



**ERNEST ORLANDO**  
**LAWRENCE BERKELEY NATIONAL**  
**LABORATORY**

**Procurement System Evaluation  
Plan**



## **INTRODUCTION**

The new Ernest Orlando Lawrence Berkeley National Laboratory Procurement Assessment Program will measure the effectiveness of the Lab's Purchasing System and its internal controls to ensure compliance with contractual, statutory, regulatory, policy, and procedural requirements. This Program is intended to be used as a comprehensive, single-assessment vehicle; incorporating Department of Energy (DOE) Headquarters and Berkeley Lab Balanced ScoreCard (BSC) goals, through evaluation of the following measures: Internal Business Processes; Systems Evaluation; Assessing Systems Operations; Management System, and Procurement transactions.

This will be accomplished by the conduct of risk-based self-assessments of purchase order, subcontract, and agreement transactions, as well as the procurement transactions (both low-value and procurement card purchases) of the Laboratory's Distributed Purchasing Unit (DPU). The term "risk-based" means ensuring that assessment processes are appropriate, efficient, and effective for the level of risk. This Purchasing System Evaluation Plan describes how Berkeley Lab Procurement will perform these self-assessments.

Changes in regulations or contractual requirements, funding decreases, or new initiatives may require modifications to self-assessment activities, accordingly. When such changes transpire, concurrence and approval among all stakeholders (DOE, Berkeley Lab, and the University of California [UC]) will be obtained prior to any self-assessment modifications.

## **SCOPE**

Assessment efforts are determined based on cost/benefit analyses, opportunities for process improvement, and resolutions of any Purchasing System deficiencies. Statistical sampling will be employed where it will provide both a cost benefit and assurance of accuracy, commensurate with the specific area of measurement.

The self-assessments will cover various types and categories of acquisitions and contractual activities (e.g., contract administration) performed by Lab Procurement personnel, including the ongoing procurement card transaction analyses. The self-assessment reviews are identified in the Schedule of Procurement Transaction Self-Assessment Reviews on Page 8, below. It is understood by all stakeholders that Fiscal Year 2006 will be the Base Year for developing and establishing new methodology, with no formal scoring of transactions assessed in Fiscal Year 2005.

The intent of these various self-assessment reviews will be to ensure that transactions are performed in accordance with approved policies, procedures, and acceptable business practices. This will determine if there are systemic deficiencies within the Laboratory's Purchasing System and will ensure that business is conducted at an appropriate level of operational efficiency.

The Reviews will be conducted based on self-assessment criteria designed to assess compliance with the Procurement Department's approved procurement procedures, as well as the goals of the Balanced ScoreCard (BSC) Contractor Compliance Review Objectives, the Prime Contract Appendix B, Objective Standards of Performance, and other Prime Contract requirements, including ethics and good corporate citizenship through economic and social diversity purchasing. Consequently, the following major facets of a purchasing system will be covered in self-assessment activities:



- Management System;
- Efficiency of Operations;
- Reports;
- Policies and Procedures;
- Subcontract Clauses;
- Purchase Requirements;
- Pre/Post Award Administration;
- Source Selection;
- Price and Cost Analysis; and
- Distributed Procurements.

Self-assessments take the form of documented system and/or purchase transaction reviews. These reviews involve assessing manual and electronic files, records, reports, and interviews of appropriate personnel. Transaction reviews will be documented and summarized on Transaction Review Work Sheets, Topical Area Checklists, Questionnaires etc., for purchase orders, subcontracts, agreements, and procurement card transactions. The Transaction Review documents (Work Sheets, etc.) will include such areas as the following:

- Conformance to Policy Guidelines;
- Acquisition Planning and Lead Time;
- Socioeconomic Subcontracting;
- Competition;
- Evaluation and Source Selection;
- Price and Cost Analysis;
- Delivery and Performance;
- Property;
- Pre/Post Award Administration;
- File Documentation;
- Cost Savings;
- Payments; and
- Close-out Status.

