

PEER REVIEW PROGRAM
for
Federal Procurement
and
Contractor Purchasing
Systems

Prepared By: Procurement Evaluation & Reengineering Team (PERT)

For Use By: DOE and Contractor Procurement Organizations

Approved By: The DOE Procurement Executive and Contractor
Purchasing Council


Ed Lovett, Executive Director Date

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PEER REVIEW PROGRAM

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PREFACE

FROM THE PROCUREMENT EXECUTIVE

Over the last several years, the Department of Energy (DOE) and its contractors have rethought and redesigned their respective purchasing cultures, systems, and processes to achieve significant improvements in the critical measures of performance...cost, quality, speed, and service.

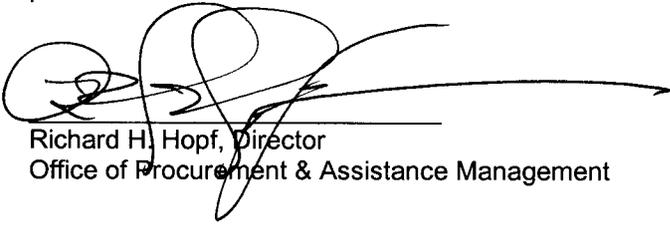
In the course of this redesign, the nature of the relationship of the parties has changed. An increased level of trust and more open, productive communications has facilitated a change in the ways in which the Department relates to its contractor community and the ways in which DOE Headquarters relates to its Field Operations.

One of these changes has been the nature and process of performance assessment and oversight of Federal Procurement and Contractor Purchasing systems. Together, we have moved successfully from a process-focused, compliance oriented program to a more results-oriented approach. Critical to this new process has been jointly developed, performance assessment and management programs to ensure that our Procurement and Purchasing systems are well designed, faithfully implemented, and achieve their intended purposes. Inherent in any credible management control systems such as these is some element of independent and objective verification and validation.

Acquisition Letter (AL) 98-10, issued December 8, 1998, describes the Department's Balanced Scorecard Performance Measurement and Performance Management Program. The AL was developed to assist all Department and contractor personnel involved with assessing performance of the Department's procurement, and contractor's purchasing systems. It describes the implementation procedures, evaluation standards, reporting process, and other administrative issues. The AL, along with its attached Guide provides the official guidelines for implementation of the Balanced Score Card methodology within the federal procurement and contractor purchasing communities.

To assist DOE Federal Procurement Offices and Contractor Purchasing Managers in achieving this independent and objective review standard, the DOE Contractor Purchasing Council has developed the PEER Review Program described in this Guide. Use of the program is one way to accomplish the requirements of the DOE guidelines. I strongly support the program and encourage its utilization to enhance customer communications and validation of your Procurement/Purchasing systems. However, the use of this particular approach to accomplish the DOE requirements is voluntary.

The Peer Review Program elements provided by this document will be revised as necessary to incorporate improvements and lessons learned. In the event of any errors, omissions or inconsistencies between this document and any DOE contract and/or any DOE authoritative direction, requirement or policy, the DOE contract and authoritative DOE communications shall have precedence.



Richard H. Hopf, Director
Office of Procurement & Assistance Management

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INTRODUCTION

The Balanced Scorecard Performance Measurement and Performance Management Program (BSC Program) for Federal Procurement and Contractor Purchasing systems describes the business systems assessment program applicable to the Department's federal procurement offices and contractors who operate or manage DOE sites and facilities. The BSC Program was developed to assist all Department and contractor personnel involved with assessing performance of the Department's procurement and contractor purchasing systems.

One of the critical elements of a credible Procurement/Purchasing program is the level and competency, independence, and objectivity of the methodology and personnel assessing the operation of the systems, both Federal and contractor. To facilitate such credibility, an integral part of all procurement system assessments involve some level of independent review. Methods that may be considered to achieve this objectivity and independence include use of local internal auditors, staff from other sites, federal/contractor counterparts, independent commercial sources, local or Headquarters federal staff or other sources. The results of such independent reviews could then be one factor considered in determining the need for and scope of any customer oversight. The independent verification and validation process should not be a separate, discrete activity, but rather, a part of the overall Purchasing/Procurement system.

