



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

Noncompetitive Purchasing Practices

Audit Report

September 25, 2013

Report Number SM-AR-13-004



HIGHLIGHTS

BACKGROUND:

Contract competition allows the U.S. Postal Service to solicit suppliers to obtain the best quality goods and services at a fair and reasonable price. According to Postal Service policy, when contracts are awarded without competition, a noncompetitive purchase request must justify the reason not to compete. The competition advocate, responsible for challenging barriers to competition, must review such requests valued at \$1 million or more. Postal Service contracting officials made 1,682 noncompetitive purchases valued at \$1.3 billion during fiscal years 2011 and 2012.

Price and cost analyses are key factors in achieving fair and reasonable prices. Price analysis is evaluating a proposed price without evaluating its separate cost components, while cost analysis is an assessment of the direct and indirect costs leading to the final price. Our objectives were to determine whether Postal Service contracting officials conducted a sufficient price or cost analysis to support the reasonableness of noncompetitive contract prices and to assess the associated noncompetitive justifications.

WHAT THE OIG FOUND:

Contracting officials did not provide documentation to support price or cost reasonableness and justifications to award noncompetitive purchases for

21 of 56 purchases (or 38 percent of purchases) valued at \$37,064,806. Employees did not maintain sufficient documentation to support price and cost analyses, were unaware of policy, did not explore all alternatives practicable in their justifications not to compete purchases, and did not always obtain required contract documents from international suppliers due to cultural and language barriers. Further, instructions on emergency noncompetitive contracts did not include clear guidelines for contract documentation requirements. If contracting officials do not conduct price or cost analyses and adequately assess noncompetitive justifications, there is an increased risk that the Postal Service will not obtain fair and reasonable prices when purchasing products and services. We statistically projected at least \$210 million in unsupported questioned costs.

WHAT THE OIG RECOMMENDED:

We recommended that management instruct employees to include required documentation in contract files, reiterate contracting policy, promote increased competition, clarify guidance on emergency noncompetitive contracts, and explore opportunities to reduce cultural and language barriers with international suppliers.

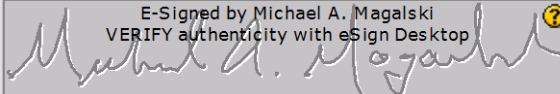
[Link to review the entire report](#)



September 25, 2013

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

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

A handwritten signature of Michael A. Magalski in black ink, enclosed in a grey rectangular box. The signature is cursive and matches the name in the text above it. A small yellow question mark icon is visible in the top right corner of the box.

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

SUBJECT: Audit Report – Noncompetitive Purchasing Practices
(Report Number SM-AR-13-004)

This report presents the results of our audit of Noncompetitive Purchasing Practices (Project Number 13WG004SM000).

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

Attachment

cc: Corporate Audit and Response Management

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Introduction

This report presents the results of our audit of Noncompetitive Purchasing Practices (Project Number 13WG004SM000). Our objectives were to determine whether contracting officials conducted a price or cost analysis to support that noncompetitive contract prices were fair and reasonable and to assess the associated noncompetitive justifications. See [Appendix A](#) for additional information about this audit.

Contract competition allows the solicitation of a sufficient number of suppliers to obtain the best quality goods and services at a fair and reasonable price. When contracts are awarded without competition, a noncompetitive purchase request (NPR) must justify the reason not to compete. The competition advocate (CA), responsible for challenging barriers to competition, must review all requests valued at \$1 million or more. Price and cost analyses are key factors to achieving fair and reasonable prices. Price analysis is the process of evaluating a proposed price without evaluating its separate cost components, while cost analysis is an assessment of the direct and indirect costs leading to the final price.

Conclusion

Contracting officials did not provide documentation to support price or cost reasonableness and justifications to award noncompetitive purchases for 21 of 56 purchases (or 38 percent of purchases) valued at \$37,064,806. Specifically, they did not conduct price or cost analysis or maintain documentation to support the reasonableness of 13 purchases. In addition, they did not fully complete the noncompetitive justification for awarding 10 purchases, two of which were also missing documentation to support price reasonableness. Further, contracting officials did not always obtain required contract documents from international suppliers due to cultural and language barriers.

