that were never rendered.

Buyers stated that they do not have sufficient time or resources to dedicate to subcontract administration and consistently indicated that they perform the “bare minimum”. During our contract reviews we noted the following:

- Procurement contract files are not standardized and are maintained in accordance with the CA’s personal style. Files do not contain the same information, as buyers do not adhere to file checklists. This lack of consistency makes procurement contract file reviews difficult and time consuming;
- Procurement contract files are frequently incomplete. SP 4.3 provides guidance on the documentation that is required to be included in the procurement file. Many of these required items, including progress reports, contract procurement checklists, complete invoice listing, etc., are not included in the contract files. For the subcontracts reviewed we noted 95%(70 of 74) of the files reviewed did not contain contractor progress reports, 61% (45 of 74) did not contain the contract procurement checklist and 58% (43 of 74) did not contain the required table of contents;
- A lack of evidence of approved invoices within the contract files. In general, invoice logs and/or hard copies of invoices are not maintained

within the contract file, as required by SP 4.3. When invoices are included in the file there is not adequate evidence of approval or review; and

- Minimal correspondence is maintained between the buyer, technical requester and/or the vendor. We noted seven contract files that did not contain any correspondence between the buyer, technical requester and/or vendor. One contract, with a value of \$1.7 million, contained only a single piece of correspondence.

In addition, we noted that subcontracts are often entered into for low dollar amounts and subsequently modified to raise the contract ceiling. Of the contracts reviewed, 95% contained contractual modifications. Of the modifications reviewed, we noted that 53 were due to funding changes and 51% of these were increased more than 100% above the original contract ceiling. Modifications may also be used to make non-monetary changes to a subcontract such as to change the responsible CA. Modifications are often issued as a result of poor initial contract estimates by the technical requesters. We identified examples of significant contract modifications, which the buyer attributed to poor initial planning on the part of the technical requester. Specifically, we noted that:

- The buyer and/or contractor did not sign subcontract modifications maintained in the procurement files. The contract review noted approximately 20% of the files contained unsigned modifications; and
- Internal change orders are sometimes issued in place of modifications. Changes which address changes in the subcontract's funding level, period of performance, or other changes that affect LANL and the vendor should be incorporated into a formal modification; failure to do so exposes LANL to the risk that the vendor will not adhere to these changes.

An increase in a subcontract's funding value, which is processed after the expense is incurred, is to be processed via contractual ratification. Based on our contract reviews, we noted two instances where modifications were issued in lieu of processing a ratification. In those instances, a modification was processed to increase funding after invoices were received which exceeded the current contract funding values. In one instance, the buyer was instructed by the technical requester to "shake the bushes" to find available funds to cover the subcontract overrun. The contract ceiling represents the best estimate of the total cost of the contract. Exceeding the contract ceiling value, without prior contract modification, illustrates the lack of contractual planning and contract administration.

Buyers commented during our interviews that a culture exists at LANL whereby technical requesters believe the procurement organization will accommodate all commitments, whether authorized or unauthorized. In email correspondence, a buyer expressed concern that a particular technical requester has a "history of exceeding subcontract amounts".

iii. Blanket Purchase Agreements

LANL procured goods and services aggregating \$30.1 million in FY01 and \$77.1 million in FY02 through the use of Blanket Purchase Agreements (BPA). In the fourth quarter of FY02, LANL learned that several employees had taken advantage of BPA vulnerabilities by purchasing hunting supplies, camping equipment, and other consumer commodities not appropriate in accordance with the terms of the subcontracts. We reviewed the contract file for this vendor in order to identify risk factors, which may exist in other subcontracts and noted the following characteristics:

- The goods sold by the vendor and procured under the BPA included consumer commodities;
- All LANL employees were authorized to make purchases under the BPA;
- The vendor was responsible for notifying the requester if items were purchased that were not covered under the blanket; and
- The subcontract was modified several times in a short time frame, each time increasing the contract ceiling.

We then considered these characteristics in reviewing other Blanket Purchase Agreements. We found that approximately 39% of the 27 BPAs reviewed indicated that all LANL employees were authorized releasers against the subcontract. In addition, we noted that contractual language in BPA contracts often puts the onus on vendors, versus requesters, to identify items not included under the blanket order.

SP 16.2, Blanket Subcontracts, states “all blanket subcontracts should contain the following elements: A listing of LANL personnel authorized to make releases...” Nonetheless, we observed that many BPA contracts are written without this specific designation (i.e., all LANL badge holders are authorized releasers). Such contracts expose LANL to the risk that personnel who do not need to make purchases against the BPA may do so. This factor, coupled with a BPA vendor who sells consumer commodities, increases the likelihood that LANL employees could fraudulently purchase items for personal use.

LANL should develop more robust controls to ensure that items purchased against the BPA are allowable per the terms of the contract. BPAs without a formalized control structure are more vulnerable to fraud and abuse than other contract mechanisms.

iv. Staff Augmentation

To alleviate staff shortages, LANL often issues separate staff augmentation contracts via a purchase order. LANL also secures the services of people via contract labor agreements, which LANL has negotiated with specific staffing sources. These contract labor agreements provide specific parameters regarding the pay scale, which are established by the Human Resource department.