The comments, recommendations, findings, or resolutions of DOE, Government Accountability Office (GAO), and any internal Berkeley Lab reports, which are pertinent to procurement activities, may also be taken into account when planning assessments.

### **SAMPLING TECHNIQUES**

Only post-award reviews will be performed of the DPU procurement card transactions. However, the other Procurement Transaction Reviews will be composed of both pre-award and post-award reviews of written purchase orders and subcontracts.

The pre-award reviews of these purchase orders and subcontracts will evaluate the pre-solicitation documents and file records, as part of the Contract Review Board process, as well as the Group Manager supervisory reviews discussed below. Completed procurement transactions will be selected on a stratified, random sample and/or judgmental sample basis, as described in subsequent paragraphs, for post-award reviews.



Random sample transaction reviews will consist of the review of a sample number of transactions randomly selected from a designated universe of transactions (such as the prior twelve months). If appropriate, the random samples will be stratified to ensure that a representative sampling from the low volume/high value end of the universe is selected. The guidelines set forth in Section 4.600, Audit Sampling, and Appendix B, Statistical Sampling Techniques, of the U.S. Defense Contract Audit Agency (DCAA) Contract Audit Manual will be, in general, applied in determining the appropriate error rate, confidence and precision levels, and sample size for each random sample review, using EZ-Quant or similar software.

Judgmental sample transaction reviews will usually be conducted when the size of the universe of transactions is small or it is necessary to judgmentally select the sample of transactions to ensure a representative sample of the targeted items or activities (e.g., contract administration). The judgmental sample reviews may consist of the review of a sample number of transactions from a universe of transactions or all transactions containing the targeted items or activities.

In all cases, the degree to which the purchasing system is in compliance with stakeholder requirements, including applicable laws, regulations, terms and conditions of subcontracts, ethics, good business, practices, etc., will be assessed. The assessment result will be expressed in an average score for all post-award transactions reviewed during the fiscal year.

Contract Review Boards, which consist of Group Managers and other senior Procurement staff, will conduct pre-solicitation and pre-award reviews of transactions with an estimated value above \$1 million dollars (\$500K for Best Value purchases), certain transactions requiring prior DOE Contracting Officer approval, and other transactions based on complexity and risk, as provided in LBNL Procurement Standard Practice 4:9, "Contract Review Board."

### **SCORING METHODOLOGY FOR TRANSACTION REVIEWS**

The scoring methodology for Subcontract Transactional Reviews features a risk-based deduction from a 100 point base considering seven key transaction elements: Approvals and Reviews, Source Selection, Pricing Methodology, Subcontract Quality, File Documentation, Subcontract Administration and Procurement Data System Entry Coding. Deductions will be assessed in relation to the seriousness of the finding relative to the value and type of transaction. High risk findings will be assessed 15 points for risks having above minimal chance of actually occurring that could cause an adverse consequence in schedule, ES&H, security, performance, loss of funds or rights of the University or Government, or loss of public trust. Lower probability of occurrence and magnitude of consequences will be identified as medium risks and assessed a 10 point deduction. Minimal impact or chance of occurrence will be identified as medium risk and assessed a 5 point deduction. A finding that identifies a minor issue with no consequences will be identified as an Observation.

A finding that presents a significant risk to the University or government which could result in a statute based fine or penalty, or be treated as material breach of the prime contract, will cause a transaction to be determined unacceptable and assessed a 50 point deduction.



## **SELF-ASSESSMENT REVIEW PERSONNEL**

All Self-Assessment activity will be performed under the direction of the LBNL Procurement and Property Manager and Policy and Assurance Manager. For each listed self-assessment element covering various types and categories of acquisitions and contractual activities (e.g., contract administration), a self-assessment team of Procurement personnel (which will include Procurement supervisory personnel) will perform the self-assessment reviews.