Based on our statistical sample, we projected that at least \$210 million of the \$1.3 billion in purchases made during fiscal years (FY) 2011 and 2012 did not contain documentation to support price or cost reasonableness and justifications to award noncompetitive purchases. This amount was claimed as unsupported questioned costs because of missing or incomplete documentation or failure to follow policy or required procedures but does not necessarily indicate that the Postal Service incurred actual loss. See [Appendix B](#) for monetary impact details.

Price Reasonableness

Contracting officials did not conduct price or cost analyses or maintain documentation to fully support 13 of 56 noncompetitive purchases (or 23 percent of purchases) valued at \$7,394,258. Specifically, they did not conduct analyses to determine price

reasonableness for six purchases valued at \$650,737 and did not maintain documentation to support their analyses for seven purchases, valued at \$6,743,521.

Price and Cost Analysis

Contracting officials did not conduct a price or cost analysis to determine price reasonableness for six purchases valued at \$650,737 (see Table 1).

Table 1. Price or Cost Analysis by Portfolio

Portfolio	No Price or Cost Analysis	Value of Purchase
Mail and Operational Equipment	1	38,786
Facilities	5	611,951
Total	6	\$650,737

Source: U.S. Postal Service Office of the Inspector General's (OIG) review of Postal Service records.

The *Supplying Principles and Practices* (SP&P) indicates that some form of analysis is required for every purchase.¹ For four of the five facilities' purchases, contracting officials stated that they did not conduct analyses due to the urgency of requirements. One facility's purchase was an unauthorized contractual commitment.² The Postal Service field office did not coordinate with the contracting official to award the contract before the service was rendered. For the mail and operational equipment purchase, the contracting officer (CO) only provided a quote from the supplier as evidence of price analysis.

Without a documented price or cost analysis, management cannot attest to achieving best value³ for their purchases. Further, obligating the Postal Service to pay for services without determining that prices are reasonable increases the risk that the Postal Service will overpay for products and services.

¹ SP&P, Section 2-34, Conduct Price/Cost Analysis.

² An unauthorized contractual commitment occurs when a Postal Service employee who has not been delegated contracting or local buying authority or who exceeds such authority takes action to cause another party to deliver goods or services.

³ Best value is defined 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.

Supporting Documentation

Seven purchases valued at \$6,743,521 did not contain sufficient documentation describing how the contracting officials' price or cost analysis was conducted to determine that prices were fair and reasonable (see Table 2).

Table 2. Analysis of Supporting Documentation

Portfolio	Insufficient Supporting Documentation	Value of Purchase
Technology Infrastructure	4	\$5,433,016
Mail and Operational Equipment	3	1,310,505
Total	7	\$6,743,521

Source: OIG review of Postal Service records.

The following are some of the reasons for the lack of documentation to support price and cost analyses:

- For technology infrastructure purchases, contracting officials stated that they determined that prices were fair and reasonable based on discussions with a research firm, but the details of those conversations were not documented in the contract files. Also, for one purchase the CO was unable to identify the previous purchases he used as the basis for his price analysis.
- For mail and operational equipment purchases, contracting officials relied on the program office engineers to assess the reasonableness of the supplier's proposed costs; however, the details of the engineers' analyses were not documented in the contract files. Contracting officials asked the engineers specific questions to obtain the details of their analyses, but the engineers responded with brief statements indicating that they determined reasonableness based on their expertise and knowledge. We asked the engineers why they did not address the contracting officials' questions and they stated they believed their expertise was sufficient.

The SP&P do not state what information should be in the contract file to support price and cost analysis; however, it requires that reviewing officials ensure that the contract file contains sufficient documentation to permit a third party not directly involved in the transaction to review and understand the process and the business decisions that led to the proposed action.⁴ Reviewing officials did not ensure that contract files contained sufficient documentation because they relied on the summary of the price or cost analysis for their business decisions. If contracting officials do not document their price and cost analysis process and maintain supporting documentation in their contract files,

⁴ SP&P, Section 2-41.2.4, Review and Approval Process for Noncompetitive Actions.

other COs who rely on the information to conduct historical price analysis cannot ensure the information is accurate and Postal Service cannot attest to achieving best value.

Noncompetitive Justifications

Contracting officials did not fully complete the noncompetitive justification for awarding 10 of 56 purchases (or 18 percent of purchases) valued at \$34,497,303. Specifically, COs noncompetitively awarded three purchases valued at \$18,640,536 that could have promoted increased competition in the marketplace. Seven purchases valued at \$15,856,767 did not have an approved NPR in the contracting file.

Competing Contracts

COs noncompetitively awarded three purchases valued at \$18,640,536 that could have been competed.

- COs awarded one facility's purchase valued at \$73,755 for snow removal and landscaping because the services were already rendered. COs stated that officials from local post offices who submitted NPRs were unaware of the contracting process and incorrectly believed they had the ability to authorize services with suppliers due to the urgent need to remove snow.
- The CA questioned the CO's decision not to compete two technology infrastructure purchases valued at \$18,566,781; however, the purchases were still made noncompetitively.
 - For one technology infrastructure purchase valued at \$4,753,000, the CA noted there were existing Postal Service suppliers who could have provided the service and may have lowered their published prices to compete. The contracting official acknowledged there are existing suppliers under the Enterprise Technology Services⁵ contract vehicle who could have competed for the purchase but stated that he did not have enough time to plan for competition. Further, the business office that requested the service preferred not to compete the contract because the current supplier is familiar with the activities needed to support the office's strategic business objectives and meet its aggressive timelines.
 - For the second technology infrastructure purchase valued at \$13,813,781, the requestor's basis for the noncompetitive purchase did not include all alternatives to justify not competing. The justification was solely based on the cost of replacing the existing software and did not include the option of keeping the existing software and competing the purchase among suppliers capable of servicing the software in its current environment. According to the CA evaluation, a formal request for information (RFI) notifying the supplier

⁵ The purpose of this contract is to consolidate, streamline, and reduce the cost of future services through reduced rates and best-in-breed business solutions provided to information technology (IT) clients.

community about the size and scale of the purchase requirements and the intent to continue with the current supplier unless another supplier provided a compelling proposal, would have helped to promote competition.

The CO responded to the CA that there was not enough time to issue a RFI and that it would be considered in the future; however, it was noted the contract had been awarded twice noncompetitively. Further, during interviews with IT business office personnel and contracting officials, they stated that the Postal Service prefers to conduct business with the original equipment manufacturer (OEM) instead of third-party suppliers. Therefore, we determined in this instance that the Postal Service made the decision based on its preference of conducting business with the OEM rather than having insufficient time.

Competition helps to drive cost savings, enhance service or product quality, and promote innovative solutions. Further, competition promotes fairness and openness that leads to increased public trust in the Postal Service brand. If contracting officials do not seek all opportunities to compete in the marketplace, the Postal Service might overpay for products and services and not achieve the best value for purchases that can negatively impact the Postal Service's brand.

On July 23, 2013, the Postal Service's chief financial officer stated in a memorandum that one of the main reasons for not competing purchases was lack of advance planning. As a result, the CA will collaborate with Supply Management to promote competition by issuing a report of purchases that are due to expire within 6 months. Advance notice should allow contracting officials sufficient time to work with managers to identify opportunities for competition.

Noncompetitive Purchase Requests

Seven of 56 purchases (or 13 percent of purchases) valued at \$15,856,767 did not have an approved NPR to justify awarding the purchases noncompetitively. Specifically:

- For two technology infrastructure purchases valued at \$4,555,844, NPRs were not complete. The CO for one technology purchase valued at \$4,539,344 provided a copy of the NPR that was not signed by the requestor. He stated the original NPR was signed, but they could not locate the original document. The other technology infrastructure purchase valued at \$16,500 was inadvertently left off a blanket purchase agreement and was not included as part of the NPR; therefore, we were unable to determine whether an NPR was completed.
- For five international air transportation services purchases valued at \$11,300,923, the requestor signed and the CO evaluated the associated NPRs about 5 months after the award was made. COs stated these international air purchases were initially competed but, because they received no offers from suppliers and were under time constraints to move the mail, they awarded the contracts as a noncompetitive exception. The management instruction for noncompetitive purchases allows contracting officials to verbally approve noncompetitive purchases

in emergency situations; however, the CO must follow up to complete the NPR.⁶ Although, management took corrective action during our audit to complete and evaluate the NPRs, the management instruction does not provide a timeframe for completing an NPR for an emergency purchase. Management needs to provide clear guidelines regarding the timeframe for completing critical contract documentation for emergency purchases, otherwise contracting officials will not be able to support contracting actions.

