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UNITED STATES GENERAL ACCOUNTING
WASHINGTON, D.C. 20548



ENERGY AND MINERALS
DIVISION

JUN 26 1979

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B-168450

Ms. Omi G. Walden
Assistant Secretary, Conservation
and Solar Applications
Department of Energy



DL600897

Dear Ms. Walden:

As you are aware we have been surveying the organization and management of your office since mid-January 1979. At this time we would like to bring two procurement matters to your attention which we believe warrant your consideration.

1927 - In our survey of the Office of Weatherization Assistance (OWA), within the Office of State and Local Programs, we noted two proposed contracts to be awarded non-competitively to the Syracuse Research Corporation (SRC). One procurement action is a \$115,363 contract under which SRC is to develop a weatherization program manual for state and local weatherization program managers. The other procurement action is a \$349,755 contract with SRC to publish a weatherization newsletter. *1928*

In our opinion OWA has not sufficiently justified the need to award these contracts non-competitively. Moreover, we question OWA's evaluation of the contractor's proposals. Perhaps of greater concern is the apparent lack of in-house OWA staff to perform the type of activities being contracted to SRC. OWA officials told us that because of the lack of staff they will continue to rely on contractors for future weatherization projects.

While using contractors is not in itself harmful, care must be taken to assure that contractor support activities do not supplant the normal functions of DOE. And if contractors are used, the Government should do all it can to foster competition. In our opinion OWA may be becoming too reliant on contractor support to accomplish its mission.

Letter Report

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DEVELOPMENT OF A WEATHERIZATION
PROGRAM MANUAL

In November 1978 SRC submitted an unsolicited proposal to DOE to develop a weatherization program manual for state level weatherization program administrators. The manual as proposed by SRC would provide information to assist state level officials in carrying out their policymaking, management support, and weatherization operations within the scope of DOE policies and guidelines.

OWA officials told us that prior to receiving SRC's proposal they were making plans to develop such a manual, but their efforts were limited due to lack of in-house staff to carry out the project. In the meantime, we were told, you directed that priority be given to developing a weatherization manual along the lines of the manual contemplated by your staff and that proposed by SRC. In view of the high priority of the project and considering the fact that there were insufficient in-house resources to prepare such a manual the decision was made to accept SRC's proposal.

We have not made an in-depth analysis of the technical content of the proposal nor have we evaluated the need for such a manual. However, based on our discussions with OWA officials and officials of DOE's Office of Procurement and Contracts Management (OPCM) we believe two aspects of the current procurement proposal with SRC should be reevaluated. The first issue concerns whether the contract for the manual should be awarded non-competitively or competitively. The second issue concerns SRC's use of consultants to develop the manual.

Non-competitive or competitive
contract award?

OWA's initial procurement proposal provided for SRC to be awarded a non-competitive contract to develop the weatherization manual under unsolicited proposal contracting procedures. Under these procedures a contract can be awarded non-competitively to a person or firm submitting an unsolicited proposal if certain criteria specified in the Federal Procurement Regulations are met.

As you are aware, procurement proposals are reviewed by OPCM's program support personnel physically located in your office before they are formally submitted to OPCM for procurement action. The OPCM program support group rejected the

initial proposal to contract with SRC under unsolicited proposal procedures maintaining that the tasks to be performed under the contract were not sufficiently unique to justify procurement under these procedures.

A second procurement package was prepared by OWA to justify the contract as a sole source procurement. This justification was identical to the justification used in attempting to qualify the contract as an unsolicited proposal procurement. The second proposal was submitted directly to OPCM for award action without a review by the OPCM program support group. We do not know why the OPCM program support group did not review the second proposal before it was forwarded for procurement action. We were told that the proposal will be returned to OWA for coordination with the program support group.

Based on our review of the procurement package we believe OWA's proposal for seeking a sole source contract with SRC has not been sufficiently justified. DOE procurement regulations 1/ require that a significant amount of information be presented in proposals requesting non-competitive procurements. The regulations state that "each justification should set forth enough facts to clearly and convincingly establish that competition would not be feasible or practicable". Specific information is requested on the following:

- description of the program;
- procurement history of the project, estimated future requirements, and long range plans;
- estimated costs;
- schedule requirements, and;
- exclusive capability of the contractor.

OWA's justification discusses the program and contains a good deal of information on SRC's past activities in the weatherization area. Yet OWA has not provided any information in its proposal on the costs or the schedule requirements associated with awarding the contract sole source. Nor does the

1/DOE procurement regulations are being written. We were told that the Energy Research and Development Administration Procurement regulations are being used in the interim to govern DOE procurement.

justification specifically discuss SRC's exclusive capabilities which would make it the only firm, or one of the few firms, that could meet the contract requirements. We discussed OWA's justification with an official of the OPCM program support group and were told that the justification would not be adequate to support OWA's request for a sole source contract with SRC.

Use of consultants

The second issue we believe needs reevaluation is SRC's planned use of consultants to prepare the weatherization manual. SRC's budget estimate for the project is as follows:

	<u>Costs</u>	<u>% of Total Costs</u>
Labor	\$33,428	29.0%
Overhead	32,759	28.4
Travel and living	4,000	3.5
Consultants	21,450	18.6
Publication cost	3,000	2.6
G&A	14,196	12.3
Fee	<u>6,530</u>	<u>5.6</u>
	<u>\$115,363</u>	<u>100.0%</u>

Consultant cost (\$21,450) represents over 18 percent of SRC's proposed cost of \$115,363. Adding the consultant cost to SRC's labor cost (\$33,428) would result in an overall labor cost of \$54,878. Analyzing the consultant cost as a portion of the total labor cost reveals that consultant costs amount to about 39 percent of the overall labor costs.

We discussed SRC's planned use of consultants with OWA officials. Specifically we wanted to know if SRC would need consultants to fulfill the terms of the contract. OWA officials told us that SRC could develop the manual without

consultants; however, the two specific consultants to be used by SRC could add substantially to the end product. In our opinion a limited amount of consultant advice on such a project may be warranted. But in this case it seems that SRC will be making extensive use of consultants to meet its contract obligations.

The use of consultants is also germane to the issue of awarding SRC a sole source contract to prepare the weatherization manual. It does not seem appropriate to justify a sole source award based on a firm's capabilities if the firm will have to use consultants extensively to fulfill the terms of the contract. In our opinion, SRC's proposed consultant cost should be reevaluated. If SRC has the capability to perform the work with its own employees, we believe that consultant costs should be substantially reduced or perhaps totally disallowed. If they are unable to do the job without consultants, we question the decision to select SRC for this project.

DEVELOPMENT AND PUBLICATION OF
A WEATHERIZATION NEWSLETTER

In late 1978 OWA entered into an interagency agreement with the Community Services Administration (CSA) to develop and pilot test a weatherization newsletter. The purpose of the newsletter was to provide a medium for the exchange of information on the technical, educational, administrative, legislative, and management aspects of the weatherization program. OWA provided the funding for the project--CSA used these funds to contract with SRC to conduct the study. Under the pilot study SRC was asked to (1) develop a computerized newsletter mailing list, (2) publish and distribute three issues of the newsletters, (3) solicit comments from recipients on the newsletter's value, and (4) report the results of the pilot study to OWA and CSA with appropriate recommendations for continuing the program.

In January 1979 SRC submitted an unsolicited proposal to OWA to continue the program. SRC's proposal, among other things, provided for publishing 18 additional issues of the newsletter, developing special supplements to the newsletter addressing specific problems, and investigating the need for a Spanish language edition of the newsletter. SRC's price proposal for continuing the program is \$349,755.

OWA plans to continue publication of the newsletter; however, in our opinion, two questions are in need of

further evaluation before going ahead with this project. The first question, as in the case of the weatherization manual discussed above, is whether SRC should be awarded a non-competitive contract to publish the newsletter. The second question is whether OWA has sufficiently evaluated SRC's pilot study before committing DOE to this undertaking.

Non-competitive procurement planned

OWA has submitted two procurement proposals to OPCM's program support group requesting that SRC be awarded a contract without competition to develop and publish the follow-on issues of the weatherization newsletter. Both, however, have been rejected. The first proposal recommended that SRC be awarded a non-competitive contract under unsolicited proposal contracting procedures. This proposal was returned because the project failed to meet unsolicited proposal procurement requirements. The second proposal was to award SRC a sole source contract to continue the program. This was returned because OWA's justification for the sole source procurement was inadequate. OWA officials told us that they plan to resubmit the sole source proposal with a stronger justification.

We question OWA's decision to advocate a non-competitive contract for SRC. We reviewed the three pilot study issues of the newsletter and concluded that the information contained in these issues was rather general, non-technical, and not of a nature that would require special expertise to prepare and publish. As previously discussed, DOE procurement regulations are quite specific with regard to the factors that are to be considered before waiving contract competition. Considering these criteria, the type of material to be published in the newsletter, and the expertise that would be required to manage the project, we believe it would be most difficult to justify a non-competitive contract for this undertaking.

Pilot study not
adequately evaluated

We believe that OWA's plan to continue the newsletter is premature. In our discussions with OWA officials we found that neither OWA nor the contractor has fully evaluated the results of the pilot study. OWA officials said they have received a considerable number of favorable comments on the

program from SRC and from newsletter readers and, based on these reactions, they believe continuing the program is warranted. However, there has been no analytical evaluation of reader response to the newsletter nor any objective analysis of the benefits of the program.

