

## The minutes of the 14th Contract Review Committee

Okinawa Institute of Science and Technology School Corporation

1. Date and Time: Monday, July 23, 2018 (From 9:25 to 11:15)

2. Place: Middle 1, Conference Square M+

3. Attending committee members: Mr. Manabu Ofuchi, Mr. Yoichi Kagawa, Mr. Hidemitsu Sakihama, Mr. Itaru Shimizu, Mr. Hideaki Tanaka, Mr. Toshiaki Tada, Mr. Susumu Namerikawa

4. Summary of the Proceedings

○ Election for the chairperson

The election of the chairperson was held in accordance with the provision of Article 3, Paragraph 2 of the “Detailed Stipulations for the Contract Review Committee (of the Okinawa Institute of Science and Technology School Corporation)” and Mr. Tanaka was elected as the chairperson.

○ Appointment of an acting chairperson

Chairperson Tanaka appointed Mr. Tada as an acting chairperson in accordance with the provision of Article 3, Paragraph 3 of the “Detailed Stipulations for the Contract Review Committee (of the Okinawa Institute of Science and Technology School Corporation)” and the appointment was approved.

○ Outline of OIST

The secretariat explained the outline of OIST.

○ Agenda

(1) Selection of agenda items

Mr. Ofuchi reported that two contracts were selected out of 219 contracts as agenda items. (Construction work: One contract, Purchasing assets: One contract)

Reasons for selecting the agenda items

A committee member in charge: Mr. Ofuchi

**【Public construction work contract】**

○ General competitive bidding:

The Environmental Development of the Okinawa Institute of Science and Technology Graduate University (The development of the south side of the Energy Center and other works)

Reason for the selection:

The ratio of the contracting price to the estimated price is 74.7% and there is a large difference between the estimated price and the contracted price. As a result of the competition among nine companies, the said ratio was lower than expected. It seems that the competitive bidding was effective. Meanwhile, given the fact that it was mentioned before that the construction costs have been increasing in the Okinawa region, I wonder if the estimated price was appropriate.

**【Contract for purchasing assets and services etc.】**

○ Negotiated contract:

Purchase of a complete set of Cryo-electron microscopy

Reason for the selection:

The counterparty is an only provider that can provide this product and does not allow the competition for this product. It is a negotiated contract; however, there was a similar example in the past (freezer), which was subject to the general competitive bidding. Accordingly, I wonder if there was no room for the bidding for this one as well.

(2) Deliberation regarding individual agenda items

1. Competitive bidding

(1) The Environmental Development of the Okinawa Institute of Science and Technology Graduate University (The development of the south side of the Energy Center and other works)

<Explanation on the summary (provided by the Secretariat)>

- Nine parties participated in the competitive bidding.
- It is a work to fill ground cracks with soil in order to prepare the site for the 4<sup>th</sup> research building and remove surplus soil from the construction site.
- As for the situation where the construction costs have been increasing in Okinawa Prefecture, we confirmed the matter with bidders and the consultant who was in charge of the design in this project and found out that the engineering work in this project was also affected by the increase in the construction costs.
- However, as it was not a time and effort consuming work, it was a highly profitable work for the contractor. We understand that the price competition has worked in a positive way.
- We confirmed the method of setting the estimated price with the design company and found out that materials such as publicly disclosed materials on construction prices would be used as a supporting material for civil engineering works and accordingly it would be difficult to make adjustments in the estimation process and therefore the estimated price would be more or less the same, regardless of who calculate the price.
- When we ordered a similar civil engineering work in the past, we were told that it was difficult to accept such a time and effort consuming work especially in Okinawa Prefecture, which is in the midst of a construction boom.

Opinions and comments of the Committee	Explanation provided by the Secretariat
The contract prices for time and effort consuming works tend to exceed the estimated prices as fewer bidders participate in the bidding. On the other hand, the contract prices for less time and effort consuming works tend to significantly fall below the estimated price as many bidders participate in the	In the national estimation system, there is no specific adjustment method in such situations. However, there have been many similar cases in the past and the university has accumulated data on such past cases. As for cases on which we have accumulated data, we can use them as a reference on the condition that they are

