



OFFICE OF
**INSPECTOR
GENERAL**
UNITED STATES POSTAL SERVICE

Enterprise Technology Services Program

Audit Report

July 18, 2013

Report Number SM-AR-13-003



HIGHLIGHTS

BACKGROUND:

The U.S. Postal Service's Enterprise Technology Services Program consists of four competitively awarded contracts for information technology services. Implemented in October 2009, it provided the opportunity to further compete task orders among the suppliers. Competition, which allows comparisons of competing proposals and prices, is seen as a vital improvement to the previous program — the Preferred Portfolio Partnering program, under which the task orders were not competed. Postal Service officials also implemented guidelines requiring written justifications when task orders are not further competed under the Enterprise Technology Services Program.

Our objectives were to assess competition for task orders and controls over task orders and associated modifications that were not competed.

WHAT THE OIG FOUND:

Compared to no competition under the Preferred Portfolio Partnering program, the Enterprise Technology Service program improved the Postal Service's level of competition. Specifically, we determined that officials competed 37 percent of task orders during fiscal years 2011 and 2012. However, the Postal Service does not have a system to track and measure competition. All task orders are coded as competitive

although some are not competed. Accurately tracking task orders would enable the Postal Service to correctly measure competition and identify areas for improvement.

Postal Service officials could also improve controls over the award of task orders and associated modifications that were not further competed. Specifically, 59 percent of these actions, totaling \$71.5 million, did not have justification documenting why the task orders were awarded without further competition. Furthermore, officials did not document a formal management review and approval process for 14 percent of justifications, totaling \$5.7 million.

Finally, officials did not always document analyses of price and technical proposals, which consist of the contracting officer working with subject matter experts to ensure reasonable rates. However, management instituted corrective action to this issue in a prior report, so we are not making a recommendation.

WHAT THE OIG RECOMMENDED:

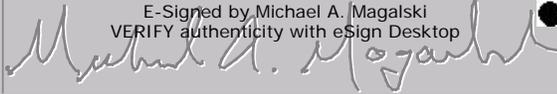
We recommended management track opportunities to increase competition; ensure awards not competed have justifications; and update guidelines for the requirement of management level review and approval of justifications.

[Link to review the entire report](#)



July 18, 2013

MEMORANDUM FOR: SUSAN M. BROWNELL
VICE PRESIDENT, SUPPLY MANAGEMENT

E-Signed by Michael A. Magalski
VERIFY authenticity with eSign Desktop


FROM: Michael A. Magalski
Deputy Assistant Inspector General
for Support Operations

SUBJECT: Audit Report – Enterprise Technology Services Program
(Report Number SM-AR-13-003)

This report presents the results of our audit of the Enterprise Technology Services Program (Project Number 13YG004CA000).

We appreciate the cooperation and courtesies provided by your staff. If you have any questions or need additional information, please contact Monique Colter, director, Supply Management and Facilities, or me at 703-248-2100.

Attachment

cc: Stephen Masse
Robert L. Oates III
Rajesh K. Handa
Susan A. Witt
Corporate Audit and Response Management

TABLE OF CONTENTS

Introduction 1

Conclusion 1

Enterprise Technology Services Program Level of Competition 2

Noncompetitive Justifications 4

Reviews and Approvals of Noncompetitive Justifications..... 5

Technical Analyses of Price and Technical Proposals 6

Recommendations 6

Management’s Comments 6

Evaluation of Management’s Comments..... 7

Appendix A: Additional Information 8

 Background 8

 Objectives, Scope, and Methodology 8

 Prior Audit Coverage 10

Appendix B: Monetary Impacts 11

Appendix C: Management's Comments 12

Introduction

This report presents the results of our audit of the Enterprise Technology Services (ETS) Program (Project Number 13YG004CA000). Our objectives were to assess competition for task orders and controls over task orders and associated modifications that were not competed. This self-initiated audit addresses operational risk. See [Appendix A](#) for additional information about this audit.

