

September 30, 2002

JOHN A. RAPP
SENIOR VICE PRESIDENT, OPERATIONS

KEITH STRANGE
VICE PRESIDENT, SUPPLY MANAGEMENT

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VICE PRESIDENT, ENGINEERING

SUBJECT: Audit Report – Use of Noncompetitive Contracting Process for Tabbing Systems Purchases (Report Number CA-AR-02-005)

This report presents the results of our audit of the use of the noncompetitive contracting process to purchase tabbing systems. We initiated this effort as a result of the survey phase of the Noncompetitive Contracting Practices Audit (Project Number 01HA032CA001).

The audit revealed that the noncompetitive purchasing process was not the most effective method for purchasing tabbing systems. Specifically, Postal Service officials provided justifications that were not valid to support the noncompetitive purchases, and purchases were not consolidated to ensure quantity discounts. This occurred because Postal Service officials did not conduct adequate market research and did not consult automation equipment engineers regarding alternative tabbing systems, field testing, and safety matters before purchasing the systems. Additionally, the noncompetitive purchasing policy does not require purchasing offices to consolidate purchases to take advantage of quantity discounts. As a result, the Postal Service paid approximately \$7.2 million more than they would have if they purchased comparable competitive tabbing systems and lost the opportunity to take \$130,000 in quantity discounts.

We also found that 30 of the 83 tabbing systems purchased were not being used or were underutilized. This occurred because Postal Service officials did not perform a thorough needs analysis before purchasing the equipment and projections in the Decision Analysis Reports were not supported or verified. Consequently, the Postal Service will not achieve projected returns on investment.

We provided management with five recommendations that will improve the noncompetitive process and resolve the issues regarding unused and underutilized

tabbing systems. Management agreed with the recommendations and has initiated appropriate actions to address them. Management's comments and our evaluation of these comments are included in this report.

The Office of Inspector General (OIG) considers recommendations 1 through 5 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 follow-up tracking system until the OIG provides written confirmation that the recommendations can be closed.

We appreciate the cooperation and courtesies provided by your staff during the audit. If you have any questions or need additional information, please contact Lorie Siewert, director, Contracts and Facilities, at (651) 855-5856, or me at (703) 248-2300.

John M. Seeba
Assistant Inspector General
for Financial Management

Attachment

cc: Susan M. Duchek

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EXECUTIVE SUMMARY

Introduction

This report presents the results of our audit of the use of the noncompetitive contracting process to purchase tabbing systems. We initiated this effort as a result of the survey phase of the Noncompetitive Contracting Practices Audit. The objective was to determine whether the noncompetitive purchasing process was effective in purchasing tabbing systems.

Results in Brief

The use of the noncompetitive purchasing process was not the most effective method for purchasing tabbing systems. Specifically, Postal Service officials provided justifications that were not valid to support the noncompetitive purchases, and purchases were not consolidated to ensure quantity discounts. As a result, the Postal Service paid approximately \$7.2 million more than they would have if they purchased comparable competitive tabbing systems and lost the opportunity to take \$130,000 in quantity discounts.

We also found that 30 of the 83 tabbing systems purchased were not being used or were underutilized. Specifically, 11 tabbing systems were not being used and 19 were processing less than 50 percent of projected volumes.

Since our audit, the Postal Service has reorganized its purchasing organization and issued a management instruction that should correct repetitive and individual noncompetitive buying identified in this report.

Summary of Recommendations

We provided five recommendations that will improve the noncompetitive process and resolve the issues regarding unused and underutilized tabbing systems. Specifically, we recommended purchase teams ensure that justifications provided in support of noncompetitive purchases are valid and purchases are consolidated in order to take advantage of available quantity discounts. We also recommended removal of the tabbing system from the Engineering Supported Catalog of Approved Products, performance of needs analyses, and redeployment of tabbing systems. Further, we recommended that approving managers ensure that the assumptions in Decision Analysis Reports are independently verified.

**Summary of
Management's
Comments**

Management agreed with the recommendations in the report and agreed that the \$130,000 in lost quantity discounts was properly identified. Management indicated they would disseminate the recommendations to the appropriate managers for implementation. Additionally, management has begun redeploying tabbing systems that are unused and underutilized and will continue redeploying unused and underutilized systems after reviewing utilization and potential opportunities to capture candidate mail. Further, management will require approving officials to ensure that assumptions included in the Decision Analysis Reports are independently verified.