We are not in a position to determine the value of continuing the newsletter. Neither, in our opinion, is OWA. We would suggest that perhaps OWA should statistically sample readers of the newsletter asking them their opinions on its value and usefulness. Some specific questions OWA might ask are:

--Did the newsletter provide you information (technical, educational, administrative, legislative, or managerial) that you did not already know?

--In which informational area was the newsletter most helpful?

--How was the information in the newsletter used?

Answers to these and other questions OWA could ask would provide a more reliable set of data upon which OWA could make a decision to go forward with the program.

Another aspect that must be evaluated is the cost benefit of the newsletter. DOE is authorized to provide technical assistance to weatherization program grantees under the Energy Conservation and Production Act (Section 416, Public Law 94-385). A question that should be evaluated before continuing with the newsletter is whether this approach is the most cost effective way to provide technical assistance. An alternative may be to publish a DOE prepared newsletter rather than contract for such a document.

We understand SRC has submitted a second proposal since we began our inquiry which reduces the scope of the work and provides for publishing only 12 issues of the newsletter. The price for the latter proposal is \$194,940. Our review of this latter proposal indicates that the types of analyses we are suggesting have still not been done.

In our opinion, continuing the program without the benefits of the above types of analyses seems premature.

OVERRELIANCE ON
CONTRACTOR SUPPORT

In discussing the above two procurement actions with OWA officials we were told that OWA does not have sufficient staff resources to carry out its functions and therefore, it must rely on contractor support. Information we have been provided indicates that OWA is authorized 14 positions--11 professional and 3 secretarial. Of these 4 are vacant--3 professional and 1 secretarial. We did not ask when these positions would be filled nor if the filling of these positions would give OWA the capability to do more of its activities inhouse. We were told, however, that OWA will continue to need contractor support in the future.

One example of future plans to use contractors is the requirement to prepare the President's Weatherization Study required by the National Energy Conservation Policy Act (Section 254 Public Law 95-619). Under this act the President is to conduct a study of the Nation's weatherization activities and report to the Congress in November 1979 on

- the progress being made through weatherization to achieve national energy conservation goals,
- the adequacy and costs of materials necessary for weatherization activities, and
- recommendations to modify the program.

OWA officials said that contractor support will be required to conduct this study and that they plan on contracting with SRC for this effort. OWA officials maintained that they plan to use SRC because they know SRC's capabilities and they have a good working relationship with them.

We did not discuss the exact role SRC will have in the President's Weatherization Study with OWA officials. We could surmise that if OWA does not have sufficient resources to develop a weatherization manual or a newsletter, then it would probably have few resources to devote to this effort. Consequently SRC could have the prime responsibility for preparing the study. In our opinion this would be an inappropriate role for a contractor. The results of the President's Weatherization Study will undoubtedly be a key factor in helping Government decisionmakers decide the future of the weatherization program. Because of the potential importance of this effort in shaping

B-168450

future policy and management decisions, we believe that DOE should be the focal point and an active participant in conducting this study. This is not to say that contractor assistance should be avoided. Contractor assistance may be required in certain specific areas. However DOE should retain the role as the manager of the study.

Contractors can play a vital role in OWA weatherization activities; however, over-reliance on contractor support, especially under non-competitive conditions, is not in the best interest of the Government and should be avoided.

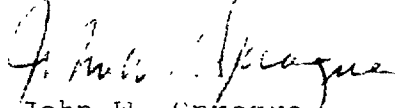
CONCLUSIONS AND RECOMMENDATIONS

Although we are not in a position to comment on the appropriateness of OWA's staffing needs, there are indications that OWA may not have sufficient staff resources and is becoming overly dependent on contractor support to accomplish its mission. We recommend that your office assess OWA's staff needs to ensure that adequate staff resources are available for OWA to discharge its duties. To the extent that contractor support is needed as an adjunct to OWA capabilities, we believe that OWA should make a conscientious effort to seek competition in awarding contracts for weatherization services. Over-reliance on a single contractor is not, in our opinion, in the best interest of DOE.

With regard to the two proposed contracts with SRC, we do not believe that OWA has sufficiently evaluated SRC's proposals, especially the consultant costs for developing the weatherization manual and the results of SRC's newsletter pilot study. Also we seriously doubt whether the tasks to be accomplished under these contracts are of a nature that warrants waiving award competition. We recommend that you direct that these proposals be reevaluated before going ahead with the contracts.

We would appreciate your comments on our observations and the contents of this letter. My staff responsible for this assignment, Mr. William C. Oelkers and Mr. James Fowler, and I would be pleased to meet with you to discuss the letter and answer any questions you may have.

Sincerely yours,


John W. Sprague
Associate Director