Under the sponsorship of the DOE Contractor Purchasing Council (CPC), the Procurement Evaluation and Re-engineering Team (PERT) is chartered to provide support to the CPC. In order to assist DOE and contractors in meeting the requirements of a credible Procurement/Purchasing system, the PERT has established a PERT Assistance Team to provide professional assistance and support in performing independent system validations and verifications.

The PERT Assistance Team provides a peer review opportunity for DOE and DOE contractor procurement organizations. It is the responsibility of the customer and procurement organization to establish a program that facilitates continuous improvement of the procurement process by moving from a financial and transactional compliance-orientation focus to a customer service and results-orientation focus. A key element of any such program is the identification of method(s) to be used to ensure objectivity and reasonable independence of the self-assessment validation program. This Peer Review Program is one of the acceptable methods for performing verification of the organization's BSC self-assessment. Please contact your representative on the CPC or PERT for details. A listing of these contacts can be found at <http://www.pr.doe.gov/cpc&pert.htm>

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OVERVIEW

I. Background:

In 1995, the DOE eliminated the "Federal norm" as the standard against which it evaluated contractor's purchasing systems, replacing the Federal Norm with the standards of

- "best-in-class" purchasing organizations, be they public or private,
- the clause at DEAR 970.5204-22, Contractor Purchasing System, and
- the requirements of DEAR 970.71, Management and Operating Contractor Purchasing.

At the same time, the Department reengineered its programs for oversight of Federal and contractor purchasing and property management systems, replacing Headquarters-based, process-oriented review programs with ones that rely on local self-assessment of performance against Departmental expectations.

Additionally, DOE initiated the Balanced Score Card (BSC) methodology to establish outcome oriented performance objectives with requirements to validate and substantiate BSC results. The purpose of this Peer Review Program is to provide one method for organizations to consider when obtaining an independent and objective review of BSC results.

II. Goals:

- Translate vision into clear, measurable outcomes that define successes that will be recognized and shared throughout the DOE contractors;
- Continue to shift from prescriptive, audit- and compliance-based oversight to an ongoing, forward-looking strategic partnership involving Headquarters, the field, and contractors;
- Provide a tool whereby the overall efficiency, and effectiveness of business systems can be assessed, managed and improved;
- Include measures of quality, cost, speed, customer service, and employee alignment, motivation, and skills to provide an in-depth, predictive performance management system; and
- Replace current business systems self-assessment models with an improved and more consistent approach to performance measurement and management.

III. Objectives:

The PERT Assistance Team (PAT) has been organized to provide assistance to Department and contractor offices involved with examining Balanced Scorecard objectives, measures and implementation, including self-assessment programs and validation or verification efforts. The objectives of utilizing the PERT Assistance Team for this Peer Review Program include providing assurance that organization's business systems (i) adhere to the Department's mission, vision, and strategy statements; (ii) accomplish established goals; (iii) follow recognized "Best Business Management" practices; and (iv) comply with applicable statutes, regulations, and contract terms and conditions.

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IV. Scope:

The BSC concept involves periodic “self-assessment” of business systems and processes by intra-organizational components responsible for those systems and processes. This evolutionary approach looks beyond compliance and evaluates performance and operational effectiveness. This BSC concept can be supported by this Peer Review Program utilizing the PAT team to obtain specifically defined assistance that is “scoped” or determined by the requester at the time of the request. The Peer Review Program is intended to be an adaptable, reliable tool, which can include transactional review, results-examination, overall process evaluation and exchange of information developed through continuous improvement efforts all intended to provide and/or enhance cost effective oversight.

V. Roles and Responsibilities

1. Head of the Contracting Activity:

The Head of the Contracting Activity (HCA) may have both operational and oversight responsibility for DOE business systems. The HCA has operational responsibilities for business systems such as the Federal procurement and property management systems, as well as other Federal business systems. The HCA may also have oversight responsibilities for the Department’s major contractors (including management and operating, environmental restoration management, and integrated management contractors) business activities.

HCA's may consider use of this Peer Review Program to meet system oversight requirements for their own procurement operations and for M&O and non-M&O contractors. When the HCA is the cognizant DOE Office for the contractor, they must ensure that self-assessment programs are validated and verified by reasonably independent sources, such as this Peer Review Program. However, assessments must be performed in accordance with the terms and conditions of the contract and the BSC assessment methodology.