Management, however, does not agree with our finding that the noncompetitive process was ineffective for the first 27 systems purchased and that the Postal Service paid approximately \$7.2 million more than they would have if they purchased comparable competitive tabbing systems. Management's comments, in their entirety, are included in the appendix of this report.

**Overall Evaluation of
Management's
Comments**

Management's actions, taken or planned, are responsive to the recommendations. Regarding management's comments on the finding, the OIG believes the audit results support the assertion that the noncompetitive process was ineffective for all 83 systems purchased and that the Postal Service could have saved approximately \$7.2 million.

INTRODUCTION

Background

The Postal Service identified a growing trend in the mailing industry to reduce costs by producing mailpieces that consist of folded or bound sheets of paper. However, because the mail is open ended, it cannot be accelerated quickly into an automated feed system. Loose pages tend to open during high-speed belt transport, resulting in jams and damage to both mail and mail processing equipment. The Postal Service identified tabbing systems as an opportunity to upgrade this mail to automation capability.



Tabbing system on plant floor at a Processing and Distribution Center

The tabbing system places a translucent tab on the leading edge of a piece of mail that is open-ended such as double folded postcards, fliers, and booklets. With the tab in place, mail that previously would be torn or jammed can be handled by high-speed automation equipment all the way to delivery point sequence. This process eliminates repeated manual handling of mailpieces.

Over a 3-year period, from September 1997 through September 2000, the Postal Service issued 43 noncompetitive contracts totaling approximately \$11.6 million for the purchase of 83 tabbing systems, accessories, and training.

**Objective, Scope,
and Methodology**

Our objective was to determine whether the use of the noncompetitive purchasing process was the most effective method for purchasing the tabbing systems.

The universe consisted of 43 noncompetitive contracts totaling approximately \$11.6 million for the purchase of 83 tabbing systems, accessories, and training. We reviewed these contract files, supporting documentation, and applicable policies and procedures.

To determine if the Postal Service could have purchased comparable systems, we obtained and compared prices from suppliers for comparable systems to the noncompetitive contract prices, and discussed these results with Postal Service automation engineers.

To determine if the systems were being used effectively and efficiently, we conducted interviews with Postal Service purchasing staff and in-plant support managers and observed tabbing system operations at processing and distribution centers in the Great Lakes Area.

We conducted the audit from June 2001 through September 2002 in accordance with generally accepted government auditing standards. We reviewed management controls over the noncompetitive contracting process. We discussed our conclusions and observations with appropriate management officials and included their comments, where appropriate.

Prior Audit Coverage

We did not identify any prior audits or reviews related to the objective of this audit.

AUDIT RESULTS

**Noncompetitive
Process Not Effective**

The use of the noncompetitive purchasing process was not the most effective method for purchasing tabbing systems. Specifically, Postal Service officials provided justifications that were not valid to support the noncompetitive purchases, and purchases were not consolidated to ensure quantity discounts. This occurred because Postal Service officials did not conduct adequate market research and did not consult automation equipment engineers regarding alternative tabbing systems, field testing, and safety matters before purchasing the systems. Additionally, the noncompetitive purchasing policy does not require purchasing offices to consolidate purchases to take advantage of quantity discounts. As a result, the Postal Service paid approximately \$7.2 million more than they would have if they purchased comparable competitive tabbing systems and lost the opportunity to take \$130,000 in quantity discounts.

**Purchase Justifications
Not Valid**

Justifications provided to support the noncompetitive purchase of the 83 tabbing systems were not valid. Specifically, written justifications were exactly the same for all 43 contracts awarded and could not be supported. The Postal Service justified all of these contracts based on “urgent and compelling need” and “only source available.” Postal Service policy allows for noncompetitive purchases in these circumstances.¹ However, we determined that the need was not urgent because the contracts were awarded over a 3-year period (as shown in Table 1) and alternate tabbing systems were available at the time of these purchases.

¹ Current Management Instruction PM-2.1.6-2002-2, Noncompetitive Purchases and Prior Management Instruction AS-710-97-1, Noncompetitive Purchases.