The ETS program consists of four competitively awarded contracts for information technology (IT) services.¹ Implemented in October 2009, it provided the opportunity to further compete task orders among the suppliers. Competition, which allows comparisons of competing proposals and prices, is seen as a vital improvement to the previous program — the Preferred Portfolio Partnering (PPP) program,² under which the task orders were not competed. U.S. Postal Service management implemented guidelines³ requiring written justifications when task orders are not further competed.

Conclusion

Compared to the lack of competition under the PPP program, the ETS program improved the Postal Service's level of competition. Specifically, we determined that Postal Service personnel competed 37 percent of task orders during fiscal years (FY) 2011 and 2012. However, the Postal Service does not have a system to track and measure competition. All task orders under this program are coded as competitive although some are not competed. Accurately tracking task orders would enable the Postal Service to correctly measure competition and identify areas for improvement.

Also, officials could improve controls over the award of task orders and associated modifications that were not further competed. Specifically, 59 percent of these actions, totaling \$71.5 million, did not have justification documenting why the task orders were awarded without further competition. Furthermore, officials did not document a formal management review and approval process for 14 percent of justifications, totaling \$5.7 million. In addition, Postal Service personnel did not always document technical analyses of price and technical proposals, which consists of the contracting officer (CO) working with subject matter experts to ensure proposed labor categories and rates are fair and reasonable. Management subsequently instituted corrective action to ensure documentation of technical analyses.

¹ Staff Augmentation, Enterprise-Wide Business System Development and Virtual Development Centers.

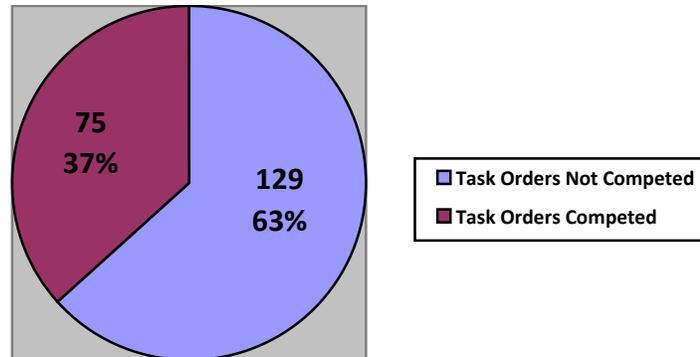
² The basic goals of the PPP program were to award long-term professional service ordering agreements to enterprise-wide IT providers, assist the Postal Service in delivering business solutions, and maximize the value obtained from its IT investment.

³ *Guidelines for Competitive and/or Single Source Awards Enterprise Technology Services (ETS)*.

Enterprise Technology Services Program Level of Competition

The Postal Service competed 37 percent (75 of 204) of the ETS task orders for FYs 2011 and 2012. However, the Postal Service does not track task orders that are not further competed. Of the 204 task orders⁴ reviewed, we determined 63 percent (129 of 204) were not further competed as detailed in Figure 1.

Figure 1. Analysis of ETS Task Orders



Source: U.S. Postal Service Office of Inspector General (OIG) review of task orders.

Of the 129 task orders not competed, the Postal Service awarded [REDACTED]

[REDACTED] The Postal Service awarded 57 of these task orders based on sole source business scenarios.⁵ Of the 57 sole source task orders, the Postal Service awarded [REDACTED]. The Postal Service awarded the remaining 72 task orders based on compelling business interest (CBI) business scenarios,⁶ as shown in Table 1.

In addition, as shown in [Table 1](#), [REDACTED]

⁴ Universe of task orders reviewed with active spend in FYs 2011 and 2012.

⁵ Sole source is a business scenario through which only a single supplier is capable of satisfying the requirement.

⁶ CBI is a business scenario through which a specific supplier can meet Postal Service needs quickly and efficiently, and the benefits of doing so outweigh those that may be realized through competition.