2. Contractor:

Each contractor is responsible for establishing and maintaining business systems and processes that meet Departmental requirements. Contractors are also responsible for conducting credible, documented assessments of their business processes, to include problem analyses and improvement planning to ensure compliance with applicable laws, regulations and terms and conditions of the contract. When utilized by the contractor, outside entities (e.g. including, but not limited to, this Peer Review Program) may assist in validating and verifying the contractor’s self-assessment program.

3. Procurement Evaluation & Reengineering Team (PERT)

Under the sponsorship and approval of the Contractor Purchasing Council (CPC), PERT is responsible for providing administrative services for continued development, improvement, implementation and reporting for the DOE/Contractor Peer Review Program.

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I. Introduction

The BSC is a conceptual framework for translating an organization's vision into a set of performance indicators distributed among four perspectives: Financial, Customer, Internal Business Processes, and Learning and Growth. Indicators are maintained to measure an organization's progress toward achieving its vision while other indicators are maintained to measure the long-term drivers of success. Through the BSC, an organization monitors both its current performance and its efforts to improve processes, motivate and educate employees, and enhance information systems – its ability to learn and improve.

While no single Peer Review methodology exists across the breadth of DOE and DOE contractor organizations, the Peer Review Program described herein, and derivatives thereof, provides an acceptable methodology and process to perform an objective and reasonably independent review of BSC self assessments and to identify areas for improvement. As such, the Peer Review Program provides a basis that may be used or appropriately modified to verify BSC self-assessments, recognizing that DOE contract provisions and other DOE requirements have precedence over this Program.

II. BSC Performance Measures

As explained in AL 98-10, the BSC provides the Department and contractors with a structured methodology for using performance measurement information to help establish agreed-upon performance goals, allocate and prioritize resources, inform managers to either confirm or change current policy or program directions to meet those goals, and report on the success in meeting those goals.

The Peer Review Program will utilize the DOE approved BSC Self-Assessment (BSCSA) Plan performance measures and/or other requested areas of inquiry identified by the requestor. Below are the types of performance measures for the Peer Review:

- **Core measures:** Standard DOE expectations, as applicable (See APPENDIX A)
- **Optional measures:** Measures, while not required, that may be used as a guide for potential areas of inquiry as a result of previous self-assessment findings and/or other specific areas of concern as determined by the Requestor (See APPENDIX B.1, "Contractor," and APPENDIX B.2, "Federal")
- **Local measures:** Site or contractor specific.
- **Outcome measures:** Identified in the Customer, Financial or Internal Business Process Perspectives as current products or services delivered to customers.
- **In-process measures:** Drive future successful BSC as management tools to improve and sustain performance.

III. Peer Review Plan

A Peer Review Plan will be developed to document the agreement between requestor and the PAT regarding the purpose of the review and the methodology to be used during the review.

- When preparing the Peer Review Plan, the team will consider the approved BSCSA Plan as the basis for the review. The BSCSA Plan will contain basic information about that procurement operation including organizational background, identification