Table 1
Noncompetitive Contract Awards for Tabbing Systems

Contract Award	PMSC*	Number of Systems	Contract Award	PMSC*	Number of Systems
11-Sep-97	Denver	1			
25-Mar-98	Denver	2	22-Aug-98	Denver	1
8-May-98	Denver	3	22-Aug-98	Denver	1
8-May-98	Denver	2	22-Aug-98	Denver	1
22-May-98	Denver	2	23-Aug-98	Denver	1
29-May-98	Denver	2	23-Aug-98	Denver	1
29-May-98	Denver	1	23-Aug-98	Denver	1
23-Jun-98	Dallas	1	23-Aug-98	Denver	1
23-Jun-98	Dallas	1	8-Sep-98	Memphis	1
23-Jun-98	Dallas	1	11-Sep-98	Denver	1
23-Jun-98	Dallas	1	11-Sep-98	Denver	1
23-Jun-98	Dallas	1	29-Dec-98	San Francisco	1
23-Jun-98	Dallas	1	25-May-99	Minnesota	3
23-Jun-98	Dallas	1	27-May-99	Hoboken	1
23-Jun-98	Dallas	1	25-Jun-99	San Francisco	1
23-Jun-98	Dallas	1	29-Jun-99	Denver	1
24-Jun-98	Dallas	1	2-Feb-00	Hoboken	7
8-Jul-98	Denver	1	28-Feb-00	Minnesota	6
10-Aug-98	Denver	1	23-Mar-00	San Francisco	1
20-Aug-98	Denver	1	22-Aug-00	Minnesota	5
21-Aug-98	Denver	1	7-Sep-00	Memphis	7
22-Aug-98	Denver	1	8-Sep-00	Chicago	12

* Purchasing and Materials Service Center.

This occurred because Postal Service officials did not conduct adequate market research. Also, the noncompetitive purchasing policy did not require Postal Service managers to coordinate with automation equipment engineers when purchasing automation equipment.

Postal Service policy states that market research is essential to optimize the potential use of commercial items and services to meet Postal Service needs. Market research provides Postal Service officials a general sense of the characteristics and capabilities of products and services available in the market, the extent of competition in the market, price trends, and current market prices.

Market research for the tabbing systems was limited and did not consider applicable engineer input. Specifically, in 1997, the Denver Purchasing and Materials Service Center advertised for competitive offers on two different occasions.

The first advertisement was in the Commerce Business Daily for a lease of one tabbing system. The second advertisement was for sources sought in connection with procuring a minimum of ten tabbing systems. According to Postal Service officials, only one company responded to the second advertisement. Postal Service officials used this 1997 research as a basis to purchase tabbing systems through the end of 2000.

We did not find evidence that Postal Service officials performed any other market research. However, we conducted market research and found that during the period the tabbing systems were purchased, other suppliers were offering equipment with comparable functional specifications for prices that ranged from \$31,000 to \$64,000 per unit.

We also found that an automation equipment mechanical engineer independently assessed a comparable, competitive tabbing system but was not consulted regarding alternative tabbing systems, field testing, or safety matters before the systems were purchased.

In addition, subsequent to the purchase of the tabbing systems, Postal Service engineers determined the supplier's prices were excessive. In March 2000, after 59 systems had been purchased, the manager of Flat Mail Technology instructed his mechanical engineer to review the safety and performance of the tabbing system and list it in the Engineering Supported Catalog of Approved Products. This catalog provides Postal Service organizations with a recommended list of commercially available equipment that has been prequalified and approved by the engineering organization. The qualification and approval process considers such factors as source, product, performance, cost, quality assurance, safety, health, and ergonomics to determine best value at reasonable prices. The tabbing systems were included in the catalog in September 2001 with a note that the supplier's prices were excessive.

Had adequate market research been performed, the Postal Service could have purchased the same number of comparable tabbing systems at a significant savings. Instead, the Postal Service awarded 43 noncompetitive

contracts totaling approximately \$11.6 million to purchase 83 tabbing systems.² We conducted market research and found that during the period the tabbing systems were purchased, other suppliers were offering equipment with comparable functional specifications for prices that ranged from \$31,000 to \$64,000 per unit. A Postal Service mechanical engineer validated that the systems we identified were comparable to the tabbing systems purchased. Using a system that costs \$53,000 per unit,³ the Postal Service would have paid approximately \$4.4 million. This would have resulted in approximately \$7.2 million in savings.