Prior to each self-assessment, an individual Self-Assessment Plan/Agenda will be prepared by the Policy and Assurance Manager, including the scope, a copy of the Transaction Review Work Sheet, Checklist, etc. that will be used for the evaluation. The Plan/Agenda will be approved by the Procurement & Property Department Manager and distributed to the proposed Self-Assessment Team reviewers, UC and the DOE Contracting Officer.

Also, Procurement Group Managers will perform pre-award supervisory reviews (as required by signature authority delegation levels and as determined necessary by post-award file sample reviews) and the DPU Team Leaders or the DPU Coordinator will perform post-award sample reviews of procurement card transactions. Additionally, the Policy and Assurance Manager will be responsible for the coordination of all self-assessment functions.

Furthermore, since one of the elements of a credible performance measurement system is the level of competency, independence, and objectivity of those assessing the operation of the systems, the Lab's self-assessments may be supported by:

- DOE Validation;
- Berkeley Lab Internal Audits or Reviews;
- Procurement Evaluation and Review Team (PERT) Peer Review Program; and/or
- Independent Third Party validation, with prior DOE concurrence.

**Pre-Award Reviews** Berkeley Lab pre-award reviews will be conducted on transactions exceeding Subcontract Administrator signature authority by Group Managers for individuals in their respective Procurement Groups, as well as by Contract Review Boards. As previously stated, procurement transactions with an estimated value above \$1 million dollars (\$500K for Best Value purchases), certain transactions requiring prior DOE Contracting Officer approval, or other transactions because of complexity and risk, will be reviewed by the Contract Review Board, in accordance with LBNL Procurement Standard Practice 4.9, "Contract Review Board."

**Post-Award Reviews** Laboratory post-award transactions will be reviewed through scheduled random sample and Group Manager judgmental sample reviews (identified below), and any optional post-award judgmental sample reviews determined to be necessary. Standard Self-assessment Work Sheets will be used to identify the applicable requirements of the transactions, from initiation of the purchase request through solicitation, award, administration, and close-out based on such criteria as regulations, Prime Contract requirements, Procurement Standard Practices (SPs), or any interim instructions then in effect. Topical Area (such as Property Management) Checklists or Questionnaires may also be used to assist in performing the reviews.



**Optional Judgmental Sample Reviews** The Procurement & Property Manager and the Policy and Assurance Manager may also elect to conduct additional Self-assessment reviews of selected types of transactions, based on their determination during the year that certain activities warrant such reviews. The types of transactions that could be selected for review include those that are high-dollar, high-risk, safety-related, etc. The transactions for such optional reviews would generally be selected on a judgmental sample basis.

Any corrective actions identified from Review results will be validated by means of subsequent statistical sampling. Copies of all Self-Assessment Review Reports will be provided to the Procurement Group Managers, the Procurement staff, UC, and the DOE Contracting Officer.

### **PROCUREMENT CARD TRANSACTION REVIEWS**

At Berkeley Lab, procurement card transactions are handled by personnel in the DPU. Rather than review 100% of all the procurement card orders, a monthly sample of credit card orders will be selected to attain a confidence level of ninety-eight percent (98%), an expected error rate of ten percent (10%), and sampling precision of five percent (5%), based on the DCAA guidelines and using EZ-Quant or similar software. Monthly reviews will be conducted to determine compliance with procedures. Transactions will be reviewed against the criteria established in the Procurement Card Transaction Review Worksheet/Questionnaire. In addition, Post Activity Report reviews will be conducted for all transactions made during the previous day.

### **REPORTS & RESOLUTION OF FINDINGS**

**Subcontract and Purchase Order Transactions** At the conclusion of each review, a brief written Report will be prepared which identifies review activities and areas, Review Team participant(s), and any major findings and follow-up activities such as corrective action plans with target dates for completion.