International Air Transportation Contract Documentation

During our audit of the five international air transportation purchases noted previously, we identified that required documentation, such as proposals and signed contracts, were missing from the contract files. The Transportation Portfolio began managing international air transportation contracts in 2012, and contracting officials stated they are not always able to obtain required documentation from suppliers because of cultural and language barriers. An electronic system exists for international suppliers to submit required documentation, but international suppliers do not always use the system. Because of cultural differences, international suppliers are not willing to conform to the laws that govern the U.S. or do not understand the need to sign a document. Contracting officials further stated that, at times, the Postal Service goes through the U.S. military or the U.S. Department of State (State Department) to get necessary forms signed and delivered; however, because of time constraints and requirements to move the mail, documents were not always received timely.

We benchmarked with three other federal agencies to determine whether they encounter the same limitations as the Postal Service in dealing with foreign suppliers and how they handle those limitations. During our benchmarking efforts, we learned that U.S. Transportation Command (USTRANSCOM) has a pool of about 20 domestic suppliers that provide international air transportation. By using a pool of domestic suppliers, USTRANSCOM can avoid issues, such as foreign language barriers, incomplete contract documentation, and poor solicitation response sometimes experienced by the Postal Service. USTRANSCOM has created the Enterprise Readiness Center that engages other federal agencies to establish partnerships through which they can leverage USTRANSCOM's international transportation and logistics infrastructure. Partnering with other federal agencies provides an opportunity for the Postal Service to reduce cultural and language barriers experienced when purchasing international air transportation services.

Recommendations

We recommend the vice president, Supply Management:

1. Direct contracting officials to include and verify that sufficient information is in the contract file to support price and cost analysis.

⁶ Management Instruction SP S2-2011-1, Emergencies.

2. Reiterate policy that field personnel not approve suppliers to start work without authorization from the contracting officer.
3. Ensure contracting officials collaborate with the competition advocate and internal business partners requesting purchases to promote increased competition when awarding contracts.
4. Revise Management Instruction SP S2-2011-1 to include a specific timeframe for completing required contract documentation for emergency purchases.
5. Explore opportunities to partner with other federal agencies to leverage their international air transportation and logistics infrastructures to reduce cultural and language barriers experienced with international suppliers.

Management's Comments

Management agreed with the findings and recommendations 1, 2, 3, and 5 but disagreed with recommendation 4. They also disagreed with the monetary impact of six purchases, valued at \$25,114,704, associated with recommendations 3 and 4.

Regarding recommendation 1, management stated they will cascade the final report and communicate further the documentation requirements for price and cost analysis specified within their policies and management instruction for noncompetitive purchases. For recommendation 2, management will issue communication reiterating policy on contracting authority and unauthorized contractual commitments.

For recommendation 3, management will reiterate guidance to encourage further collaboration among the CO, requesting organization, and CA. Further the CA, in coordination with the chief financial officer, established a reporting mechanism that lists significant competitive and noncompetitive contracts that are due to expire within 6 months. The reports will be provided to all officers within the Postal Service to promote competition and improve requirements planning.

Management disagreed with the monetary impact of one purchase associated with recommendation 3, valued at \$13,813,781, stating that the NPR for this purchase contained detailed information to support the basis of the request. They further stated the extensive documentation contained a rational and well supported business case demonstrating the price was fair and reasonable. Further, the CO followed policies and negotiated significant discounts when compared to the supplier's current U.S. General Services Administration (GSA) schedule pricing. Lastly, management stated the required management reviews and approvals were obtained and documented in the contract file at the time of the audit.

Management's target implementation date for recommendations 1, 2, and 3 is December 2013.

Management disagreed with recommendation 4 and the associated monetary impact of five purchases, valued at \$11,300,923. They stated the monetary impact associated with these five international air contracts should be removed because these were considered emergency contracts and the requirement to follow up with the noncompetitive documentation was completed and in the contract file at the time of the audit. Further, they stated that including a specific time by which the contract documentation is to be formalized for emergency contracts places unnecessary restrictions on the process.

Regarding recommendation 5, management stated they have collaborated with other agencies such as the U.S. Department of Defense military and State Department during the award of the international air transportation contracts, but these efforts did not result in agreements that would meet their unique requirements. Management also stated that in early September they engaged USTRANSCOM to determine whether an opportunity exists to partner with the agency. However, based on initial discussions, management concluded they were unable to leverage their transportation and logistics infrastructures, and the mission and needs of the two agencies are different. Management consider their actions complete for this recommendation. 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, 3, and 5; and corrective actions in response to recommendation 5 have been completed. However, we disagree with management's response to recommendation 4. Further, we disagree with reducing our monetary impact associated with recommendations 3 and 4.

Regarding recommendation 3 and the monetary impact amount of \$13,813,781 for one purchase, the OIG did not question the sufficiency of the documentation provided by the CO. Rather, we questioned the basis of the decision not to compete the contract. The requestor's basis for the noncompetitive purchase did not include all alternatives to justify not competing. For example, the justification was solely based on the cost of replacing the existing software and did not include the option of keeping the existing software and competing the purchase among suppliers capable of servicing the software in its current environment. Additionally, the purchase was awarded without competition to the same supplier twice in the past. A significant discount off the GSA schedule of a single supplier, without comparing the prices from other suppliers, may not constitute best value for the Postal Service.

Regarding recommendation 4 and the monetary impact amount of \$11,300,923 for five emergency international air contract purchases, management stated that the documentation requirements were met and providing a timeframe for completing required contract documentation places unnecessary restrictions on the process. We disagree. The required documentation was not completed until after we requested it 5 months after the contract award. We believe establishing a timeframe for completing critical contract documentation will ensure adequate support for contract actions. We

view the disagreement on significant recommendation 4 as unresolved but do not plan to pursue it through the formal audit resolution process.

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. We are closing recommendations 4 and 5 with the issuance of this report.

Appendix A: Additional Information

Background

Price and cost analyses are key elements in the contract award process that help to ensure that the Postal Service achieves best value. Price analysis is examining and evaluating a proposed price against reasonable benchmarks without evaluating its separate cost elements and profit that make up the price. Techniques for conducting price analysis for noncompetitive purchases include:

- Comparison with regulated, market, or catalog prices: allows the Postal Service to comply with the price as set by law or regulation and compares proposed prices with prices available in suppliers' catalogs, market prices, indexes, and discount or rebate arrangements.
- Comparison with historical prices: involves comparing previously proposed and contract prices with current proposed prices for the same/similar items in comparable quantities. The pricing analyst should ensure that historical prices are still reasonable in the marketplace and serve as a valid basis for comparison.
- Use of independent cost estimates (ICE): performing an ICE allows the purchase team to compare the supplier's proposed prices with independent Postal Service cost estimates to establish a reasonable price. An ICE should assess the total cost to be incurred by the supplier if the contract is awarded.

Cost analysis is an assessment of the direct and indirect costs leading to the final price of the product or service. Direct costs include salary, labor, and profit. Indirect costs include items such as legal fees, travel, and taxes. Cost analysis is appropriate when factors affecting the purchase will not ensure a reasonable price based on price analysis alone or the Postal Service needs an understanding of the cost build up of the proposal to verify cost reasonableness. Contracting officials must obtain cost or pricing data whenever price analysis is insufficient to determine reasonableness of price.

Typically, best value is achieved through competition, which brings market forces to bear and allows the direct comparison of proposals and lifecycle costs. However, sometimes market conditions may dictate a single or sole source strategy. When these instances occur, a NPR must support not using the competitive process for a purchase.

The CA must independently review purchases with an estimated value of \$1 million or more. In January 2011, the vice president, Supply Management, appointed the CA. The CA is responsible for promoting competition throughout the purchasing process, challenging barriers to competition and assisting purchase teams in developing effective solutions to obtain best value.

Objectives, Scope, and Methodology

Our objectives were to determine whether contracting officials conducted a price or cost analysis to support the reasonableness of noncompetitive contract prices and to assess the associated noncompetitive justifications.

To accomplish our objectives, we:

- Reviewed Postal Service criteria, guidelines, and procedures on price and cost analysis and justifications for noncompetitively awarded contracts.
- Interviewed contracting officials responsible for conducting price and cost analysis and evaluating the justifications to award contracts noncompetitively.
- Obtained a universe of 1,682 purchases valued at \$1,322,494,003 identified as noncompetitive and awarded from October 1, 2010, to September 30, 2012. We reviewed a statistically selected sample of 56 contract purchases valued at \$434,058,172.
- Reviewed the contract documentation to determine whether Postal Service contracting officials:
 - Conducted price and cost analyses.
 - Performed an assessment to determine whether suppliers' proposed prices were fair and reasonable.
 - Maintained sufficient documentation to adequately support their price or cost analysis and determination that a supplier's proposed prices were fair and reasonable.