Purchases Not Consolidated to Ensure Quantity Discounts

Purchasing personnel did not consider consolidating tabbing system purchases to take advantage of quantity discounts. This occurred because noncompetitive purchasing policies and procedures did not require consolidation. However, in July 1998, the vice president, Purchasing and Materials,⁴ issued direction to consolidate tabbing system purchases in order to get appropriate quantity discounts for the tabbing system purchases. Conversely, as previously shown in Table 1, purchasing personnel awarded 36 separate contracts procuring less than three tabbing systems, awarded nine contracts on the same day for one system each, and missed opportunities to take advantage of \$130,000 in quantity discounts.

Postal Service personnel explained that this type of repetitive and individual noncompetitive buying should not happen in the future. They stated that the new Supply Management organization has services portfolios and category management centers that create and maintain national buys of supplies, services, and equipment, such as tabbing systems. They also explained that requirements of this nature must be sent to one purchasing office--the Mail Equipment Portfolio (which handles Automation Material Handling equipment such as tabbing systems). This purchasing office will then consolidate requirements to take advantage of available quantity discounts. These

² Tabbing systems prices at this supplier increased from \$99,500 to \$120,000 per unit in calendar year 1999. Contracts include training and accessories. Some purchasing offices took advantage of quantity discounts.

³ The mechanical engineer estimated the cost of the tabbing system to be \$50,000 per unit. For verification, he contacted a company who then submitted a proposal for a tabbing system at a cost of approximately \$53,000 per unit.

⁴ Effective June 3, 2002, Purchasing and Materials was restructured as Supply Management.

procedures are stated in Management Instruction, PM-1.11-2002-4, Submitting Purchase Requests to Supply Management, effective July 11, 2002.

Recommendations

We recommend the vice president, Supply Management:

1. Require purchase teams to ensure that justifications provided in support of noncompetitive purchases are valid by:
 - a. Ensuring thorough market research is performed before using the noncompetitive purchasing process.
 - b. Ensuring Postal Service automation equipment engineers have the opportunity to assess automation equipment before using the noncompetitive purchasing process and investing significant funds.
2. Revise the Postal Service Purchasing Manual to require purchase teams to consolidate purchases in order to take advantage of available quantity discounts, to the maximum extent possible.

**Management's
Comments**

Management agreed with recommendations 1 and 2. Management stated that their new organizational structure supports these recommendations. The Supply Management organization has been aligned with the Engineering automation equipment support group to better manage automation equipment purchases. In addition, management stated that Postal Service policy already supports consolidating purchases so further revisions are not necessary. However, there may be cases where they still will have to rely on their client's expertise and professionalism.

Management will disseminate these recommendations, within 30 calendar days of receipt of the final report, to the appropriate managers for implementation.

Management, however, does not agree with our finding that the noncompetitive process was ineffective for the first 27 systems purchased and the Postal Service paid approximately \$7.2 million more than they would have if

they purchased comparable competitive tabbing systems. Management indicated that the initial 27 tabbing systems, purchased between March and September 1998, were made only after market research, including public notice in the Commerce Business Daily and discussions with alternate sources. Management also stated that they contacted Postal Service Engineering in 1998 regarding the tabbing systems purchases.

**Evaluation of
Management's
Comments**

Management's comments are responsive to recommendations 1 and 2. Although management is not revising the Purchasing Manual, they have identified consolidating purchases as a key consideration in strategic sourcing and demand management. Management's planned action should correct the issues identified in the report.

Regarding management's comments on the finding, the OIG believes the audit results support the assertion that the noncompetitive process was ineffective for all 83 systems purchased and that the Postal Service could have saved approximately \$7.2 million. The limited market research the Postal Service conducted did not determine suppliers available or whether prices were realistic, as required by Postal Service policy. Additionally, Postal Service Engineering was not consulted regarding alternative tabbing systems, field testing, and safety matters before purchasing the tabbing systems. Subsequently, when consulted, Postal Service Engineering found that the supplier's prices were excessive.

Recommendation

We recommend the vice president, Engineering:

3. Remove the tabbing system from the Engineering Supported Catalog of Approved Products.

**Management's
Comments**

Management agreed with this recommendation and removed the tabbing system from the Engineering Supported Catalog of Approved Products in September 2002.