Under staff augmentation contracts, contractors are often paid at hourly rates that exceed their earnings as an employee of LANL and the rates that could be obtained through the

contract labor agreements. Additionally, these arrangements often last several years and are extended without recompetition.

We reviewed a staff augmentation agreement with an outside consultant that had been in effect for six years. The correspondence indicates that the consultant was reimbursed for travel and that the consultant had been offered employment at LANL, but had refused. File correspondence indicates that the consultant was paid at a higher rate than an equivalent internal employee in the same position. Members of the procurement group questioned the reasonableness of this agreement, however the consultant's contract was extended without recompetition. We noted a second example in which a consultant firm, comprised of former LANL employees was retained to perform the same job functions as when the individuals were LANL employees. The subcontract has been modified numerous times since 1997 and the funding value has been increased from \$1.1 million to an aggregated commitment amount of \$5.7 million.

c. Corrective Actions Taken

BUS is in the process of establishing a Procurement Quality Assurance Team, which will provide valuable support to the procurement and requesting organizations as well as the suppliers to LANL. The organization includes a Policies and Procedures Team whose primary responsibilities are to maintain LANL's policies and procedures, terms and conditions, and contract templates. Additionally, the team is responsible for reviewing, revising and developing tools, guidance, formats and checklists to support both the requesters and the buyers, and conducting studies to install improved procurement practices. LANL is anticipating that five full time employees will comprise the Policies and Procedures Team.

In December 2002, the BUS-5 Procurement Group Leader issued an email memorandum which sets forth a new review policy for modifications exceeding 50% of the original contract value. The memorandum states, "where the aggregate value of the contract is (or will become) greater than \$550,000 AND where the modification increases the cumulative scope by 50% or more, then that modification must be reviewed and approved by the BUS-5 Group Office before issuance or execution of that modification."

In addition to addressing the modification review process, the memorandum addresses the issue of bi-lateral signatures on executed modifications. The memorandum provides guidance to buyers stating, "the vendor will sign two copies of the contract, PO or modification first – and then the [buyer] will sign". The guidance continues, "it is always a [buyer's] responsibility to ensure that all of [the] official contract files have originals of the contract and all modifications with bilateral signatures".

In January of 2003, the BUS-5 Procurement Group Leader issued an email memorandum addressing the subject of contract administration. The memorandum states in part, "In the interest of establishing consistency in the organization of written subcontract files exceeding \$100,000, I am instituting the use of a Subcontract File Contents checklist that is applicable for all written subcontract files other than for construction. The directions contained in this memorandum shall be followed instead of the procedures stated in LANL SP 4.3b effective immediately for all new subcontract files".

d. Recommendations for Further Corrective Action

In addition to the changes noted, we further recommend that LANL consider the following:

- Review and update the SPs on an ongoing basis to reflect changes in the Prime Contract, changes in regulatory law, and to reflect changes in current procedures performed by procurement personnel;
- Develop more detailed guidance (i.e., desk procedures) for buyers. The detailed guidance will promote consistency in the organization and provide the buyers with the tools for handling all facets of the procurement process;
- Develop standards for contract file format and content, and enforce this format through the contract file review process;
- Conduct quarterly reviews of contract files to ensure that the SPs are followed and that all necessary documentation is contained within;
- Require matching of invoices to receiving reports and/or receipts for BPA procurements; and
- Limit the use and access of Blanket Purchase Agreements. BPAs should only be used when appropriate controls are in place. For example, authorized releasers should be specifically identified within the contract, and the use of “All LANL employees” as authorized releasers should be prohibited. Furthermore, LANL should not rely upon vendors to identify items not included in the BPA.

2. Just-In-Time (JIT)

a. Program Overview

The Just-In-Time (JIT) Program was introduced in 1989 as an instrument for procuring “general purpose, low-value items”. The program was designed to streamline the purchasing process and to transfer the burden of warehousing supplies from LANL to the vendor, thereby decreasing costs. JIT vendors provide commodities such as computer equipment, tools, chemicals and office products. During our Review Period, there were 30 vendors contracted under the JIT system with a total of 44 unique subcontracts.³⁶

LANL’s procurement SPs do not provide guidance with respect to the JIT program or its specific rules. Rather, JIT guidelines are located in the “Requester’s Guide to Purchasing,” which provides information on the purpose of the JIT system, as well as the various mechanisms for procuring JIT items. The JIT home page also provides relevant information such as Frequently Asked Questions, JIT vendors and ordering instructions. The following table summarizes JIT procurement detail activity in FY01 and FY02:

³⁶ Some vendors have more than one subcontract. Each contract is specific to the types of goods to be procured. For example Frank’s Supply has two subcontracts; one for tools and another for welding supplies.

TABLE 8: Summary of JIT Procurement Detail Activity

Description	FY01	FY02
JIT Procurement Detail Activity	\$75.3 million	\$77.6 million
Number of JIT Transactions	391,921	406,840
Average Dollar Amount per Transaction	\$192	\$190
Number of JIT Requesters	5,881	6,250
Number of JIT Vendors	27	30

There are four ways to create a JIT order: by completing an on-line requester order entry; calling the JIT customer service group; phoning the vendor and placing a direct order; and placing an order in person at the vendor. Vendors are assigned LANL Cryptocards³⁷ and have the ability to enter orders into the JIT system. Deliveries are tracked by scanning the JIT barcode, which is affixed to each package by the vendor. Upon receipt at LANL, an additional scan indicates receipt and initiates the payment process. The JIT system automatically generates weekly invoices and triggers payment on these invoices.

b. Observations

i. Program Management

The JIT program team lacks a single program manager and is administered by three CAs, with the assistance of seven PCAs.³⁸ We observed that the Streamlined Purchasing Team Leader has not been involved in the daily management of the program. Having a designated leader would enhance supervision, provide greater accountability and foster better controls.

The current management structure and the absence of appropriate policies and procedures may explain the lack of standardization and consistency among buyers with respect to JIT contract administration. Specifically, we noted that each CA treats the issue of vendor rebates differently and that there are different methods for resolving vendor disputes of LANL generated invoices.

Furthermore, the lack of a single program manager hampers communication within the JIT group as well as with others outside of BUS-5. For example, we learned that several years ago, members of the JIT team met regularly with representatives of BUS-1 (Accounting), BUS-4 (Shipping and Receiving), BUS-6 (Property Management) and BUS-7 (Systems Management) to discuss matters pertinent to JIT. Without a program leader, this crucial communication ceased.

Finally, all members of the Streamlined Purchasing Team (with the exception of the Purchase Card team) are responsible for both JIT and LVA vendor subcontracts. These

³⁷Cryptocards are an electronic system for assigning passwords and controlling access to LANL's business computer systems.

³⁸ For three JIT vendors, the contract administrator is a PCA rather than a CA.

dual responsibilities add to team members' workload. CAs cite heavy workloads as the reason they have been unable to re-compete expired JIT subcontracts and the reason LANL gave vendors the responsibility for on-line catalog maintenance.

ii. Contract Administration

Many rudiments of JIT contract administration have been abandoned as JIT team members struggle to keep up with routine customer inquiries and daily contract maintenance. Specifically, we noted that although PCAs prepare quarterly performance reports for JIT vendors, CAs do not consistently follow through by seeking rebate payments from vendors who fail to meet their performance targets. Furthermore, vendor performance statistics are not used to evaluate the vendor's performance over time and we found no evidence that these statistics are relied upon when deciding whether to extend or re-compete a JIT vendor's subcontract.

As part of contract maintenance, PCAs are required to conduct vendor compliance reviews. These reviews were designed to assess the integrity of the catalog maintenance function performed by JIT vendors. Specifically, PCAs are required to perform both vendor price reviews (i.e., cost compliance reviews) and catalog item reviews on a regular basis.

We noted that these required reviews are not routinely performed or are performed inefficiently. For example, instead of targeting manufacturing part numbers that reflect price changes, PCAs randomly select Material Requisitions (MR). This random sampling process makes it difficult to focus on items with frequent or large price fluctuations. PCAs are also required to examine monthly product changes to the on-line catalog in order to verify if added items are allowable, restricted, and/or within vendor contract terms.

According to an internal assessment of the JIT Program, 20 JIT subcontracts (74%) have either expired or are within months of expiration and should either be re-competed or terminated. This failure to compete JIT subcontracts violates the intent of the program, which states "JIT procurements are implemented primarily through competitively awarded system contracts. This competition is designed to ensure that, given contractually mandated performance requirements, LANL can obtain the best value and receive these items at a reduced net cost".³⁹ In lieu of recompeting subcontracts, CAs frequently issue contract modifications to extend the contract term. This practice is a poor substitute for recompetition or renegotiation.

iii. Catalog Management

The on-line JIT catalog is extensive and requires constant attention in order to maintain its integrity and accuracy. It is imperative that prices quoted on the on-line catalog are current since this price is used to generate JIT vendor invoices. Due to reduced staffing after the 1996 reduction in force, LANL delegated the catalog maintenance function to JIT vendors. Vendors have been granted full access to add, change, or delete catalog items, including the ability to change item status⁴⁰ and product pricing. In addition, vendors are responsible for identifying items that are subject to property control and

³⁹ Per the Requester's Guide to Purchasing.

⁴⁰ Stock and Non-stock items.

flagging these items in the catalog. Allowing vendors to make the aforementioned catalog changes creates a high risk for system misuse and/or abuse. Currently, LANL is required to perform catalog reviews. However, PCAs responsible for these reviews do not perform them on a consistent basis.

Although vendors are subject to contractual restrictions with respect to catalog additions,⁴¹ each vendor has complete access to add new catalog items or change product pricing at any time. As a result, there are no controls in place to prevent vendors from adding contractually restricted or unallowable items to the JIT catalog.

Our analysis of JIT data indicated that 25%⁴² of the items purchased through JIT had price changes during our Review Period. We selected a sample of 51 JIT catalog items with two or more price changes during our Review Period and requested documentation from the vendor to support the price change. Based on documentation received, we recalculated prices and determined that 58% of the items exhibited unit price variances. Of the transactions with price variances, we determined that 59% of the variance is due to overcharges and the remaining 41% are due to undercharges. In conducting this price review, we noted that some vendors bundle multiple items into one MR, which circumvents key program controls and makes pricing analysis difficult.

Delivery performance statistics are based largely on a vendor's ability to deliver stock items with a contractually specified time frame (usually one day). As a result, vendors could be motivated to alter MRs in order to inflate their on-time delivery performance, thereby avoiding rebate payments to LANL. Until recently, vendors also had the ability to cancel MRs and to reopen new orders when out of stock items became available. Approximately one year ago, LANL revoked vendor's capability to cancel orders. However, vendors still have the ability to change the status of items from stock to non-stock. Changing the item status is yet another mechanism by which vendors may manipulate performance statistics in the absence of internal controls.

iv. Pick-Up Orders

When placing a JIT order, requesters have the option of picking the item up from the vendor or requesting that the item be shipped to a designated drop point at LANL. When items are shipped, the vendor scans the package to indicate that they have released the item. The package is first routed to BUS-4 (Shipping and Receiving) where the item is scanned a second time to indicate receipt in LANL's receiving system and then routes the package to the identified drop point. Here it is scanned for a third time to indicate delivery. The final scan signifies that the item has been received by LANL and releases the MR for payment. This three scan process matches the order to the receiving record and is, therefore, a key internal control of the JIT program.

⁴¹ Most vendors may only process price increases semi-annually and are prohibited from adding new catalog items without the approval of LANL. Technology equipment vendors are permitted to adjust prices monthly.

⁴² Out of 127,931 manufacturing part numbers, 31,677 had two or more price changes over the course of our Review Period.

The majority of JIT orders are shipped to LANL. Occasionally, however, a requester opts to pick-up an item directly from the vendor.⁴³ In these cases, the receiving process described above is circumvented. Until July 2002, pick-up orders were processed using a two-scan process. First, the vendor scans the item to indicate the item was released. Then the requester is required to sign a form certifying that the item was received.⁴⁴ Next, the vendor prints the MR and sends the document to BUS-4 where the document is scanned to indicate that the item was picked up at the vendor site. This second and final scan initiates the payment process.

Beginning in July 2002, the pick-up process was further simplified to eliminate the requirement to send MR forms to BUS-4 for scanning. At this time, the two-scan process was reduced to a single scan, which is performed by the vendor. This means that JIT vendors are now authorized to initiate the payment process on JIT orders without any intervention by LANL. This control weakness is further compounded by the fact that JIT vendors have always had the ability to initiate orders in the JIT system.

We found evidence of the risks inherent in the JIT system. We identified 164 purchases of apparel totaling \$14,530 from LANL's JIT tool supplier.⁴⁵ The sale of such items is prohibited in accordance with the vendor's contract and the vendor had been specifically instructed not to sell these items. We inquired as to the receipt of the purchase items with twelve individual requesters. Responses received from nine requesters indicated that the merchandise was received but not from the specified vendor. Two requesters indicated that they did not receive the merchandise from any vendor. Only one requester recalled making the purchase as recorded in the JIT system. UC has brought this matter to the attention of the DOE Office of Inspector General.

v. Restricted Purchases

The JIT program was conceived as a vehicle for the procurement of low-value commercially available goods. There are two general categories of restriction placed on the types of items that may be procured through the JIT system:

- Unallowable items as specified in the Prime Contract and in Standard Practice 31.3, and
- Items restricted in accordance with the vendor's subcontract.

Unallowable purchases include items such as awards, gifts, advertising, and memberships and are disallowed in accordance with the Federal Acquisition Regulations (FAR) as well as the Prime Contract between the UC and the DOE. Based on key word searches of item descriptions in the JIT data, we identified 53 items, which could be unallowable depending on prior approval and appropriate cost coding.⁴⁶ We also reviewed JIT procurements of consumer commodities that may not meet a test of business necessity. We sampled 88 items and asked each requester to provide an explanation of the business

⁴³ Vendor pick-up is permitted for time critical procurements or for procurements requiring sizing (e.g., clothing).

⁴⁴ Signed pick-up certificates should be maintained by the vendor, although this is not contractually required.

⁴⁵ A list of these items was provided to LANL management on March 19, 2003.

⁴⁶ On March 19, 2003, we provided a list of these items to LANL management.

purpose as well as written detail of approvals and/or authorizations received prior to the purchase. With the exception of lotion, clothing and eyewear, the responses seemed to meet a test of business necessity.

Each JIT subcontract specifies the types of items that may be procured from the vendor. By contractually limiting a vendor's product offering, LANL is attempting to prevent duplication between vendors as well as to prevent vendors from offering items outside of their contract. Nonetheless, we found evidence of vendors selling items that are prohibited in accordance with their contracts. For example, LANL's JIT supplier of chemicals also sold Gatorade sports drink. This is in addition to the tools vendor who sold apparel and outerwear to LANL employees. These items may have been added to the JIT catalog by the vendor without the knowledge of the CA.

Transportation charges are generally included in JIT item pricing. As a result, separate billing for general transportation charges is not permitted in accordance with JIT subcontracts.⁴⁷ Nonetheless, the Procurement Quality Assurance team recently reported that some JIT vendors were inappropriately billing LANL for transportation costs. We reviewed the JIT data for transportation changes and identified 14,550 transactions totaling more than \$500,000.

Services are not currently restricted in accordance with JIT policies and procedures and several JIT contracts specifically allow for services. We determined that the JIT system is ill equipped to capture services, especially those billed on a time-and-materials basis. Because the JIT is a catalog-based system and because the vendors are not required to submit documentation, the current system does not allow LANL to verify that the vendor has appropriately billed time-and-materials services.

c. Corrective Actions Taken

We are informed that BUS-5 Team 1 has submitted a staffing plan to increase the number of JIT resources. In the interim, Team 1 is seeking assistance from the Quality and Assurance team to work through the team's backlog of vendor price reviews. In addition, we understand that LANL is in the process of revamping JIT desktop policies and procedures that are currently obsolete. Furthermore, LANL has committed to developing a re-compete strategy for JIT subcontracts. All of the above corrective actions are scheduled for completion by April 30, 2003.

d. Recommendations for Further Corrective Action

In addition to the corrective actions noted above, we recommend that LANL consider implementing the following:

- Appoint a JIT program manager, akin to the Purchase Card Administrator;
- Consider prohibiting pick-up orders from JIT vendors. If LANL elects to continue allowing pick-up orders through JIT, require vendors to send signed pick-up forms to BUS-4 for scanning;

⁴⁷ Premium transportation are permitted with prior approval.

- Hold quarterly meetings between all BUS personnel involved in the JIT process;
- Consider separating JIT and LVA into two distinct teams;
- Require CAs to seek rebates from JIT vendors. Consider automating this process so that rebates are automatically deducted from vendor payments;
- Evaluate existing JIT contracts, re-compete expired subcontracts, utilizing past vendor performance statistics in determining whether renewal is warranted;
- Perform routine contract file reviews to ensure that contract administration procedures are performed;
- Reclaim the catalog maintenance function. Consider revoking vendor authority to make catalog changes (with the possible exception of price decreases). If LANL elects to continue delegating catalog maintenance to vendors, create a full-time position for the real-time monitoring of vendor changes;
- Consider prohibiting the use of the JIT system to procure services;
- Make vendors accountable for failure to adhere property labels by adding property control as a vendor performance metric.

3. Local Vendor Agreements (LVA)

a. Program Overview

LVAs are purchasing agreements with local area vendors for the procurement of in-stock items. The LVA procurement program is to be used for items needed immediately by requesters that are not available from the Just-In-Time (JIT) procurement system in the time frame needed by the requester. LANL requesters purchase items at the vendor's location by presenting their LANL identification badge. The LANL Badge provides the requester's Z-number, which is used to record the purchase. The requester also provides other information to the vendor at the time of purchase, which is used by LANL to record the purchase in its financial system.

Items available for purchase from LVA vendors include: audio and video supplies, books and publications, computer supplies, floor coverings, hardware supplies, office supplies, photographic supplies, roofing material, safety and computer glasses, safety shoes and protective clothing.

At the time of purchase, requesters supply information to the vendor including name, Z-number, phone number, group, cost center, program code, cost account, work package code, and mail stop. This information is noted on the transaction receipt by either the vendor or the requester. The receipts are typically in triplicate with one copy given to the

requester, one copy kept by the vendor, and one copy sent to LANL with the invoice for processing.⁴⁸

LVA vendors submit their invoices directly to LANL for payment. Vendors submit invoices weekly or monthly depending on the amount of transactions that the vendor has during that period. The process for LVA vendor payment requires vendors to submit a disk with their transaction detail,⁴⁹ a copy of the transaction receipts, and a summary report to BUS-7 (Systems Management). Data is loaded into STORES and hard copy reports transaction receipts are sent to BUS-1 (Accounting) for scanning into Documentum. BUS-1 enters the invoice information into the PAID System, which generates an on-line invoice approval notice that is sent to the PCA who reviews the invoice on-line and approves for payment. Vendors are paid the full amount of the invoice within ten days. Despite the complexity of this process and the number of groups involved, we determined that transaction receipts are not necessarily reviewed. Furthermore, when review of receipts does occur, it is often after the invoice has already been paid.

The following table summarizes LVA procurement detail activity in FY01 and FY02:

TABLE 9: Summary of LVA Procurement Detail Activity

Description	FY01	FY02
LVA Procurement Detail Activity	\$3.0 million	\$3.5 million
Number of LVA Transactions	58,646	63,212
Average Dollar Amount per Transaction	\$51	\$55
Number of LVA Requesters ⁵⁰	8,624	9,244
Number of LVA Vendors ⁵¹	31	34

LVA activity appeared to be consistent when compared month to month with the exception of some increase in activity at fiscal year end.

Included in our LVA data are three subcontracts with vendors who provide specialty gases and cryogenic liquids. These subcontracts are Blanket Purchase Agreements (BPA) that utilize the LVA payment mechanism. While BUS-5 Team 2 administers these subcontracts, BUS-4 (Materials and Management) Gas Facility oversees all purchases made under these subcontracts. LVA-Gas procurements during our Review Period totaled \$529,447.

⁴⁸ During our review, we noted that at least one LVA vendor produces receipts only in duplicate form with one copy maintained by the vendor and one copy given to the requester. A copy of the vendor's receipts is sent to LANL with the invoice for processing.

⁴⁹ Level of transaction activity determines how often LVA vendors submit their data to LANL, which is no less than monthly.

⁵⁰ Calculated by employee Z-numbers.

⁵¹ Calculated by vendor name.

b. Observations

i. Program Management

Like JIT, the LVA procurement program lacks a single program manager as three CAs and seven PCAs responsible for JIT are responsible for the LVA subcontracts. This organization may contribute to the observed control weaknesses in the LVA program.

The LVA program lacks defined guidelines, policies or procedures. At its inception in the late 1980's, the LVA program was intended to be used on a limited basis for urgently needed items only and since its inception, the vendors and types of items available for purchase via LVA have expanded significantly.

Existing LVA guidance simply states that there is a \$500 limit per transaction limit and that items purchased via LVA should not be available within the needed timeframe from JIT.⁵² There are no standardized desktop procedures followed by PCAs or training programs required for PCAs. For example, we reviewed the current process for invoice review and approval and noted that different procedures are used by PCAs in order to complete this process.

ii. Contract Administration

Due to the lack of formalized policies and procedures, inconsistencies were noted in the administration of LVA subcontracts, including:

- Subcontracts were repeatedly renewed and/or modified to extend the termination period of the subcontract;
- Clauses included in the subcontracts were not standardized;
- Subcontract values were increased significantly via modifications;
- Vendor performance measures were not included in subcontracts; and
- No indication of CA approval of modifications.

With the exception of two LVA subcontracts, all administrative responsibilities and daily procedures are performed by the PCAs. Responsible CAs provide limited mentoring to PCAs when performing tasks related to subcontract administration including preparing modifications to the subcontracts. According to interviewed PCAs, none have received formalized training on the administration of subcontracts and some are not comfortable with this responsibility. In addition, there are no procedures in place for routine subcontract review.

As noted above, due to the lack of defined guidelines, different procedures are used by PCAs to review LVA invoices. Review procedures vary by PCA and may include verifying the following when reviewing invoices:

- Item descriptions;
- Amounts billed including discounts;

⁵² See the Requester's Guide to Purchasing on the Procurement home page.

- Billing for out-of-pocket expenses (for purchases of safety and computer glasses);
- Receipts signed by the requesters;
- Authorized employee groups;
- Correct Z-numbers; and
- Correct cost codes.

Supporting documentation maintained by PCAs is inconsistent and there is no indication of review of the supporting documentation that is maintained by the PCAs. One PCA we interviewed indicated that they perform no review of invoices whatsoever and simply files the invoices when received. The same PCA also noted that documentation is sometimes received up to four months after the invoice is paid. In addition, almost all PCAs stated that they were behind in their review of LVA invoices. The timely review of LVA invoices is crucial to maintaining proper control over the program. Errors that are caught timely by PCAs can be corrected directly with the vendor and/or the requester to eliminate repeat occurrences.

Furthermore, the process that is currently used for LVA invoice review is deficient. There is no three-way matching process, which is typical of more traditional procurement programs. Currently, PCAs receive only the vendor's invoice and transaction receipts. Receiving reports are not generated in the LVA process. Therefore, only vendor receipts are reviewed and compared to vendor invoices. There is no policy that requires requesters to retain and submit their invoices for review. Requester receipts are not reviewed and compared to vendor receipts to ensure that items reported on vendor invoices were actually purchased by the requester.

In addition, when making LVA purchases, LANL employees purchase items directly from authorized LVA vendors. LVA-purchased items are picked up by the requester from the vendor at the time of purchase and therefore, do not pass through LANL BUS-4 (Shipping and Receiving). Thus, the receipt of these items is also not verified by LANL.

iii. Control Over Requesters

There is limited control over requesters making purchases via Local Vendor Agreements. Any LANL badge-holder is authorized to make purchases from LVA vendors and no approval is required prior to making an LVA purchase. Our review of LVA purchases indicated that vendors and visitors made LVA purchases during our Review Period.⁵³

In total, approximately 12,000 individuals made LVA purchases during our Review Period. Based upon our review of LVA data, we determined that Z-numbers and requester names do not always match. We performed an additional analysis of requester Z-numbers to determine that the Z-numbers used to make LVA purchases were valid at the time of purchase. Based on our analysis, we determined that 25 purchases totaling

⁵³ The program does not specifically prohibit LANL visitors, vendors or contractors from making LVA purchases.

\$1,412 were made on invalid Z-numbers. An additional 15 transactions totaling \$3,414 were made on Z-numbers that were expired on the date of purchase.⁵⁴

iv. Restricted Purchases

The LVA program was conceived as a vehicle for the procurement of low-value commercially available goods. There are three general types of restrictions placed on the types of items that may be procured from LVA vendors:

- Unallowable items as specified in the Prime Contract (SP 31.3);
- Items restricted in accordance with LVA program guidance; and
- Items restricted in accordance with the vendor’s subcontract.

Based upon our review of LVA transactions in FY01 and FY02, we identified possible restricted purchases in each of the above categories. A summary of our findings is as follows:

TABLE 10: Summary of Restricted Purchases

Restricted Purchases	Number of Transactions	Dollar Amount
Restricted Per Prime Contract		
Possible Unallowable Transactions ⁵⁵	15	\$2,094
Restricted Per LVA Program Guidance		
Transactions greater than \$500	390	\$842,000
Split Transactions	21	\$3,324
Contractually-Restricted Transactions	2,654	\$311,229

Unallowable transactions are disallowed in accordance with the Federal Acquisition Regulations (FAR) as well as the Prime Contract between the UC and the DOE. Examples of potentially unallowable purchases made from LVA vendors include plaques and gift certificates.

The LVA program guidelines provide for a \$500 transaction limit. Some LVA subcontracts state that it is inappropriate to split a transaction in order to circumvent the \$500 threshold. We were informed that buyers sometimes gave special approval to waive the LVA transaction limit. As illustrated in the above table, we found instances of transactions exceeding the \$500 limit as well as possible split transactions.

Although the LVA program guidelines do not specifically prohibit the purchase of property-controlled items, the program does not have any mechanism to ensure that items procured are entered into the property management system (Sunflower). We identified

⁵⁴ A list of invalid or expired Z-numbers was provided to LANL management on March 19, 2003.

⁵⁵ Allowability of these items is dependant upon prior approval and appropriate cost coding. A list of these items was provided to LANL management on March 19, 2003.

65 items subject to property control that were procured from LVA vendors, none of which were readily identifiable in Sunflower.⁵⁶

Each LVA subcontract incorporates either an inclusion list of items that may be purchased from that vendor or an exclusion list of items that may not be purchased from that vendor. These lists are specific to each LVA vendor and each subcontract.

Of the listed restricted purchases above, we selected a sample of 135 transactions and requested confirmation from the requesters that these items were ordered. We also asked the requester to confirm that the items were received and that the vendor provided satisfactory service. Finally, we asked the requester to provide an explanation of business purpose and if any prior authorizations or approvals were made before making the purchase. We received responses on 92% of the sampled transactions.⁵⁷ In 114 instances, the requester's provided reasonable explanations of the business purpose that met a test of business necessity. Responses for which the business purpose was uncertain were included in our list of possible unallowable items, and included items procured for which the business necessity is unclear such as a coffeemaker, radio, tent stakes and potting soil.⁵⁸

c. Corrective Actions Taken

On March 5, 2003 LANL announced its intention to reduce the number of individuals allowed to make LVA purchases. A memorandum from LANL's Associate Director of Administration, dated March 5, 2003, asks each LANL Division to identify a discrete number of individuals who will be authorized to make purchases under LVA subcontracts. The memorandum asked that these designations be made by March 14, 2003.

On March 24, 2003, the Procurement Quality Assurance Team made a presentation to LANL's Business, Policies, Procedures and Practices Committee. They proposed to continue the LVA Program in the interim period but proposed the following changes:

- For the procurement of safety shoes, safety and/or computer glasses, and other personal equipment, requesters must complete a pre-authorization form prior to making the purchase and obtain approval on the form from their Group Leader or Team Leader. When making the purchase, the requester submits the approved form to the vendor. After the purchase is made, the requester submits their copy of the transaction receipt to their Group or Team Leader and they validate that the requester has purchased and received the items. The Group or Team Leader maintains the pre-authorization form and the transaction receipt on file. For payment processing, the vendor submits their copy of the transaction receipt, the pre-authorization form, and the invoice

⁵⁶ These items were included in the list of 2,485 items referred to management for resolution during LANL's wall-to-wall inventory on March 27, 2003.

⁵⁷ A list of sample items for which no response was received was provided to LANL management on March 19, 2003.

⁵⁸ A list of these items was provided to LANL management on March 19, 2003.

to LANL. Invoices are forwarded to the PCAs for review and approval.