Finally, we benchmarked with three federal agencies⁷ to develop best practices for the management of international air contracts. To complete the benchmarking, we interviewed Postal Service Global Air Transportation management, developed a benchmarking survey, identified and sent surveys to contacts at other agencies, notified the Postal Service of our results, and followed up with the OIG and Postal Service legal departments.

We conducted this performance audit from October 2012 through September 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

⁷ USTRANSCOM, the U.S. Agency for International Development, and the State Department.

our findings and conclusions based on our audit objectives. We discussed our observations and conclusions with management on August 2, 2013, and included their comments where appropriate.

We assessed the reliability of computer-generated data for noncompetitive purchases by comparing source documents to data in the Contracting Authoring Management System⁸ to verify the total value of the purchases and the procurement types. We determined that the data were sufficiently reliable for the purposes of this report.

⁸ A contract writing tool that houses clauses and provisions relevant to various contracts.

Prior Audit Coverage

Report Title	Report Number	Final Report Date	Monetary Impact
<i>Trends and Systemic Issues in Defense Contract Audit Agency Audit Work for Fiscal Years 2009-2012</i>	SM-MA-13-002	3/15/2013	None
<p>Report Results: During FYs 2009-2012, the Defense Contract Audit Agency (DCAA) audits identified more than \$185 million in unallowable and unsupported contract costs and disclosed internal control weaknesses related to contractors' accounting systems, financial capabilities, and labor charges. These results assisted contracting officials in negotiating lower contract prices and settlements. The OIG recommended that management emphasize to contracting officials the importance of requesting DCAA audits to support decisions in awarding and managing contracts. Management agreed with the findings of this report.</p>			
<i>The Sufficiency of Recent Policy Changes Regarding Contracting Conflicts of Interest</i>	CA-AR-11-006	8/31/2011	None
<p>Report Results: The OIG found the new policies issued in response to our prior audit were sufficient to avert direct or imputed conflicts of interest among contracting officials and internal business clients and should help to promote accountability and impartial and cost-effective contracting decisions. The actions taken to date include implementing policies similar to or more stringent than the requirements of the <i>Federal Acquisition Regulation</i>. Management agreed with the findings of this report.</p>			

Appendix B: Monetary Impact

Recommendations	Impact Category	Amount
1,2,3, and 4	Unsupported Questioned Costs ⁹	\$210,563,133

We performed a stratified variable sample that allowed us to extrapolate results from a universe of 1,682 purchases, valued at \$1,322,494,003, identified as noncompetitive and awarded from October 1, 2010, to September 30, 2012. We found discrepancies with 21 of 56 purchases, or \$37,064,806 because contracting officials did not provide documentation to support price or cost reasonableness and justifications to award noncompetitive purchases (see Table 3 for further analysis of the purchase discrepancies). At a 90-percent confidence level, we projected that at least \$210,563,133 of the \$1,322,494,003 in noncompetitive purchases did not contain documentation to support price or cost reasonableness and justifications to award noncompetitive purchases. This amount was claimed as unsupported questioned costs because of missing or incomplete documentation or failure to follow policy or required procedures but does not necessarily indicate that the Postal Service incurred actual loss.

Table 3. Analysis of Purchase Discrepancies

Purchase Discrepancies	Count	Dollar Value
Purchases with price or cost analysis and supporting documentation	11	\$2,567,503
Purchases with noncompetitive justification discrepancies	8	29,670,548
Purchases with price or cost analysis, supporting documentation, and noncompetitive justification discrepancies	2	4,826,755
Total	21	\$37,064,806

Source: OIG review of Postal Service records.

⁹ 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



September 18, 2013

JUDITH LEONHARDT

SUBJECT: Response to Draft Audit Report – Noncompetitive Purchasing Practices (Report Number SM-AR-13-DRAFT)

Thank you for providing the Postal Service with the opportunity to review and comment on this subject draft report. Management's response is provided in full below.

Monetary Impact:

Management disagrees with the monetary impact associated with this report. Specifically, the purchase valued at \$13,813,781 should be removed from the calculations related to the monetary impact. The noncompetitive purchase request contained detailed information regarding the basis for the noncompetitive request. The contracting officer provided extensive documentation (16 pages) for the evaluation and recommendation of this award. The documentation contained a rational and well supported business case demonstrating the price was fair and reasonable. The contracting officer negotiated pricing that represented significant discounts when compared to the supplier's current GSA schedule pricing. The contracting officer followed the policies in our Supplying Principles and Practices and the required management reviews and approvals were obtained and documented in the contract file. Also, the associated impact of \$11,300,923 for the five international air contracts should be removed since these were considered emergency contracts and the requirement to follow-up with the noncompetitive documentation was completed and in the contract file at the time of the audit. The removal of these actions from the Office of Inspector General's (OIG) findings reduces the monetary impact by 68 percent.