**Evaluation of
Management's
Comments**

Management's action is responsive to our recommendation and the actions taken should correct the issue identified in the report.

**Tabbing Systems
Unused and
Underutilized**

We found that 30 of the 83 tabbing systems purchased noncompetitively were not being used or were underutilized. Specifically, as shown in Table 2, 11 tabbing systems were not being used and 19 were processing less than 50 percent of projected volumes.

**Table 2
Unused and Underutilized Tabbing Systems**

Colorado Springs, Colorado	0	6,816	0
Trenton, New Jersey*	0	6,816	0
Greensboro, North Carolina	0	51,655	0
Kinston, North Carolina	0	11,364	0
Duluth, Georgia	0	3,881	0
Chicago, Illinois	0	1,542	0
Colorado Springs, Colorado	0	6,816	0
New Orlean, Louisiana	0	14,170	0
Capital Height, Maryland**	19	3,881	0
Dallas, Texas**	159	14,170	0
San Diego, California**	69	6,000	0
Long Beach, California	1,545	21,645	7
Melville, New York	618	6,816	9
Asheville, North Carolina	462	5,165	9
Fox Valley, Illinois	1,459	13,568	11
South Suburban, Illinois	977	8,644	11
New York, New York	763	6,816	11
Tucson, Arizona	1,179	6,816	17
Little Rock, Arkansas	3,437	14,170	24
Tulsa, Oklahoma	4,044	14,170	29
Madison, Wisconsin	1,246	3,820	33
Ft. Worth, Texas	5,108	14,170	36
Oklahoma City, Oklahoma	5,417	14,170	38
Carol Stream, Illinois	2,216	5,751	39
Lansing, Michigan	7,925	19,758	40
Austin, Texas	5,678	14,170	40
Sioux Fall, South Dakota	1,754	4,075	43
Cheyenne, Wyoming	3,370	6,816	49
Santa Ana, California	20,023	40,816	49
Reno, Nevada	3,336	6,816	49

* Location closed due to the anthrax threat in October 2001; however, tabbing system was not being used prior to threat.

**Non-usage includes percentages at or below 1 percent.

This occurred because Postal Service officials did not perform a thorough needs analysis before purchasing the equipment. Additionally, projections in the Decision Analysis Reports were not supported, Decision Analysis Reports or justifications were not independently verified, and many tabbing systems had operational issues.

The data and assumptions included in the Decision Analysis Reports were not supported. We found occasions where input from operational personnel was either not solicited or disregarded. Specifically, at four sites visited, in-plant support managers stated and records showed that some sites do not receive much, if any mail requiring tabs. However, projected volumes in the Decision Analysis Reports were significant.

The Decision Analysis Reports or justification themselves were not validated. Independent verification of the accuracy and integrity of statements, assumptions, and data presented in support of the project, as required by Postal Service Handbook F-66, General Investment Policies and Procedures, was not performed. Consequently, the Postal Service will not achieve projected returns on investment.

In addition, we found operational issues involving the tabbing systems that may decrease the productivity of the tabbing system process and compromise safety and reliability:

- Some systems were not running effectively due to mechanical problems.
- Some systems were not located on the workroom floor, were in a storage room, or noted as excess equipment.
- One system destroyed mail during the tabbing process.
- One location identified safety problems with its system and removed it from service within a year after purchase.
- Some locations do not use the system because of lack of dependability.
- One location identified its tabbing system as worn out.

- Several locations stated that the system is not totally automated; two people are required to operate the system.

Recommendations

We recommend the senior vice president, Operations:

4. Ensure maximum use and return on investment from tabbing systems by:
 - a. Conducting a thorough needs analysis to identify facilities where tabbing systems are needed.
 - b. Relocating the unused and underutilized systems to those facilities.
5. Require approving managers to ensure that assumptions included in Decision Analysis Reports are independently verified.

**Management's
Comments**

Management agreed with our recommendations and has begun redeploying tabbing systems that are unused and underutilized. Management will continue redeploying unused and underutilized systems after reviewing utilization and potential opportunities to capture candidate mail at the plants. Management plans to complete this action by the end of April 2003.

Management will also require approving officials to ensure that assumptions included in the Decision Analysis Reports are independently verified.

**Evaluation of
Management's
Comments**

Management's comments are responsive to recommendations 4 and 5. