

# memorandum

DATE:

REPLY TO  
ATTN OF: BPA-NS

SUBJECT: Response to Draft Report on "Audit of Bonneville Power Administration's Acquisition of Transmission-Related Materials and Equipment"

TO: George W. Collard, Assistant Inspector General for Performance Audits - IG-32

This is in response to the Inspector General's (IG) Draft Report on "Audit of Bonneville Power Administration's Acquisition of Transmission-Related Materials and Equipment" dated July 8, 2009.

We welcome the Inspector General's (IG) audit of our program and its decision to look more closely at our contracting process and how we document our buy decisions through the contracting process. The IG's review follows several internal reviews and a Supply Chain Enterprise-wide Process Improvement (EPIP) effort we initiated in 2006. We agree with the IG's recommendations and, with our parallel EPIP efforts, we have already implemented necessary improvements. Additional supporting information regarding BPA's response and how BPA has implemented the recommendations resides in the Technical Appendix and at: [http://www.bpa.gov/corporate/About\\_BPA/audits/](http://www.bpa.gov/corporate/About_BPA/audits/).

While we agree with the recommendations, we do not fully agree with the findings of the draft report. BPA Contracting Officers strive to make best buy decisions on all of their procurements; however, we acknowledge that some of our files do not adequately document those decisions. The Bonneville Purchasing Instructions (BPI) gives Contracting Officers authority to extend contracts if market analysis is completed and the Contracting Officer is assured that the best value for BPA is being achieved.

We specifically disagree with the dollar impact and the underlying conclusions that BPA ratepayers were financially harmed. Although a best buy analysis was not documented on all of these purchases, this does not mean that the whole dollar value of the procurement was misspent (\$12.3 M). However, we agree that consistent documentation of the best buy analysis by our Contracting Officers would have avoided this uncertainty. We are committed to improving in this area.

Additionally, BPA received the transmission equipment and material and used it to meet project and operations and maintenance requirements on our transmission system. BPA could not have procured the material from another source for zero dollars nor met its transmission-related requirements. The dollar levels described in the draft report should be substantially reduced in final report.

## Best Buy Analysis

Improvement of documentation for purchase decisions had been previously identified. However, few, if any, contracts reviewed during the audit indicate that BPA did not make informed decisions of the best buy for the agency. We note and agree with the IG that some documentation supporting best buy decisions was not consistently maintained in formal files [BPI Part 12.8.2].

However, our Contracting Officers have procedural flexibility under the BPI to determine the level of required documentation based on the scope, history, size, and complexity of the proposed purchase [BPI Part 4.2.1]. Additionally, it is vital to the reliability of BPA's transmission system for BPA to consider engineering technical requirements as well as material costs. BPA's new Contract Quality Review Checklist and enhanced Purchasing Operating Procedures (POP) 08-07 require detailed analysis of BPA

purchasing decisions. We believe these improvements reflect BPA's EPIP findings and the IG's Best Buy recommendation (see appendix).

### **Expired Contracts**

Different from the draft report, we determined that only one of the four contracts the IG noted as being extended without requesting approval from the HCA was extended outside the 90-day time frame allowed by the BPI. That agreement was tendered to the supplier who did not execute the extension within 90 days. The POP 05-01 Contract Expiration/Option Notices process is in place to address this issue (see appendix). The other contracts were extended using procedures in BPI Part 14 (see appendix).

### **Forecasting**

BPA believes that effective forecasting is a best practice because it assists in both quantitative and qualitative determinations of material purchase requirements for BPA. BPA uses strong relationships between the Contracting Officers and their customers to monitor and assess future material needs. Additionally, BPA implemented a formal annual forecasting process in 2007 requiring the signature of a senior manager. This was accomplished through our internal EPIP effort as a result of a 2006 HCA review and recommendations (EPIP Forecasting Process C-6 /2007). The forecast received in early 2008 in response to the first call letter was weak but the subsequent forecast received in December 2008 was exceptional and we expect future forecasts to fully meet expectations as well (see appendix).

In conclusion, we agree with the report that BPA can improve the formal documentation of the analysis we perform. We also agree that when best buy decisions do not require the five steps, we will include this determination in our Document of Award Decision. BPA has implemented all of the other recommendations in the draft report.

Stephen J. Wright  
Administrator and Chief Executive Officer

Attachment

cc:

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