OIG Audit Recommendations:

We recommend the vice president, Supply Management:

1. Direct contracting officials to include and verify that sufficient information is in the contract file to support price and cost analysis.

Management Response: Management agrees and will cascade the final audit report and communicate further the documentation requirements for price and cost analysis specified within our policies and management instruction on noncompetitive purchases. Additionally, during the audit process, the Portfolio Managers held discussions and advised their contracting staff regarding the need for proper documentation.

Target Implementation Date: December 2013

Responsible Manager: Manager, Supply Management Infrastructure

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2. Reiterate policy that field personnel not approve suppliers to start work without authorization from the contracting officer.

Management Response: Management agrees and will issue a communication reiterating policy on contracting authority and unauthorized contractual commitments.

Target Implementation Date: December 2013

Responsible Manager: Manager, Supply Management Infrastructure

3. Ensure contracting officials collaborate with the competition advocate and internal business partners requesting purchases to promote increased competition when awarding contracts.

Management Response: Management agrees. Our policy encourages collaboration when the parties are not in agreement with the purchase method. This collaboration provides the requesting organization with the opportunity to bring forth any new or changed information which may affect the opinions of the contracting officer and approval authority, and the Competition Advocate may assist in these deliberations. We will reiterate this guidance within the communication actions under recommendation 1; above, to encourage further collaboration.

Additionally, the Competition Advocate in coordination with the Chief Financial Officer established a quarterly reporting mechanism that lists significant competitive and noncompetitive contracts which are due to expire within six months. These reports are provided to all Officers within the Postal Service to assist with promoting competition and improving requirements planning. The first report was issued July 23, 2013.

Target Implementation Date: December 2013

Responsible Manager: Manager, Supply Management Infrastructure and Manager, Supply Chain Management Strategies

4. Revise Management Instruction SP S2-2011-1 to include a specific timeframe for completing required contract documentation for emergency purchases.

Management Response: Management disagrees. The Management Instruction defines what is required by the requesting organization and contracting officer under emergency conditions. Including a specific time period by which the contract documentation is to be formalized in an emergency condition places unnecessary restrictions on the process. As stated above, we also disagree with the associated monetary impact of \$11,300,923 for these five contracts since these were considered emergency contracts and the requirement to follow-up with the noncompetitive documentation was completed and in the contract file at the time of the audit.

Target Implementation Date: Completed

Responsible Manager: Manager, Supply Management Infrastructure

5. Explore opportunities to partner with other federal agencies to leverage their international air transportation and logistics infrastructures to reduce cultural and language barriers experienced with international suppliers.

Management Response: Management agrees and collaborated with other agencies; such as, the Department of Defense military and Department of State during the award of the international air transportation contracts. This collaboration did not result in locating any additional resources nor did it identify other contractual agreements that would meet our unique requirements.

Furthermore, and as suggested by the Office of Inspector General's benchmarking efforts, in early September we engaged the United States Transportation Command (USTRANSCOM) to

determine whether an opportunity exists to partner with them. Based upon our initial discussions we have concluded that we are unable to leverage their transportation and logistics infrastructures. The mission and needs of the two agencies are different. The Postal Service requires regularly scheduled mail transportation all over the world. Whereas, USTRANSCOM's mission involves global deployment and distribution solutions in support of the President, Secretary of Defense, and Combatant Commander assigned missions. We found that for the most part, they contract with United States Flag Carriers and those carriers enter into agreements with subcontractors which reduce their need for direct communications with international suppliers. This is consistent with our previous attempts to partner with USTRANSCOM; the needs of the Postal Service were inconsistent with their mission.

Target Implementation Date: Completed

Responsible Manager: Manager, Transportation Portfolio, Supply Management

This report and management's response do not contain proprietary or sensitive business information that may be exempt from disclosure pursuant to the Freedom of Information Act. If you have any questions about this response, please contact Susan Witt at (202) 268-4833.



cc: Joseph Corbett
Jeffrey Williamson
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