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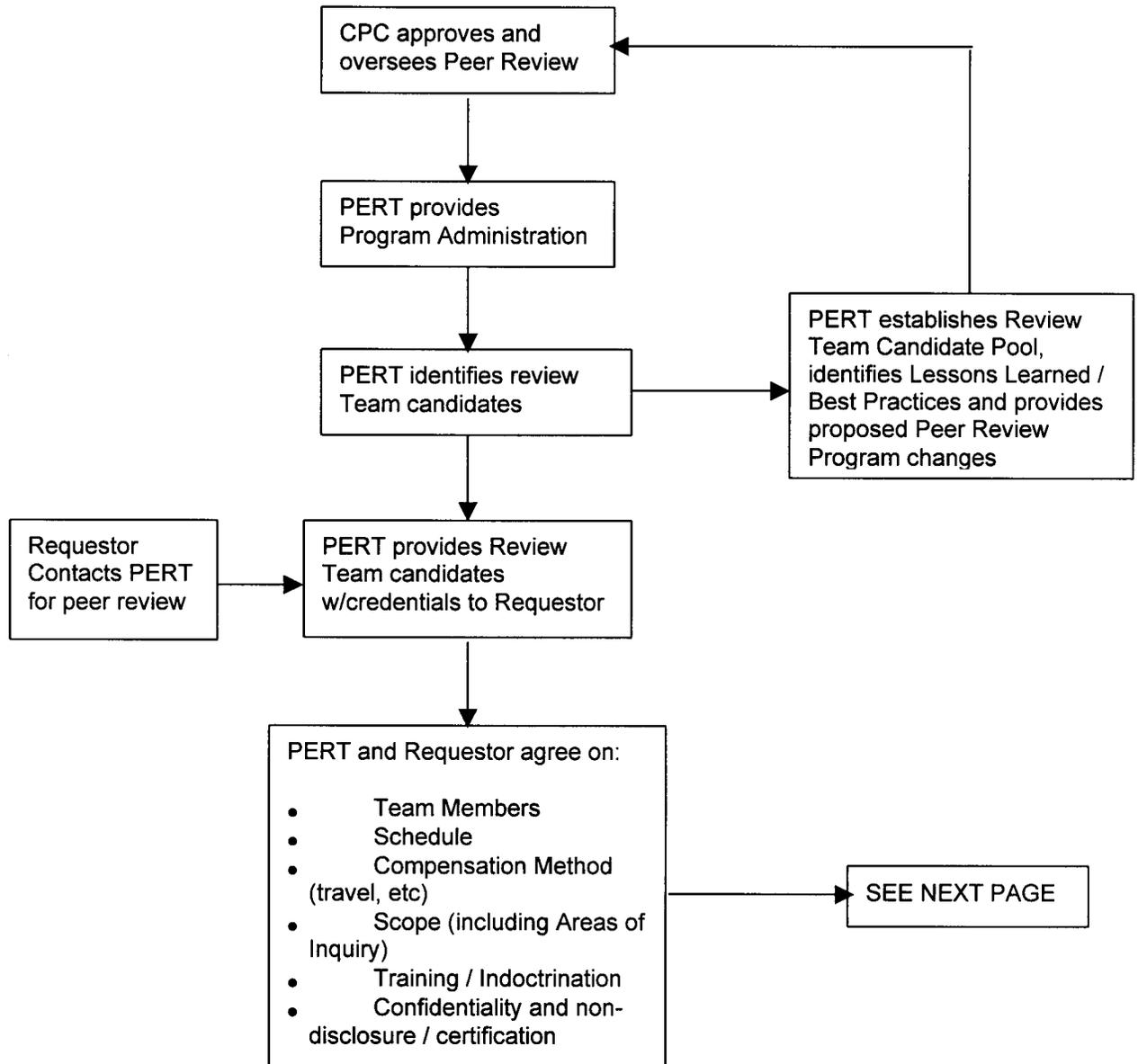
of self-assessment personnel, self-assessment activities and current assessments (if any).

- Other information that may assist the requestor and PAT plan the scope and extent of the review includes previous assessment reports, surveillance reports, internal DOE reviews, Inspector General reports, GAO audits, other internal assessment reviews, system procedures, transactional reviews, and business management reviews.
- The peer review may be divided into phases. Within each phase, various activities should be accomplished to properly plan, coordinate, conduct, gather data, analyze results, and close-out the review for any particular review period.
- The depth and scope of the review will be tailored to fit the breadth of the organization's activities. Organizations who have had significant areas for improvement identified from previous assessments of their system may request additional attention in those areas needing improvement or of special interest or importance.
- The requestor may decide to include review results in BSC reports required by the DOE and contractor's management.