**Table 1. Analysis of ETS Task Orders and Award Spend by Supplier
FYs 2011 and 2012**

					Total
Task Orders Not Completed					
Percentage of Task Orders Not Completed					
Not Completed Spend (in millions)					
Percentage of Not Completed Spend					
Task Orders Completed					
Percentage of Task Orders Completed					
Completed Spend (in millions)					
Percentage of Completed Spend					
Total Task Orders					
Total Spend (in millions)					

Source: OIG review of task orders.

The Postal Service does not have a system to track the number of task orders that are not further competed. Personnel are required to code every ETS task order as competitive in the Contract Authoring Management System (CAMS)⁷ because the contracts were competitively awarded.⁸ However, the task orders may be further competed if it is in the best interests of the Postal Service.⁹ Tracking task orders that are not further competed would enable the Postal Service to correctly measure competition and identify areas for improvement.

⁷ The CAMS is the Postal Service primary contracting system, which supports the procurement of supplies, services, equipment, and transportation (excluding highway transportation).

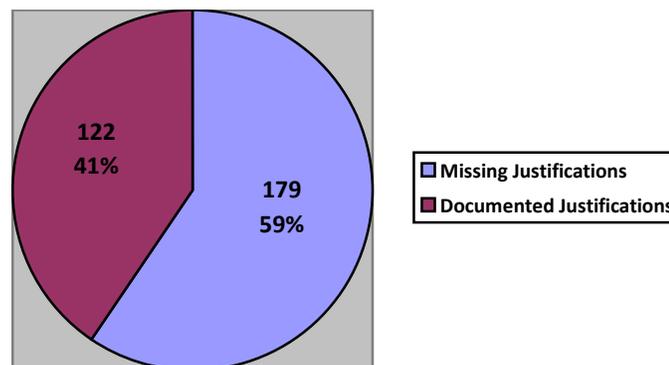
⁸ *Supplying Practices* Step 4-1.4.3, Multiple Indefinite-Delivery Contracts, states all orders subsequent to the award of multiple indefinite-delivery contracts are considered competitive.

⁹ Management Instruction SP S2-2011-1, *Noncompetitive Purchases*, dated February 7, 2011.

Noncompetitive Justifications

The Postal Service needs to improve its controls over task orders and associated modifications that were not further competed. According to IT Software, Services, and Retail Systems (SS&RS) Category Management Center (CMC) guidelines, task orders that were not competed further must have a justification. Of the 301 task orders and modifications that were not further competed,¹⁰ 179 (59 percent) were missing noncompetitive justifications as shown in Figure 2.

Figure 2. Missing Noncompetitive Justifications



Source: OIG review of task orders.

Of these 179 task orders and modifications that were not further competed and missing noncompetitive justifications, 91¹¹ were based either on a supplier's unsolicited offer to sell the rights to ideas, concepts, products, processes, or technology (value added proposal) or for the creation of new business processes, methods, products, or services (research and development proposal). Postal Service officials did not believe a noncompetitive justification was required for these task orders. However, these task orders allowed the suppliers to submit ideas and concepts without competition. Therefore, noncompetitive justifications would have helped to ensure best value¹² was achieved when awarding them.

Forty-seven task orders were awarded before guidelines were established for the ETS program. In response to audit report *Information Technology's Preferred Portfolio Partnering Program* (Report Number CA-AR-09-007, dated September 29, 2009), Postal Service management agreed to implement guidelines that required a justification for task orders that were not further competed by January 2010. However, management did not

¹⁰ We reviewed 1,020 task orders and modifications to determine whether they were competed. We determined 51 were competitively awarded and 668 were administrative actions (for example, renewal of options, extension of period of performance, designation of a contracting officer representative, or addition of funding).

¹¹ Eighty-six were based on unsolicited or value added proposals and five were based on research and development funds.

¹² The ETS guidelines defined best value as the outcome that provides the optimal combination of elements such as lowest total cost of ownership, technology, innovation and efficiency, assurance of supply, and quality relative to the Postal Service's needs. Further, the guidelines stated best value is generally achieved through competition, which brings market forces to bear and allows the direct comparison of proposals and lifecycle costs, although market conditions may dictate that a single source strategy will be the best business approach.

implement the requirement until August 2010. The remaining 41 task orders did not have a noncompetitive justification because of the lack of oversight by Postal Service personnel. When the Postal Service does not award a task order through open competition, personnel must document and verify the rationale for not competing it. With no noncompetitive justification, there is reduced assurance that it was proper for the task order to be awarded without competition. We will report the 179 task orders and modifications that were not competed and did not have a justification totaling \$71.5 million as unsupported questioned costs (see [Appendix B](#)).

Reviews and Approvals of Noncompetitive Justifications

The Postal Service does not have a formal management review and approval process for ETS noncompetitive justifications. We found 17 of 122 (14 percent) noncompetitive justifications did not have any review and approval. Postal Service personnel stated the IT SS&RS CMC manager directed the CO to approve noncompetitive justifications valued at \$250,000 and below and the manager would approve noncompetitive justifications greater than \$250,000; however, this guidance is not documented. The Postal Service must document guidelines for the review and approval of noncompetitive justifications. We will report the 17 noncompetitive justifications lacking management review and approval¹³ totaling \$5.7 million as unsupported questioned costs (see [Appendix B](#)).

In addition, of the 301 task orders and modifications that were not competed, 62 were \$1 million or greater. The Postal Service competition advocate (CA) is required to provide independent advice to COs regarding proposed noncompetitive purchases of \$1 million or greater and is responsible for assisting purchase teams in developing effective supply chain management solutions and obtaining best value. However, because the Postal Service considers all ETS task orders competitive, the CA does not review the adequacy of justifications completed for the ETS program. In contrast, the *Federal Acquisition Regulation (FAR)* requires a justification for a proposed noncompetitive task order awarded under a multiple award contract be approved by the CA.¹⁴ In addition, federal CAs are responsible for describing initiatives that ensure noncompetitive task orders greater than \$1 million issued under multiple award contracts are properly planned and comply with policies and procedures.¹⁵ We are planning a more detailed review of CA oversight of task orders not further competed during a future audit.

¹³ Of the 17 noncompetitive justifications with no reviews and approvals, 10 totaling \$3,829,623.93 were prepared before policies and procedures were established in August 2010.

¹⁴ FAR 6.304, Approval of the Justification. For proposed task orders exceeding \$650,000 but not more than \$12.5 million.

¹⁵ FAR 6.502, Duties and Responsibilities.

Technical Analyses of Price and Technical Proposals

Postal Service personnel did not always document technical analyses¹⁶ of price and technical proposals. Specifically, 84 percent (252 of 301) of technical analyses of the price proposals and 91 percent (275 of 301) of technical analyses of the technical proposals were missing. In audit report *Accenture Federal Services Contracts* (Report Number SM-MA-13-001, dated December 17, 2012), the OIG recommended the Postal Service obtain, assess, and maintain technical analysis documentation to ensure the analysis conducted is adequate to support whether proposed labor categories and rates are fair and reasonable. The Postal Service agreed with the recommendation and instituted corrective action. Therefore, we will not make a new recommendation on this issue.

Recommendations

We recommend the vice president, Supply Management, direct the manager, Information Technology Software, Services and Retail Systems Category Management Center, to:

1. Develop a method to track task orders not further competed under the Enterprise Technology Services Program to identify opportunities to increase competition.
2. Update guidelines to ensure all Enterprise Technology Services task orders and modifications that are not further competed have justifications.
3. Update guidelines to include the requirement for management review and approval of Enterprise Technology Services justifications for task orders and modifications that are not further competed.

We also recommend the vice president, Supply Management:

4. Require the competition advocate to independently review Enterprise Technology Services justifications for task orders and modifications valued at \$1 million or more that are not further competed to determine whether the justifications are appropriate or competition is warranted.

Management's Comments

Management generally agreed with the findings and monetary impact. Management agreed with recommendation 1 and will develop a method to identify task orders that are not further competed. Management agreed with recommendation 2 and will update guidance to ensure CBI justifications are completed for task orders associated with research and development projects and value added proposals. Management also agreed with recommendation 3 and will update guidance to include the review and

¹⁶ Technical analysis consists of the CO working with subject matter experts to ensure proposed labor categories and rates are fair and reasonable.

approval of CBI justifications. Management plans to implement actions for these recommendations by September 2013.

Regarding recommendation 4, management disagreed and stated that since the Postal Service awarded the ETS program's indefinite delivery, indefinite quantity (IDIQ) contracts competitively, the associated task orders are considered competitive. Therefore, the Postal Service does not require the CA to review them. See [Appendix C](#) for management's comments, in their entirety.

Evaluation of Management's Comments

The OIG considers management's comments responsive to recommendations 1, 2, and 3 and corrective actions should resolve the issues identified in the report.

Management disagreed with recommendation 4 to require the CA review ETS justifications for task orders and modifications valued at \$1 million or more that are not further competed. We do not plan to pursue this recommendation through the formal audit resolution process. Therefore, we are closing the recommendation with the issuance of this report. Because the ETS program's IDIQ contracts were competitively awarded, the Postal Service considers the associated task orders to be competitive. However, we believe the CA should independently review task orders valued at \$1 million or more that are not further competed. The additional control would assist the Postal Service in challenging barriers to the competition of requirements and assist in ensuring best value. We plan a detailed analysis of this issue in future review of the CA's oversight of contracting actions.

The OIG considers recommendations 1, 2, and 3 significant, and therefore requires OIG concurrence before closure. Consequently, the OIG requests written confirmation when corrective actions are completed. These recommendations should not be closed in the Postal Service's follow-up tracking system until the OIG provides written confirmation that the recommendations can be closed.

Appendix A: Additional Information

Background

In September 2009, collaboration between IT and Supply Management resulted in the competitive award of ETS program multiple IDIQ contracts¹⁷ to four suppliers for IT services. The program provided the opportunity to further compete task orders among the suppliers. The awards enabled IT to consolidate, streamline, and reduce the cost of future services through reduced rates and best-in-breed business solutions. The ETS program awards replaced the PPP program agreements, IT Services and Support, and other contracts. The ETS program was designed to provide lower costs and bring innovative ideas to customers while leveraging cutting edge technology solutions.

The base contract awards were for a period of 3 years with Postal Service options for up to an 11-year period of performance.

ETS program guidance states that rather than awarding all task orders based on lowest price, the Postal Service should consider a best value approach for tasks involving business solutions. Open competition allows suppliers to propose alternate solutions and select the best approach/lowest total cost of ownership. In addition, for the task order competitions, suppliers should be able to propose rates at or below the multiple IDIQ contract rates.

For task orders not competed, it is important for COs to determine cost reasonableness by assessing the technical analysis of estimated labor costs. If the CO does not assess the technical analysis, he or she cannot ensure the evaluation was adequate and the proposed labor categories and hours were reasonable or necessary.

Objectives, Scope, and Methodology

Our objectives were to assess competition for task orders and controls over task orders and associated modifications that were not competed. Our audit universe was comprised of 204 base task orders active in FYs 2011 and 2012. We:

- Determined whether they were competed.
- Determined how many Postal Service personnel coded as noncompetitive in the CAMS.
- Compared Postal Service policy for multiple IDIQ contracts to the FAR and Postal Service policy for coding of multiple IDIQ task orders to the Federal Procurement Data System – Next Generation.

¹⁷ An IDIQ contract is awarded when the desired period of performance is known, but the exact time of delivery is unknown at the time of award, and when precise requirements for supplies or services ordered over the term of the contract cannot be determined.

Our audit sample covered 1,020 task orders and associated modifications. We reviewed and analyzed each sample task order and the associated modification(s) to determine whether they were competed. In addition, we tested whether the controls were adequate by determining whether Postal Service personnel:

- Completed noncompetitive justifications.
- Appropriately reviewed and approved the noncompetitive justifications.
- Performed technical analyses of the price and technical proposals for each noncompetitive action.

We conducted this performance audit from October 2012 through July 2013 in accordance with generally accepted government auditing standards and included such tests of internal controls as we considered necessary under the circumstances. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. We discussed our observations and conclusions with management on June 3, 2013, and included their comments where appropriate.

To conduct this review, we relied on computer-processed data in the CAMS and Enterprise Data Warehouse. We did not test the validity of controls over these systems. However, we verified the accuracy of the data by comparing the data to contract documentation. We determined that the data were sufficiently reliable for the purposes of this report.

Prior Audit Coverage

Report Title	Report Number	Final Report Date	Monetary Impact
<i>Accenture Federal Services Contracts</i>	SM-MA-13-001	12/17/2012	\$8,294,045
<p>Report Results: The OIG found that Accenture initiated policy changes to fully address six of eight Defense Contract Audit Agency (DCAA) recommendations. However, it did not fully address the recommendation to conduct periodic reviews of its estimating system, and no corrective actions are underway to address the recommendation to monitor actual costs to estimated costs. In addition, Postal Service contracting officials did not obtain and assess the IT subject matter experts' technical analyses performed on eight proposals, valued at \$8,204,045 to support that costs were reasonable. IT management also purchased a cost estimating tool to assist in evaluating supplier estimates but they have not fully implemented the tool, resulting in \$90,000 in questioned costs. Management agreed with our findings and recommendations.</p>			
<i>Audit of Accenture Federal Services, LLC's Estimating System and Related Internal Controls</i>	CA-CAR-12-008	6/26/2012	None
<p>Report Results: The DCAA determined that Accenture's estimating system and related internal controls were inadequate.</p>			
<i>Information Technology's Preferred Portfolio Partnering Program</i>	CA-AR-09-007	9/29/2009	None
<p>Report Results: The price and cost analysis Postal Service personnel performed usually did not result in negotiated price reductions of Accenture LLC's proposals. Additionally, Supply Management personnel did not always follow the recommendations of a third-party contractor to reduce task order amounts or reject them in full. In addition, the PPP program pricing process did not conform to current best practices for pricing IT service contracts and task orders. However, Supply Management personnel had implemented IT service industry best practices by making plans to award multiple IDIQ contracts for IT services. Management agreed with our findings and recommendations.</p>			

Appendix B: Monetary Impacts

Recommendation	Impact Category	Amount
2	Unsupported Questioned Costs ¹⁸	\$71,512,899
3	Unsupported Questioned Costs	5,708,609
Total		\$77,221,508

The \$71,512,899 represents the total value of the 179 task orders and modifications that were not further competed and did not have a justification. The \$5,708,609 represents the total value of the 17 noncompetitive justifications that did not have any review and approval.

¹⁸ A weaker claim and a subset of questioned costs. Claimed because of failure to follow policy or required procedures but does not necessarily connote any real damage to Postal Service.

Appendix C: Management's Comments

SUSAN M. BROWNELL
VICE PRESIDENT, SUPPLY MANAGEMENT



July 11, 2013

LUCINE M. WILLIS

SUBJECT: Response to Draft Audit Report – Enterprise Technology Services Program
(Report Number SM-AR-13-DRAFT)

Thank you for the opportunity to review and comment on the subject draft report. Management is in general agreement with the Office of Inspector General's (OIG) findings and impact with the exception of Recommendation 4. Our position, in detail, on each recommendation is provided below.

AUDIT RECOMMENDATIONS

We recommend the vice president, Supply Management; direct the manager, Information Technology Software, Services and Retail Systems Category Management Center, to:

Recommendation 1: Develop a method to track task orders not further competed under the Enterprise Technology Services Program to identify opportunities to increase competition.

