

## Summary of the Fourth Session of the Contract Review Committee

Okinawa Institute of Science and Technology (OIST) Graduate University

1. Date            Thursday, July 25, 2013 from 9:30 to 11:40 am
2. Venue           10<sup>th</sup>-Floor Meeting Room, Mitsubishi Building, Tokyo
3. Members      Yo Nozato (Chair), Toshiaki Tada, Shigeki Kusunoki, Naoto Uchima,  
Takao Kashitani, and Susumu Namerikawa (Absent: Takayuki Seike)  
Observers: Kiyotaka Soma and Koji Matsuda (Auditors of OIST)
4. Summary of the Proceedings

(1) Extraction of the subject matter to discuss

It was reported that Mr. Namerikawa extracted 10 subjects from 293 issues by contract type (two issues from general bidding, two issues from overall greatest value methods, one issue from koubo, three issues from planned competitive bidding, one issue from insufficient numbers of bidders/all bids too high, and one issue from negotiated contract)

(2) Discussion on individual issues

1) Purchase of set of gas equipment accompanying CVD equipment

Comments and opinions by the Committee	Explanations, etc. by the secretariat
Although the rate of successful bids is low at 60.6%, is quality checked in a reasonable manner?	In the case of a contract on sale of goods, low bid prices will not be reviewed. However, technical levels have been checked by requesting bid materials prior to bidding.
What are the grounds for the ratio of purchase price to list price of 0.9?	In the case of construction, assessment is conducted by applying a ratio of 0.9 to expense estimates. While this case concerns goods, since a part of the costs consists of construction costs we assessed that portion using this ratio.
Has it been normal practice to use the ratio of 0.9 in construction works?	In recent years the ratio of 0.9 has not been applied because construction prices and workers' wages have risen since the Great East Japan Earthquake.

The grounds for the discounts on the written estimate are unclear. Is there a double standard on prices in this industry?	Ordinarily, the estimated price is set by checking on performance in serving other institutions and referring to past performance at OIST.
One method would be to try to change the ratio of purchase price to list price by some degree in accordance with the difference between the list price and the estimate price depending on the goods.	On the other hand, it is quite difficult for the buyer to judge the appropriateness of goods prices in this purchase because no list price has been set. We are trying to get as many suppliers as possible to take part in this bidding.

- 2) Construction work to improve the environment in core parts of OIST (landscaping in eight stages of construction and other works)

Comments and opinions by the Committee	Explanations, etc. by the secretariat
In this case too the rate of successful bids is extremely low at 38.6%. Is there any possibility of problems such as cutting corners? Would this pose a safety hazard?	In the area of management, thorough checking is conducted. The three parties of the contractor, OIST, and the design firm chose tree types. We will have any trees damaged after planting replaced immediately. We also have conducted an inspection one year after completion of the work. We do not expect any problems that would pose a safety hazard to arise.
Can costs be cut to this degree if the contractor were to conduct similar construction near OIST?	We believe that the factors of use of personnel on both projects and in-house production and inventories of tree-planting materials are important ones. It must be said that somewhat easy estimated price has been set. We would like to use data from this case in future bidding on landscaping.
-	(Question from OIST) As with the first issue, on this matter too it seems that the time has come to review the estimated price system. Is there any method that would seem suitable as a substitute?

<p>This is because OIST rules probably conform to national rules. A private-sector firm would not employ the concept of estimated price. Instead, it would conduct purchasing activities within the budget allocated and be accountable to its directors and shareholders.</p> <p>The national government uses the estimated price as one responsibility in its accountability to the public, so that it can show that purchasing is conducted appropriately because it is within this limit (within the estimated price range). For this reason, the perspective of to whom this accountability is realized is an important one.</p> <p>Since an estimated price system has been set up within OIST, the first issue to discuss is whether or not to change this. The next matter to discuss is how to change this system, if the decision is made to change it.</p> <p>At the very least, it is not the case that anything goes because we are using public funding. I believe that as a buyer we need to prepare some prices that can be considered reasonable in some way. We would fulfill our accountability obligations by reviewing and inspecting any differences between these reasonable prices and the bid prices.</p>	
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3) Facility/equipment maintenance

Comments and opinions by the Committee	Explanations, etc. by the secretariat
<p>While the selection process employs the method of overall evaluation, the gap in technical points between the winning bidder and the next highest scoring bidder was 16.5 points out of 100 total points. What kind of difference does this imply in providing maintenance?</p>	<p>Since the winning bidder is experienced, as the contractor used last time, we believe that it can provide more specific, practical proposals.</p> <p>The actual gap was in the areas of thinking on cutting energy costs, coping with typhoons, and maintenance of landscaping. The winning bidder made a specific, practical proposal.</p>

<p>If conducting evaluation through interviewing participants the previous contractor naturally would have an advantage. It is important to take an approach that would lead to a diverse range of proposals (such as cost cutting) from new participants.</p>	<p>Only about two years have passed since completion of campus construction. Also, since new construction is underway too we need to evaluate business continuity and stability as well, not just cost.</p>
<p>Instead of bidding each fiscal year, effectively placing and receiving orders for three-year periods would help improve business efficiency and cut costs on both sides. However, the content of subcontracting and prices would need to be reviewed thoroughly each year.</p>	<p>To increase competitiveness, beginning this fiscal year we will conduct bidding on the assumption of a three-year contract.</p>