<p>bidding.</p> <p>Under this situation, it seems that there is no point in setting an estimated price. Are there any ways to adjust the contract price? Currently, estimated prices are not set in line with the actual situation. Isn't it unreasonable?</p>	<p>based on a solid basis.</p> <p>We consider that it is desirable to combine profitable works and unprofitable works as one project and order it if the timing is right.</p> <p>In case of construction works, the larger the amount of works, the lower the expense ratios become as the processes are streamlined. Accordingly, if there are works that can be done at the same time, they can be ordered together as one project to the extent possible to reduce the estimated price for the project. We consider we should make such efforts to reduce the price.</p>
<p>Are there many contractors that can handle construction works of this scale in Okinawa Prefecture?</p>	<p>Yes. The construction work was an optimal scale and many contractors participated in the bidding.</p>
<p>I understand that we held hearings with four participants who presented bidding prices that fell below the estimated price. Is my understanding correct? According to the materials on the released bid-opening results, it seems that we held a hearing with A Company, which won the first place in the negotiation order.</p>	<p>We started an investigation on lowest bidders with A Company whose bidding price was the lowest among participants. However, we found out that the works won't be able to be completed within the contract period, for which A Company was disqualified. Accordingly, we conducted the investigation on B Company, which was the second place in the negotiation order. As a result of the investigation, we found out that B Company satisfied the conditions and determined B Company as a successful bidder. We will confirm the method of describing the bid-opening results.</p>

2. Negotiated contract:

- (1) Purchase of a complete set of a Cryo-electron microscopy

<Explanation on the summary (provided by the Secretariat)>

- Purchasing a complete set of Cryo-electron microscopy used for the commissioned research project of the University
- The purpose of introducing the equipment is to conduct screening of samples provided by the research institution C in the structural analysis of proteins etc. by an electron microscopy which is a research project commissioned by the research institution C.
- We are supposed to conduct the structural analysis of samples using up to 10% of the operation hours of existing two microscopies and accordingly we have introduced this microscopy for the purpose of conducting prior screenings in order to conduct efficient operation and management while ensuring 90% of the operation hours used for the University.
- As the expected purchase amount of this research equipment exceeded 50 million yen, the equipment was selected after the deliberation at the Specification Formulation Committee and the contract was executed in the form of a negotiated contract.
- At the Specification Formulation Committee, the conditions for the execution of the project have been set as essential conditions.
  - (1) To be operable at room temperature and at the liquid nitrogen temperature. Particularly, it should be excellent at being operated at the liquid nitrogen temperature.
  - (2) To have a cryogenic sample holding mechanism where a cryogenic temperature state can be maintained for a certain period of time.
  - (3) To be a CMOS camera with high resolution and low noise.
  - (4) To have an automatic image acquisition function.
  - (5) To have a common software with existing models.
- We conducted comparison and consideration of four models as a candidate model.
- D Company's research equipment has been selected as only equipment that has met the requirements for the execution of the project. E Company was appointed as a solo distributor for the University by a solo agent for D Company's products and accordingly we had no room for considering other sales channels and therefore we executed the contract in the form of a negotiated contract.
- As for the estimated price, we conducted a comparison of the track records of the delivery to the University and other organizations. We obtained a discount equivalent of 42% of the retail price in the execution of the negotiated agreement

and accordingly we judged the reference estimated price as appropriate and therefore adopted the reference estimated price as the estimated price.

Opinions and comments of the Committee	Explanation provided by the Secretariat
What is a mechanism for this research project commissioned by the research institution C?	We accepted the research project and conduct screening of samples in the project that aims to analyze samples.
Is a research positioned as the one that contributes to the OIST's research or the one that is conducted for the purpose of procuring research funds?	In commissioned research projects, research institutions that fund the projects specify the research theme and call for research proposals based on the theme. Then, research funds are provided to the party who has submitted the best proposal. As for this project, we judged that it would be useful to our researches and also as means of procuring external funds and accordingly we applied for the project and were selected.
Does it mean that the research funds are allocated by the research institution C and we conduct the research activities (including the purchase of equipment etc.) within the expenses?	Yes, that is right. We receive the funds on the condition that we use approximately 10% of the total operating hours of the Cryo-electron microscopy for the research project of the research institution C and we can use the remaining 90% for OIST's researches.
In the case of a negotiated contract (like this project) where a specific counterparty is selected, limitations are usually imposed on specifications. If there are four models at the time of comparative discussions and they do not meet any of five requirements considered at the	At the Specification Formulation Committee, we also placed particular focus on the matter that basic requirements specifications may be based on a specific model. We have confirmed as to whether other models cannot meet such requirements in

<p>Specification Formulation Committee, there is concern that basic requirements specifications may be based on a specific model.</p>	<p>details. Each company commercialized its product after conducting the research and development by focusing on its own unique features and accordingly we selected the model for this project through a process of elimination.</p>
<p>Are there any project members who have experience in using this model?</p>	<p>As this is a new model, there was no one who had experience in using this model. However, a similar model manufactured by D Company has been installed in OIST. According to the manufacturer, those who have experience in using the D Company's model would soon be able to use this model if they receive simple trainings on how to operate this model. Therefore, we consider that it was not so difficult for technicians to learn how to operate.</p>
<p>Researchers tend to select equipment they have experience in using and it is difficult for them to fully accept and select completely new equipment if they have no experience in using it.</p>	<p>One (some) of members of the Specification Formulation Committee has (have) experience in using a model manufactured by F Company (which is a competitor manufacturing a product competing with this model). We conducted discussions based on their opinions and technological information provided by G Company. We purchased this product for the purpose of conducting prior screening for observations by existing equipment and accordingly the compatibility with existing equipment was one of the important specifications.</p>
<p>Does a microscopy we purchased belong to OIST?</p>	<p>Yes, that is right.</p>
<p>Are there any possibilities that D</p>	<p>We confirmed the matter with D</p>

<p>Company directly sell the product without involving E Company?</p>	<p>Company and D Company submitted a certificate appointing E company as a distributor in this project. In Okinawa, some agents sell products manufactured by D Company; however, the distributor has been appointed in this project.</p>
<p>Does it mean that D Company restricts the sales by their agents in each region as their business practice?</p>	<p>It doesn't seem that they restrict the sales by their agents in the entire Okinawa region. In the Okinawa region, there are cases where the products are sold by companies other than E Company. In addition, as for maintenance contracts, there are cases where OIST has executed the contract directly with D Company. Accordingly, it seems that there are different arrangements depending on models and projects.</p>
<p>It was mentioned that we would use 10% of the operating hours of this equipment for the research project of the research institution C and the remaining 90% for OIST's independent researches. Did you discuss the performance equivalent to 10% of the operating hours for the research project of the research institution C at the Specification Formulation Committee?</p>	<p>We act based on the premise that we have to be able to achieve the said 10%. Although the ratio is only 10%, it is prerequisite that we can use it for this project. Therefore, the ratio is small, but it is highly important for us and accordingly we have discussed in a focused way.</p>
<p>It was mentioned that there were other candidate models although they did not meet requirements. Dose the price become high if we place an order for specially ordered products that meet the requirements with those manufacturers?</p>	<p>It is not definite information; however, according to the manufacturers, it seemed that the price would become high or it would be technically difficult to manufacture such products. Moreover, there were no past records for specially ordered products and accordingly we could not consider such</p>



	option as we were not sure if such manufactures can supply a product manufactured in accordance with the specifications.
Who is responsible for confirming the governance over the overall commissioned project and the progress on the project? Unlike research projects supported by grants-in-aid for scientific research, a large amount of funds are spent and many departments are involved in this kind of project and accordingly we need a system where the company-wide governance functions.	The department executing the contract gives the first priority to confirming as to if the purchase request is made based on the rules. Moreover, the department in charge of managing the commissioned research conducts the overall management. In this project, Provost has been in charge of the confirmation etc. from the application stage and he performs processes while ensuring that the governance functions.
Are there any occasions that we are commissioned researches by other research institutions (just like this time)?	There are some examples; however, it is the first time for us to be engaged in the research project commissioned by the research institution C. We consider that it is significant for us to enhance the name recognition and broaden our network by accumulating track records through such commissioned research projects.

### (3) Matters reported by OIST

#### ① Changes in the actual situation on procurement

<Explanation on the summary (provided by the Secretariat)

In the explanation, the situation on the tenders and contracts in FY2017 was divided into the following three categories.

- Category 1: Large research equipment

It accounts for a large percentage of the total procurement amount. In FY2017, a larger amount (of the budget) was executed in this category compared to FY2016.

- Although the number of cases is small; however, the amount per case is large.

In any equipment, there are risks that competitions may reach a deadlock if equipment types are specified and accordingly prices may remain at a high level.

- Based on the premise that competitive products themselves create the competition, we tried to acquire the information on multiple manufacturers at the stage of considering the requirements specifications and in some cases we tried to make manufacturers compete with one another for reference quotations at that stage.
- Although the number of cases we made such attempt is small, we could get relatively large discounts in some cases and could rarely get discounts in other cases. If it is effective, we can get large discounts; however, although it takes time and efforts to investigate on competitive companies, it is less effective in some cases as mentioned above and accordingly we have to consider the scope of application of the method given the cost-effectiveness of the administration costs.
- Moreover, we can have large effects if it works and accordingly we need to consider the possibility of unexecuted budget at the end of the period from the perspective of the system design.
- In the Federal Acquisition Regulations, the basic stance for one bidder cases is that companies should make possible efforts to avoid one bidder cases as there is procurement risk in such cases; however, even if companies end up in one bidder cases, if the competitiveness has been secured before such cases, it cannot be said that the adequacy of the competitiveness and the procurement price for such cases is denied.

Opinions and comments of the Committee	Explanation provided by the Secretariat
Do we usually execute a negotiated contract?	As for cases where multiple candidates remained in the end, some cases resulted in a competitive bidding among multiple participants and others cases resulted in only one bidder. There were also some cases where we selected and examined a product until we could adequately explain the reason of selecting the product and executed a negotiated contract.