Management Response/Action Plan: Management agrees with the recommendation. For the Enterprise Technology Services program, Supply Management will develop a method in the team-track report to identify task orders that are not further competed. This will be completed by adding a check box to the team-track report, which will identify those orders. Use of this report will allow users to identify opportunities to increase competition when it is in the best interests of the Postal Service.

Target Implementation Date: September 2013.

Responsible Official: Manager, Information Technology Software, Services and Retail Systems Category Management Center.

Recommendation 2: Update guidelines to ensure all Enterprise Technology Services task orders and modifications that are not further competed have justifications.

Management Response/Action Plan: Management agrees that an update to the guidance will be completed to ensure that a compelling business interest justification will also be applicable to task orders associated with research and development projects and value added proposals. Implementation will begin with task orders issued within fiscal year 2014.

Target Implementation Date: September 2013

Responsible Official: Manager, Information Technology Software, Services and Retail Systems Category Management Center.

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Recommendation 3: Update guidelines to include the requirement for management review and approval of Enterprise Technology Services justifications for task orders and modifications that are not further competed.

Management Response/Action Plan: Management conditionally agrees with this recommendation. Accordingly, the Supplying Principles and Practices specifically states that reviews and approvals "do not apply to administrative modifications (unless the modification involves a termination action) including incremental funding actions, or task orders or delivery orders issued against an existing contract." See 2-41.2.3, *Review and Approval Process for Competitive Actions*; and 2-41.2.4, *Review and Approval Process for Noncompetitive Actions*. Since the initial indefinite delivery, indefinite quantity contracts were the subject of our review and approval process, no further reviews and approvals are required.

However, to encourage further competition among the Enterprise Technology Services multiple awardees, we agree that a process will be incorporated within the Enterprise Technology Services guidance that provides for a review and approval of the compelling business interest justifications. The guidelines will be updated to include that orders under \$250,000 will be reviewed and approved by the Contracting Officer and orders over \$250,000 will be reviewed and approved by the Manager of the Information Technology Software, Services and Retail System Category Management Center.

Target Implementation Date: September 2013

Responsible Official: Manager, Information Technology Software, Services and Retail Systems Category Management Center.

We also recommend the vice president, Supply Management to:

Recommendation 4: Require the competition advocate to independently review the Enterprise Technology Services justifications for task orders and modifications valued at \$1 million or more that are not competed to determine whether the justifications are appropriate or competition is warranted.

Management Response/Action Plan: Management disagrees with the recommendation. The Enterprise Technology Services Program's indefinite delivery, indefinite quantity contracts were established competitively and reviewed and approved relative to their estimated probable total dollar value. This included all possible options for the contract even if said-options may not be exercised in the future and task orders. Task orders associated with these contracts are considered competitive, but may be competed further among other indefinite delivery, indefinite quantity providers if in the best interest of the Postal Service; therefore, these orders do not require review from the Competition Advocate. This is stated in the Management Instruction SP S2-2011-1 *Noncompetitive Purchases*.

Additionally, the Supplying Principles and Practices state under 4-1.4.3 *Multiple Indefinite-Delivery Contracts*, that: "If, after a solicitation is issued, multiple indefinite-delivery contracts are competitively awarded to several suppliers, then the Contracting Officer may choose to either place an order against a single indefinite-delivery contract or to compete the requirement amongst all or some of the indefinite-delivery contract holders. While a certain indefinite-delivery contract might be appropriate for one particular order, it may be inappropriate for another, so the Contracting Officer should weigh the potentialities of each situation prior to making the purchase method decision. All orders subsequent to the award of multiple indefinite-delivery contracts are considered competitive." Again, indicating that these orders do not require Competition Advocate review.

This report and management's response does contain proprietary or sensitive business information that may be exempt from disclosure pursuant to the Freedom of Information Act. These will be addressed under separate cover. If you have any questions about this response, please contact Susan Witt at (202) 268-4833.

Handwritten signature of Susan M. Brownell in cursive script.

cc: Stephen Masse
Robert Oates
Rajesh Handa
Corporate Audit and Response Management