4) Construction for new machinery and equipment in the No. 3 research building

Comments and opinions by the Committee	Explanations, etc. by the secretariat
<p>Why was there no participation by contractors in Okinawa Prefecture? Are there any conditions that would prevent their participation?</p>	<p>An overall score of 950 points on pipe construction is a necessary qualification. In Okinawa Prefecture, 18 companies are qualified. No Okinawa contractors took part in the machinery construction on research buildings no. 1 and no. 2 either. This may have been partly a result of the fact that the construction work included connection to existing facilities. We intend to continue giving consideration to participation of companies in the prefecture in the bidding process.</p>
<p>While Company A's technological abilities were recognized in writing its evaluation in the interviews was low. The winning bidder had the highest score in the interviews. Are the interviews that important?</p>	<p>It is important that the engineers planned for assignment to supervise and manage the actual job site have the abilities to understand and explain the construction. Even though the written proposal was good, the findings of the actual interviews differed.</p>
<p>Why is the addition method used in this overall evaluation?</p>	<p>A similar point was made in previous meetings of the Contract Review Committee. When we have made inquiries to the system vendor, we were told that the addition method is employed because the current system is not compatible with the division method.</p>

<p>If OIST would like this construction to be decided ultimately by price, there is no need for the overall evaluation. Price competition and checking of construction quality would be sufficient.</p> <p>When choosing the method of overall evaluation, there is a need for methods of requesting proposals and evaluation methods that would lead to differences in technical scores.</p>	<p>We would like to consider this matter.</p> <p>(Additional reference information) Priority review is conducted if a bid is less than 70% of the estimated price. Since bids for this construction (Lab 3 machinery) were in the range of 70% or more but less than 80% of the estimated price, we interview the lower bidders. (This was not a priority review.)</p>
<p>In Okinawa Prefecture, if the price is lower than the review base price then performance ability is inspected strictly. For this reason, numerous materials are requested.</p> <p>One reason for using the method of overall evaluation is to secure construction quality. Isn't it the case that if accepting (passing) contractors who bid lower prices then there is no reason to use the overall evaluation method? The objectives should be considered closely when deciding on a bidding method.</p>	<p>(From the "Details Rules on Review of Low Bids")</p>

5) Environmental monitoring survey (FY2013)

Comments and opinions by the Committee	Explanations, etc. by the secretariat
<p>What is the reason for using a negotiated contract?</p>	<p>In the past we used open bidding and about three parties responded. Since FY2011, only this company has indicated an intention to participate. We will continue using the negotiated contract because this company has past performance and we have determined that there are no technical problems.</p>
<p>Is a review base price needed even for open bidding?</p>	<p>We will negotiate on price after specifying a vendor. The review base price is set because rules call for setting one when operations (subcontracting agreements for work other than construction) involve a price of 10 million yen or more. (Article 23 of the Details Rules on Contract Operations)</p>
<p>With this contract, how many times will this company have conducted OIST environmental monitoring?</p>	<p>This will be the eighth time. It is difficult to switch consulting services midway on a project that continues for several years.</p>

6) Contracts on the digital document administration and approval system (three issues discussed together)

Comments and opinions by the Committee	Explanations, etc. by the secretariat
Why is this split into three contracts?	There is only one selection process for this system, but three separate contracts will be concluded as requested by the supplier: 1) design and development, 2) maintenance, 3) software package license
Are rejected suppliers notified of the results of the selection process as well?	We disclose and explain the reasons for selection when requested.
Are prices evaluated?	Yes.
Will OIST hold software copyright?	OIST will hold a license for as long as it uses the software.
Can maintenance operations be contracted to another vendor?	There are practical difficulties because other suppliers would not understand the content of the software.

7) Rental of time-resolved 3D PIV system as a set

Comments and opinions by the Committee	Explanations, etc. by the secretariat
What would happen if there were a problem at the supplier?	This supplier is the general agent for Japan of a German manufacturer. If there were a problem with the agent, then we would ask the equipment manufacturer in Germany to provide maintenance directly.
If there is only one candidate, would the price estimate be the estimated price unchanged?	The estimated price has been set by checking on performance at other research institutions and universities and taking into consideration past contractual performance at OIST. However, for research equipment there are very many cases in which there is only one agent in Japan.

The agent system also is an issue for the research institution as a whole.	In some cases sales prices in the country of manufacture are researched and compared with the prices of the agent in Japan. In many cases the agent in Japan has an exclusive contract for the market, and in such cases there is no choice but to purchase from the agent even though its prices may be quite higher than in the equipment's home market. The agent system is a major issue to research institutions and universities in Japan, and it is one major cause of high research costs.
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8) Managing Editor/Production Coordinator for the OIST general purpose brochure

Comments and opinions by the Committee	Explanations, etc. by the secretariat
What is the currency of this contract?	Canadian dollars (CAD)
Will OIST bear exchange-rate risks?	Yes, in part because the amount of this contract is small.

(3) Schedule for the next meeting and the member responsible for selecting the subject matter

The secretariat provided an explanation about the following schedule, and it was approved by the members.

January 2014 To be held in Okinawa

It is expected that the member responsible for the subject matter will be Mr. Uchima.  
(Mr. Nozato → Mr. Tada → Mr. Kusunoki → Mr. Namerikawa → Mr. Uchima → Mr. Kashitani → Mr. Seike)

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