



DEPARTMENT OF THE NAVY
OFFICE OF NAVAL RESEARCH
CHICAGO REGIONAL OFFICE
JOHN C. KLUCZYNSKI FEDERAL BUILDING
230 SOUTH DEARBORN STREET SUITE 380
CHICAGO IL 60604-1595

IN REPLY REFER TO

ONR-CHI/JMK/kmm
SSIC 4330
SER. 245/FY15-028
7 January 2015

The Regents of the University of Michigan
Attn: Colin Anderson
Interim Director, Procurement Services
7071 Wolverine Tower 1282
3003 S State Street
Ann Arbor, MI 48109-1271

Dear Mr. Anderson:

Enclosed is a copy of the Contractor Purchasing System Review (CPSR) report conducted at your institution on October 20-24, 2014. Based upon the results of this review, The Regents of the University of Michigan's Purchasing System is considered adequate to protect the Government's interest and is approved through January 7, 2018.

Your corrective action plan dated November 14, 2014, addressing the recommendations reported to you in the enclosed report has been received and is found to be acceptable.

Approval of your purchasing system is granted pursuant to FAR Subpart 44.3, and applies to all Federal Government contracts to the extent that cross-servicing arrangements exist. System approval shall automatically terminate at the end of the approval period, unless extended, or should any significant change(s) occur within the system; unless such change(s) be approved by the ACO. It may be withdrawn at any time at the discretion of the ACO.

This approval may waive some of the consent to advance notifications requirements for certain subcontracts per subcontracting clause FAR 52.244-2 and Agency supplements.

If you have any questions, please contact Kevin McCormick, ONR Chicago at (312) 886-2649 or via email at kevin.m.mccormick@navy.mil.

Sincerely,

A handwritten signature in black ink, appearing to read "JK", is written over the word "Sincerely,".

JOSHUA M. KABISCH
Administrative Contracting Officer

cc: (w/report)
ONR BD241, ESRB
ONR Chicago, G. Jordan
ONR Chicago, J. Kabisch

CONTRACTOR PURCHASING SYSTEM REVIEW (CPSR)

CONTRACTOR NAME AND ADDRESS

Contractor name: University of Michigan (MI)
Wolverine Tower
Ann Arbor, MI

ORGANIZATION CONDUCTING REVIEW

Team Leader: James M. Santaniello
Office of Naval Research (ONR)
Engineering & Systems Review Branch (E&SRB)
495 Summer Street, Room 621
Boston, MA 02210-2109

Phone Number: (617) 753-3258

Period of On-Site Review: October 20-24, 2014

Period Included in the Review: July 1, 2013 to June 30, 2014

Report Date: December 23, 2014


JAMES SANTANIELLO

RELEASE OF THIS REPORT IS COVERED BY THE FREEDOM OF
INFORMATION ACT, 5 U.S.C. 552.

THE SUPPORTING WORK PAPERS APPLICABLE TO THIS REPORT ARE
RETAINED IN THE FILES OF THE COGNIZANT CONTRACTING OFFICER.

1. REVIEW TEAM MEMBERS AND REVIEW METHODS

a. The team members participating in the review:

(Name)	(Title/Organization)
James Santaniello	Purchasing Manager ONR, E&SRB, CPSR, Boston, MA
Kevin McCormick	Contract Specialist ONR Regional Office, Chicago, IL

b. MI personnel contacted:

Michael Counts	Strategic Sourcing Director, Procurement Services
Colin Anderson	Interim Director, Procurement Services
Debra Talley	Interim Director, Sponsored Programs
Peter Gerard	Associate Director, Grants and Contracts Contract Administration

c. Review methods included: analysis of purchasing ethics; purchasing and subcontracting policies and procedures; examination of selected federally funded purchase order, subcontract, and consultant agreement files to determine the adequacy of the MI's file documentation; and interviews with MI personnel to acquire insight into the operations of the Procurement Services and Contract Administration Departments.

2. PREVIOUS STATUS OF THE PURCHASING SYSTEM

Based upon the last CPSR conducted June 2008, MI's purchasing system was approved and the approval extended through December 31, 2014. All of the recommendations from the previous 2008 CPSR were satisfactorily closed by the contracting officer before the start of this review.

3. STATISTICAL DATA

The federally funded sample selected for this review was based upon listings of purchase orders and subcontracts issued from July 1, 2013 to June 30, 2014. A total of 51 awards with a dollar value of approximately \$12.6 million were reviewed, including 24 subcontracts. The selected sample covered nearly 23% of all purchases under

government awards for the sample period. Information concerning the degree of competition, the number of sole source awards, and transactions awarded with adequate cost or price analysis is contained in the applicable sections of this report.

4. CURRENT RECOMMENDATIONS TO THE UNIVERSITY

All of the previous recommendations from the 2008 CPSR were satisfied by MI. The following eight (8) are offered as a result of this current 2014 CPSR effort:

- a. MI update applicable FAR flowdown clause dollar thresholds in its Buyer and Award Documentation Checklists and throughout its Procurement Policies and Procedures, Terms and Conditions, Supplements, and Buyer Matrices, wherever they may appear, and in particular, update the following thresholds:

Debarment	\$30,000
Cost Accounting Standards (CAS)	\$700,000
Small Business Subcontracting Plan	\$650,000
Certificate of Current Cost and Pricing	\$700,000
Anti-Lobbying	\$150,000
Micro-Purchasing	\$3,000

- b. MI review compliance with DFARS 252.244-7000 Subcontracts for Commercial Items and Components.
- c. Improve file documentation by providing better access to detailed price and cost analysis, market research, vendor comparison sheets, and negotiation memos used in making award selections and accomplishing price reasonableness.
- d. MI review Mandatory FAR Flowdown Clauses in relation to award Terms and Conditions.
- e. Add Rights to Inventions Clause FAR 52.227-11 to MI subcontract flowdown provisions.
- f. Add Mandatory FAR Clause 52.222-50 "Combating Trafficking in Persons" to MI flowdown clauses.
- g. Add specific Anti-Lobbying compliance wording to Supplier Acknowledgment section of award.
- h. Sections B, C, and E of the Procurement Summary of Award must be populated with appropriate information and expanded to show how the buyer came to a "fair and reasonable" conclusion.

5. COMMENTS ON THE CONTRACTOR'S EFFECTIVENESS IN MAJOR PURCHASING AREAS:

a. Purchasing Organization

Procurement Services falls under the MI President's Office, M.S. Schissel. Serving under him is D. Strong, Interim Executive Vice President of Business and Finance and CFO. N.A. Hobbs, Interim Associate Vice President of Business and Finance reports to him. Colin Anderson is the Interim Director of Procurement Services under Mr. Hobbs.

Michael Counts is the Strategic Sourcing Manager of Procurement Services and reports to Mr. Anderson. Peter Gerard is the Associate Director of Grants and Contracts under Sponsored Programs and reports to D. Talley, Interim Director. Several purchasing, contracts, sourcing, compliance, audit and project personnel make up the remainder of the very extensive Procurement Services organization. This organizational array seemed to function very well with much improved results since the 2008 CPSR.

All The Procurement Services staff was very experienced with substantial credentials and responsibilities. Michael Counts, Strategic Sourcing Manager of Procurement Services was highly accommodating and greatly professional in dealing with the CPSR Team and the many requests for information that were relayed to him in all stages of the CPSR, including the week long in-house segment. Peter Gerard, Grants and Contracts Associate Director, also provided much assistance concerning the many subcontracts that the CPSR Team examined. All this effort from MI greatly assisted the CPSR Team in accomplishing its goal of performing a comprehensive CPSR.

b. Extent of Competition

The MI Procurement Services Policies and Procedures (also known as "The Standard Practice Guide"), as governed by the University's Regental bylaws, actively strives to ensure that maximum competition among contractors (including disadvantaged firms, women's businesses, and labor surplus entities) is pursued. Statistics garnered from the sample selected revealed that 1 (one) of the 51 awards (2%) reviewed had been issued based upon adequate competition. Procurement received an average of 2 responsive bids from responsible bidders in the competitive award reviewed. MI must actively seek competition for awards above \$5,000 per MI "Bidding Requirements" but staff is encouraged to seek competition even if the dollar value falls below this formal award amount. It may be difficult for MI to attain a higher competition rate due to the research and development nature of its procurement environment. The 2008 CPSR showed that

8% of the 40 awards were competed. The Standard Practice Guide was, at the time of this CPSR, under final revision. Completion is scheduled for some time in FY '15.

c. Written Policies and Procedures

MI Procurement, via adherence to the copious above mentioned regulations and policies and procedures, adequately addressed crucial procurement areas, including sole sourcing and sealed- bidding. The CPSR Team reviewed the entire range of MI's lengthy Policies and Procedures and other appendices and forms to ascertain if MI Procurement correctly applied these instruments to each procurement undertaken. The above Recommendations were given to MI to further update and improve in these areas. Recommendation c is thought to be the most crucial one of the eight, but is geared more towards pricing than policy.

d. Control of Sole Source Transactions

MI Procurement Policies and Procedures provide buyers detailed guidance, forms, and website references (ERP, PeopleSoft, SciQuest) concerning this important purchasing area. If there is only one source available, sole source justification is required. The CPSR Team thought this was a very beneficial function for securing price reasonableness. All of the 50 sole source orders (100%) encountered contained sufficient market research documentation or narrative to adequately justify the vendor selection. This was a sign of consistency and improvement, as the 2008 CPSR attained a 90% compliance ratio in this area.

e. Price and Cost Analysis Methods

MI Procurement Services Policies and Procedures require MI to justify the selection of any vendor and to verify price reasonableness as noted in FAR Part 15.404-1(b). Over Ninety-four percent (94.2%) of the purchases were deemed to contain adequate pricing documentation. This was a marked improvement percentage over the 2008 CPSR which reflected 72.5 % and seemed to reflect a commitment from MI to continually improve its processes and maintain solid price reasonableness initiatives. Above Recommendation c. was given to MI to compel its staff to centrally locate price reasonableness data thereby improving its accessibility and completeness to any outside audit effort, such as a CPSR. This data was easy to extract during this CPSR by the CPSR Team.

MI Procurement Services Policies and Procedures addresses the requirements for obtaining cost or pricing data, and a Certificate of Current Cost or Pricing Data as required by Public Law 87-653, Truth in Negotiations Act (TINA). No orders required TINA compliance during this CPSR.

f. Documentation of Award Files

The review of the procurement files, purchase orders, and subcontracts revealed that they were usually found to be organized, and in order. The areas of sole source

justification, price analysis documentation, purchase order terms and conditions, obtaining small business subcontracting plans, and compliance with requirements when ordering from Government Supply sources, were found to be sufficient. MI overall documentation improved from 70% in 2008 to 92.2% in this current CPSR, which is substantial improvement and very commendable. Above Recommendation c. was given to MI to address proper containment and display of any and all price analysis data in order to even further improve documentation access in this area.

The CPSR Team per above Recommendations a,b,d, e,f,g, and h recommended that MI review its applicable FAR flowdown clauses and take initiative to ensure that proper additional flowdown clauses are added and updated as needed and to assure all representations and certifications are properly dated and otherwise represented.

g. MI Small Business Program

In conjunction with the CPSR, a review of the MI Small Business Program is being conducted by the ONR Assistant Director of Small Business. The MI informational submission was received in October 2014. The results of this review will be forwarded to all parties via the ACO, upon completion.

h. Purchase Order Terms and Conditions

The current MI Purchase Order Terms and Conditions were found to be in need of minor adjustments. Above Recommendations a, b, d, e, f, and h, were given to MI to improve in these areas. Importantly, Recommendation d. above compels MI to review its FAR flowdown data and processes.

i. Subcontract Administration

MI Procurement Services addresses the requirements for the issuance and administration of subcontracts. All of the 24 subcontracts contained adequate sole source justifications and cost or price analysis documentation as required. MI Sponsored Programs administers subcontracts and grants. Peter Gerard, Associate Director of Contracts and Grants enabled the CPSR Team to view these awards electronically on the MI system which proved to be very fluid and easy to use. Buyers seemed to be guided by a vast amount of information, much of it on-line (ERP, PeopleSoft, SciQuest) to reasonably ensure federal compliance and mitigate risk to the Government in its policies and execution of its purchasing functions. One (1) advance notification requirement was encountered in the awards and found compliant. In total \$6.24 million in subcontracts were reviewed by the CPSR Team.

6. OTHER MATTERS

During the course of this CPSR at MI, the CPSR Team and MI Purchasing staff had productive dialogue concerning issues such as personnel changes, professional development of MI purchasing staff, process streamlining, improving price reasonableness, and interface with other MI departments. The purpose of this was to gauge the ongoing culture and continued improvement of MI purchasing. These discussions seemed productive and enlightening. In particular, pricing documentation and its location and display were discussed at length.

The preliminary findings and recommendations resulting from this review were provided to the MI Procurement Services during an exit meeting conducted October 23, 2014. MI has since submitted a Corrective Action Plan, dated November 14, 2014, that was evaluated by the Purchasing Manager and ACO and deemed to be sufficient in complying with the eight recommendations given in section 4 of this CPSR report.