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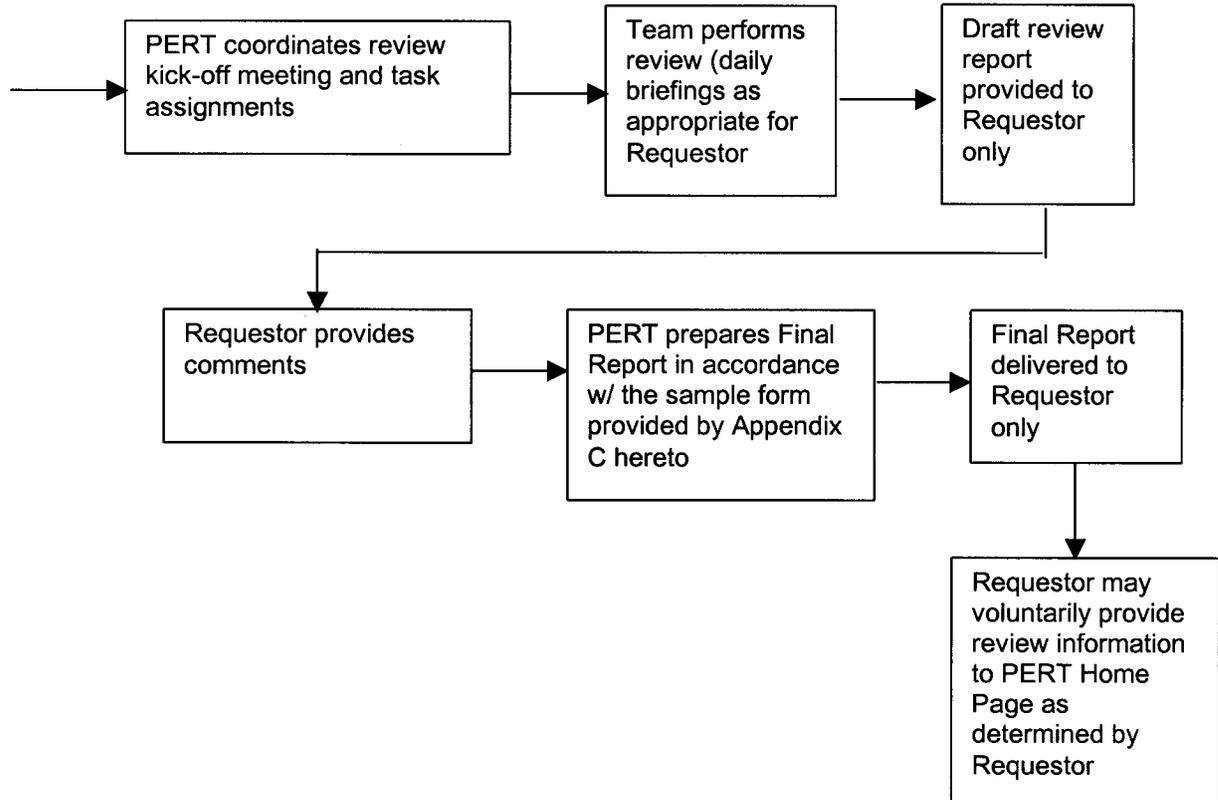
PEER REVIEW PROCESS

The following process flow is suggested to guide the preparation and implementation of the Peer Review Program and the conduct of a review activity.



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PEER REVIEW PROCESS (continued)



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PERT HOME PAGE

This Home Page is under development and will contain, as a minimum, the following topics:

- Team Cadre
- Activity schedule
- Trends in observations
- Continuous Improvement observations
- Best Practices / Lessons Learned

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APPENDIX A

CORE MEASURES

The following core measures will be utilized in the peer review:

1. Eight Guiding Principles.
 - a) Acquire quality products and services at fair and reasonable prices;
 - b) Use capable and reliable subcontractors who either
 - (i) Have track records of successful past performance, or
 - (ii) Can demonstrate a current superior ability to perform;
 - c) Minimize acquisition lead-time and administrative costs of purchasing;
 - d) Use of effective competitive techniques;
 - e) Reduce performance risks associated with subcontractors, and facilitate quality relationships, which can include techniques such as partnering agreements, ombudsmen, and alternative dispute procedures;
 - f) Use of self-assessment and benchmarking techniques to support continuous improvement in purchasing;
 - g) Maintain the highest professional and ethical standards; and
 - h) Maintain file documentation appropriate to the value of the purchase and adequate to establish the propriety of the transaction and the price paid.
2. Balanced Scorecard Program key features;
 - a) Determine the degree of customer satisfaction with performance;
 - b) Employ measures and trends to determine cost and efficiency of business systems and processes;
 - c) Assess the organization's strategic information and skills in order to ensure that they are aligned to support critical business systems and processes; and
 - d) Ensure compliance with applicable laws, regulations, and contract terms and conditions.
3. DOE's core values and critical success factor strategies (as listed in the Department's Strategic Plan) in the following areas:
 - a) Customer Orientation – This approach measures how business decisions and actions are responsive to the customer's needs.
 - b) Teamwork – The planning and oversight elements should encourage teamwork, particularly integrating and coordinating the roles and responsibilities of DOE HQ, Cognizant DOE Offices, and contractors, as appropriate. As part of the team, DOE HQ, Field Offices, and contractors should share pertinent information, as appropriate, regarding field and contractor performance. Cognizant DOE Offices, both in HQ and in the field, should consider all available data in communicating the Department's expectations in assessing performance against such expectations.
 - c) Best Business Management Practices – Successful business management practices improve processes and customer satisfaction, and reduce defects and rework.

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Appendix B.1, Contractor

OPTIONAL AREAS OF INQUIRY

The following general areas of inquiry were prepared and used in the early 1990s. Their inclusion herein is for the purpose of providing an example. Any use is voluntary and no restrictions on their modification for a specific application is intended.

Management

Does the contractor have a system in place to ensure that:

- 1) A proper balance is maintained between supporting the requiring activity in a timely manner and obtaining "best value" in the procurement of supplies and services?
- 2) There are adequate controls to guard against the misuse of delegations of purchase authority?
- 3) Personnel resources are suitable for current and projected requirements?
- 4) It is able to capture and achieve the Balanced Scorecard metrics and any other metrics requested by Department of Energy.

Standards of Conduct

1. Does the contractor's purchasing system provide for appropriate measures to ensure the maintenance of the highest professional and ethical standards?
2. Has the contractor effectively implemented procedures designed to prevent and detect violations of the Anti-Kickback Act.

Written Purchasing Policies and Procedures

1. Does the contractor maintain a written description of its purchasing systems and methods?
2. Does the written purchasing system include the requirements of the prime contract?

Standard Clauses

Do solicitations and subcontracts incorporate the required prime contract flowdown clauses to adequately protect the Government's interest?

Make or Buy

Is the acquisition of property and services obtained on a least-cost basis consistent with the requirements of the Make-or-Buy clause of the contract and the contractor's approved make-or-buy plan?

Pre-solicitation Planning

Are the following areas, as applicable, addressed and documented during the presolicitation phase of acquisitions?

- 1) Proposed subcontract type should be appropriate for the risks involved and consistent with current policy.
- 2) Review of required sources.
- 3) Consideration of the need for cost and schedule control systems requirements.
- 4) Consideration of the need for Government property.

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- 5) Consideration of quality assurance requirements.
- 6) Consideration of counterfeit parts, e.g., evaluation against specifications identified by the Department of Commerce.

Purchase Requisitions

Are Purchase Requisitions supported by sufficient information to enable the purchasing office to adequately plan and execute, well-defined solicitations and acquisitions in conformance with the following, as relevant?

- 1) An indication that funds are available, or will be made available, within existing or planned budgets.
- 2) Purchase versus lease analyses, in accordance with contract requirements and DOE-approved procedures.

Competition

Does the contractor have an effective competitive subcontracting program?

Evaluation and Source Selection

1. Are technical evaluations adequate?
2. Are compliance checks for EEO obtained and evaluated when appropriate?
3. Have determinations of non-availability under the Buy American Act been appropriately documented?
4. Does the contractor maintain file documentation that is appropriate for the value of the purchase and that is adequate to establish the propriety of the transaction and the price paid?

Determinations of Subcontractor Responsibility

1. Does the contractor have a system in place to use capable and reliable subcontractors who either (i) have track records of successful past performance or (ii) can demonstrate a current superior ability to perform?
2. Does the contractor review the General Services Administration (GSA) Consolidated List of Debarred, Suspended, and Ineligible to ensure that an apparent successful offeror is not on the list? If such offeror is on the list, is the contractor obtaining the DOE CO's approval prior to award? (Prime Contract)
3. Does the contractor have a system for grading the performance of subcontractors on completed subcontracts? Does the contractor use this grading system in making the determination as to whether prospective subcontractors are responsible?

Cost/Price Analysis

1. Are cost/price analyses performed consistent with current and applicable principles (consider FARA, FASA and FAR part 15 rewrite)? (Note: The level of detail should be consistent with commercial practices or the M&O's corporate practice.)
2. Does the contractor provide for (i) periodic post-award audit of cost-reimbursement subcontractors at all tiers and (ii) audits, where necessary, to provide a valid basis for pre-award or cost or price analysis?
3. Are certified cost or pricing data and a Certificate of Current Cost or Pricing Data obtained when required? Does the contractor request and receive all relevant cost or pricing? Do negotiation memoranda identify subcontractor-submitted cost or pricing data and specify the degree to which that data was relied upon?
4. Does the contractor acquire quality products and services at fair and reasonable prices?

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Letter Subcontracts

Is the contractor's use of letter subcontracts limited to appropriate situations?

Subcontract Administration

1. Are records retained of all subcontracts?
2. Is subcontractor compliance to Cost Accounting Standards, where applicable, monitored?
3. Under cost-reimbursement subcontracts, does the contractor determine that subcontractor costs are allowable? Does the contractor provide for the timely involvement of the DOE contracting officer, when appropriate, in resolving issues of subcontract cost allowability in accordance with FAR Part 31 and DEAR Part 931?

Payments

1. Does the contractor have a system in place for the review and approval of vouchers and invoices from subcontractors for accepted goods and services prior to payment?
2. In cases where the contractor allows a subcontractor to assign payments to a financial institution, does the assignment treat any right of Set off in accordance with DOE policies?

Termination and Closeout

1. Are approved procedures for termination followed?
2. Does the contractor provide for periodic post-award audit of cost-reimbursement subcontractors at all tiers?
3. Does the contractor provide timely disposition instructions for Government property to appropriate subcontractors upon contract completion and ensure compliance with those instructions?

Socioeconomic Programs

Do appropriate subcontracts contain the required subcontracting plan? Are the subcontracting plans prepared in accordance with applicable requirements? Does the contractor for review subcontracting plans for adequacy?

Architect/Engineering Services

1. Does the contractor have a system in place to prevent the award of a construction subcontract to the architect-engineer firm or an affiliate who prepared the design? If the contractor awards a turn-key subcontract, does the subcontractor assume all liability for defects in design and construction and consequential damages?
2. Has the contractor awarded both a cost-reimbursement and a fixed-price subcontract for construction, architect-engineer services, or any combination thereof to the same firm when those subcontracts will be performed at the same site?
3. Has the contractor employed the construction subcontractor or an affiliate to inspect the firm's work? Does the contractor ensure that the working relationships of the construction subcontractor and the subcontractor inspecting its work and the authority of the inspector are clearly defined?

Construction

1. Are specifications and drawings reviewed to ensure compliance with the DOE "General Design Criteria Manual" in accordance with DOE Order 6430.1?
2. Does the contractor comply with statutory and regulatory requirements of the Davis Bacon Act, Copeland Act, Contractor Work Hours and Safety Standards Act, and related Department of Labor Regulations in contracts involving construction?

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3. Do the contractor's files reflect proper consideration of bonding r requirements, and have bid, performance, and payment bonds and insurance been submitted by subcontractors and properly reviewed and accepted by the contractor?
4. Has a fully supported independent cost estimate been prepared.

Automated Data Processing Equipment (ADPE)

Are requirements for automatic data processing resources and telecommunications facilities, services, and equipment reviewed and approved in accordance with applicable DOE Orders and regulations regarding information resources?

Service Contracts

1. Is the possibility of OCI considered? Is the resolution of this possibility documented? Are appropriate OCI provisions included in the solicitation and resultant subcontract?
2. Was DOE approval of foreign travel under subcontracts obtained?
3. For noncommercial subcontracts of \$2,500 or more or noncommercial subcontract modifications which bring the subcontract above \$2,500 in which the Service Contract Act applies, does the contractor include wage determinations received from DOL and appropriate clauses in the solicitation and subcontract?

Intraorganizational Transfers

Does the contractor have an approved system in place to purchase from sources affiliated with the contractor?

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Appendix B.2, Federal

OPTIONAL AREAS OF INQUIRY

Refer to DOE OPAM Home Page at
<http://www.pr.doe.gov/html>

PEER REVIEW PROGRAM

Appendix C – Final Report Format (Optional)

(Also Ref: Part 5 of BSC Model at Acquisition Letter 98-10)

INDEPENDENT PEER EVALUATION REPORT

DATE:

TO:

FROM: PERT Assistance Team

SUBJECT: PERT Assistance Team Validation & Report

The following team personnel participated in the assistance activities of a review of the *(indicate the type of review, i.e., file review, BSC review, or other type of review. Also indicate the individuals involved with the review and the site they came from.*

PURPOSE AND SCOPE

The purpose of the scope of the review was to review the

OBSERVATIONS THAT INDICATE AREA INNOVATION OR NOTEWORTHY PRACTICE:

Include any areas identified as being done well.

OBSERVATIONS AND SUGGESTIONS FOR IMPROVEMENT

Include a full explanation of what areas need improvement.

Name:
PERT Assistance Team

Name:
PERT Assistance Team

Name:
PERT Assistance Team