<p>As for cases we tried, where did you get the information on competitors? The existence of realistic competitors can lead to the price competition as it gives a cause for concern to parties we negotiate with. We should collect as much information as possible by sharing information on information sources with other universities.</p>	<p>As for the information on competitors, we conduct hearings with researchers and technical experts in the research support department. In addition, we collect information through the use of the Internet.</p>
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- Category 2: Outsourcing

Outsourcing expenses:

- The amount of the budget executed by the administrative department accounts for a larger percentage. It mainly consists of the facility management, the ERP system and other IT system.
- Contracts for the management and the maintenance of buildings which are the basic infrastructure are required every year, and the reduction in expenses through the competition is not always possible. We need to consider as to how many companies in Okinawa Prefecture can handle such work and how we can secure the quality together.
- The issues regarding contracts regularly executed every year are to optimize the size of the contract amount and to resolve the deadlock over contracts continued for a long time while maintaining the above-mentioned “quality.”

Maintenance expenses:

- Each of the amounts of the budget executed by the administrative department and the research support department accounts for 50% (of the total maintenance expenses).
- The expenses spent by the administrative department consist of the facility management, the ERP system and IT system (in descending order), which is the same as the outsourcing expenses.
- A cost reduction has been a long-term issue regarding the maintenance of research equipment and we have tried various methods; however, we have not found any effective measures.
- As for the maintenance, it is currently under the situation where services are provided at manufacturers’ asking prices (which are just like a monopoly market). The problem is how we will manage the required quality while

minimizing the price.

Opinions and comments of the Committee	Explanation provided by the Secretariat
<p>Is the facility maintenance contract a single-year contract?</p>	<p>We have policies of adopting a single-year contract and continuing the contract with the same counterparty for a certain period. If we change the counterparty every year, the bidding price becomes higher due to the switching cost and other costs and accordingly we execute the contract on the premise of continuing it for multiple years.</p> <p>In the case of OIST, the improvement of facilities has been rapidly promoted and accordingly we adopt a single-year contract to enable the annual revision of the contract.</p>
<p>The efforts regarding the cost reduction at the stage of the development of specifications were mentioned; however, how do we conduct the performance monitoring?</p> <p>We could possibly adopt a performance-based payment system although it may be difficult under the current system.</p>	<p>In the case of research equipment, there were cases where we could purchase the equipment with the contents exceeding our purposes although the same amount of the budget was executed. We would like to consider the possibility of the improvement from the perspective of enhancing the quality without changing the direction. As for the evaluation of performance in terms of the current situation of the facility and equipment maintenance, we have adopted a mechanism where we conduct at the end of each year the evaluation of the achievement of objectives set at the beginning of each year and we renew the contract if the objectives are achieved.</p>

- Category 3: Expendable supplies
  - It is a category that involves large expenses as a large number of orders is placed.
  - A simple comparison is difficult; however, according to the rough calculation, if the number of cases where the supply store located in the University is used is converted into the normal purchase procedures, a significant amount of document processing time is saved. Also, in the comparison regarding the number of times documents are processed, it can be said that the large percentage of the administration expenses can be saved.
  - The store system is effective also from the perspective of the timely supply and we would like to expand the use of the system in the future.
  - We plan to try getting competitive quotes through the use of functions of the newly introduced electric bidding system. In the conventional method in which we individually make inquiries to each supplier to get quotes, we can only get quotes from up to approximately three suppliers; however, in this new method, we can send a request for quotation or the procurement information in one go to suppliers (approximately 60 suppliers) that have registered to the system.
  - Requests for quotation made online are basically a one-way communication (where the information is transmitted in a one-way) and we should make some efforts to promote the participation of suppliers.

Opinions and comments of the Committee	Explanation provided by the Secretariat
What is the supply store system?	It is a system created by customizing the distributor's system to meet OIST's needs and enables transactions by connecting it with the OIST's accounting system.
Does a distributor determine prices when we purchase assets?	Prices are determined through the discussions with a distributor and we sometimes request distributors to maintain prices in the negotiation when manufacturers increase the prices. We do not restrict purchases from sales channels other than a supply store and accordingly there is a room for researchers to compare prices, which

	lead to competitive price offers.
Why don't we adopt a system where we determine competitive distributors for each item in advance and can freely decide distributors from which we purchase items among predetermined distributors?	Currently, we have adopted a system where manufacturers and items are determined for each distributor. As you suggested, we would like to adopt the system where we do not need to rely on distributors.

(4) Schedule for the next committee meeting and a committee member in charge of selecting agenda items.

The Secretariat explained the following schedule and the schedule was approved.

The next contract review committee meeting of OIST is scheduled to be held in Okinawa in January 2019.

A committee member in charge of selecting agenda items shall be Mr. Tada.

(Mr. Tada→Mr. Tanaka→Mr. Namerikawa→Mr. Kagawa→Mr. Sakihama→Mr. Shimizu→Mr. Ofuchi)