- For the procurement of other commodities via LVA, the requester is to complete a LVA Request Form that is to be signed by the designated buyer for that requester's division. The designated buyer keeps a copy of the LVA Request Form and upon making a purchase; the requester presents a copy of the approved form to the vendor. After making the purchase, the requester gives a copy of the transaction receipt to the designated buyer. The designated buyer maintains the LVA Request Form and the transaction receipt on file. The vendor submits their copy of the transaction receipt, the LVA Request Form, and the invoice to LANL for payment. Then, these items are reviewed by the PCAs in their invoice review process.

Previously, LANL implemented a new procedure for gathering information at the point of purchase. Each vendor was provided an Employee Certification Stamp and required to stamp every LVA transaction receipt. The requester is then required to fill in information such as name, Z-number and cost codes. Finally, the requester is required to sign the document certifying that the items purchased are for official purposes and necessary for the performance of work at LANL.

d. Recommendations for Further Corrective Action

We agree with the corrective actions that LANL has announced to-date and intend to make in the near future. Additionally, we recommend the following:

- Review current LVA processes and procedures performed by PCAs and formalize policies and desktop procedures including guidelines for maintaining standardized supporting documentation. Also incorporate detailed procedures for PCAs to follow when restricted purchases are made by vendors and requesters;
- Develop procedures for the electronic validation of LVA requester Z-numbers and names. This validation should be performed before the vendor-submitted invoice data is imported into the STORES system;
- In conjunction with formalizing policies and procedures, develop training programs and implementation schedules for PCAs, LVA vendors and requesters. Also provide resources to reference when encountering questions or issues when making LVA purchases;
- Perform complete review of all LVA subcontracts to determine if the LVA procurement program is the appropriate procurement mechanism to use for the specific type of purchases made and evaluate each LVA subcontract to determine if subcontract renewal is needed;
- Revise subcontracts during re-compete/renewal process to cite inclusive lists of allowable items rather than exclusive lists of restricted items;

- Perform routine LVA subcontract reviews and monitor subcontracts to ensure that proper documentation is maintained and contract terms do not expire.

4. Requester Release Blankets (RRB)

a. Program Overview

Requester Release Blankets (RRB) are contracts for the procurement of mechanical and printed circuit board fabrications (i.e., machine shop services). While RRB and LVA subcontracts are often confused because their detail data is commingled in Data Warehouse, they are two distinct programs.

Fabrications are highly specialized items built to specifications defined by the requester. RRB items are not property-controlled. The following table summarizes activity during the Review Period:

TABLE 11: Summary of RRB Procurement Detail Activity

Description	FY01	FY02
RRB Procurement Detail Activity	\$5.5 million	\$6.6 million
Number of Transactions	2,588	3,084
Number of Requesters ⁵⁹	131	176
Number of Vendors	23	25

All authorized RRB requesters have a \$10,000 signature limit, although four individuals have signature authority limits of \$25,000.⁶⁰ When an authorized requester requires a fabrication, they complete a request form, discuss their specifications with the vendor and place the order. After a fabrication is complete, the requester either picks-up the product from the vendor or has it delivered directly to them. BUS-4 (Shipping and Receiving) is not involved in the RRB procurement process and as a result, there are no receiving reports for RRB fabrications. Invoice terms for RRB subcontracts are net 30 days. The same payment process for LVA vendors is used for the RRB vendors.

b. Observations

Unlike the JIT and LVA procurement programs, the RRB program has a dedicated CA and PCA responsible for the administration of all RRB subcontracts, the review and approval of invoices, and developing and providing training for vendors and requesters. The centralization of these duties allows for enhanced controls over the RRB Program. In addition, there are authorized requesters for RRB items and there is a defined process

⁵⁹ All LANL employees may make an RRB purchase by making a request directly with BUS-5, Team 4. BUS-5, Team 4 will approve the transaction and place the order with the vendor for the requester.

⁶⁰ The “Elite Four” were given these higher signature authority limits as they have expertise in these types of fabrications. These employees were formerly members of an internal LANL fabrication shop that no longer exists as fabrications were outsourced via RRB’s.

for the approval of new RRB requesters and there are required forms for RRB requesters to use when making a purchase.

However, like the LVA program, there is no three-way matching process to confirm that goods and services were received. RRB items are usually picked-up directly from the vendor and therefore, no receiving reports are generated. The only matching process that is performed is to agree the invoice to the requester forms. The signature of the requester is the only validation that these items were received.

c. Corrective Actions Taken

All authorized RRB requesters are required to participate in a training course administered by BUS-5, Team 4 prior to making an RRB purchase. As of February 2003, RRB requesters are required to sign that they understand the rules and regulations to the RRB program and certify that they have completed the course.

In addition, an internal committee has been established to revise the RRB policies and procedures. The Deputy Group Leader of the Institutional Quality Management division chairs the committee. The revised RRB policies and procedures are scheduled for release in April 2003.

IV. Limitation of Procedures Performed and Resultant Findings

The observations and findings outlined in this report are based on the procedures performed. During the process of performing our work, we were not able to independently verify all events or data. Our procedures were designed to fulfill the tasks outlined above in Section I and were not specifically designed to detect fraud. Further, we do not make any representation as to the adequacy or sufficiency of our procedures for UC's purposes.