Root-cause analyses will be performed for all findings by the Policy and Assurance Manager and the Procurement & Property Manager to determine whether the findings were due to an individual Subcontract Administrator error or a system deficiency. The appropriate corrective action will be determined based on that analysis. The root-cause analysis will consider the associated risks, their systemic relationship, the cost benefit of planned corrective action, and any process improvements or alternative courses of action that would improve the purchasing system. Findings that impact other purchase orders/subcontracts or are the result of a Procurement department procedure or process deficiency may be considered system findings. Such findings, determinations, and resolutions or corrective actions will be presented in reports to the Procurement Group Managers, the Procurement staff, UC, and the DOE Contracting Officer.

The corrective actions for Subcontract Administrator errors may include individual or departmental training by the Group Managers or others, accordingly. The corrective actions for system deficiencies may include, as appropriate, revisions to policies and procedures, individual or departmental training, process improvements, etc. Resolution of any findings will be documented. All corrective actions for significant findings (i.e., other than isolated, low risk deficiencies that are non-process related) will be documented, tracked, and validated, as appropriate.

**Procurement Card Transactions** Any findings resulting from Procurement card transaction reviews will be presented in a written report to the Procurement & Property Manager and the Policy and Assurance Manager. These reports will be reviewed and a determination made on the appropriate action to be taken. Resolution of any findings will be documented.



All corrective actions for significant findings (i.e., other than isolated, low risk deficiencies that are non-process related) will be documented, tracked, and validated, as appropriate. Such findings, determinations, and resolutions or corrective actions will be presented in Reports to the Procurement Group Managers, DPU staff, UC and DOE.

### ANNUAL SCHEDULE OF SELF-ASSESSMENT REVIEWS

#### Subcontract and Purchase Order Transactions:

TYPE OF REVIEWS	TYPE OF TRANSACTIONS	UNIVERSE
Review of all applicable Transactions --Group Manager Supervisory Reviews	Written Purchase Orders and Subcontracts, including Modifications (A/E, Blanket, Consultant, Construction, Fab, IUT, Lease, M&O Order, One-Time, PSA, R&D, and Russian).	All pending written transactions <u>exceeding</u> Subcontract Administrator's signature authority.
Review 10-20% of applicable Transactions, including the PeopleSoft Purchasing System data entry. --Group Manager Judgment Sample Reviews	Written Purchase Orders and Subcontracts, including Modifications (A/E, Blanket, Consultant, Construction, Fab, IUT, Lease, M&O Order, One-Time, PSA, R&D, and Russian).	Written transactions over \$25K, <u>within</u> Subcontract Administrator's authority, which were awarded in previous year (Apr-Mar).
Review of all applicable Transactions --Contract Review Board (CRB) Reviews	Solicitations, Purchase Orders, Subcontracts and modifications meeting CRB review criteria.	All pending written transactions meeting CRB review criteria. (LBNL SP 4.9)
Stratified Random Sample Review of applicable Transactions --Self-Assessment Team Reviews	All purchase transactions except Russian and IUT/M&O actions.*	All written transactions during the selected sample universe period (prior twelve month period).
Optional Judgmental Sample Reviews	TBD annually	TBD annually

\*Russian, IUT and M&O actions will be scheduled for LBNL Internal Audit review as determined necessary by agreement with BSO.



**Procurement Card Transactions:**

<b>TYPE OF REVIEWS</b>	<b>TYPE OF TRANSACTIONS</b>	<b>UNIVERSE</b>
Review of all transactions --Split Order Review <b>Monthly</b>	Procurement card transactions.	All transactions during the selected period of the previous month.
Review of all transactions -Over Card Limit Review <b>Monthly</b>		All transactions during the selected period of the previous month.
Review of all transactions --Item Description, Order Detail & Restricted Review <b>Weekly</b>		All transactions during the selected period of the previous week.
Stratified Random Sample --Transaction Summary Posted Report <b>Monthly</b>		All transactions during the selected period, the previous month.
Review of all transactions -Post Activity Report <b>Daily</b>		All transactions during the selected period of the previous day.
Special/Miscellaneous Reviews <b>(As Scheduled)</b>		Transactions as directed/requested.  (Any questionable transaction[s] found during the daily, weekly, or monthly review process may require further investigation).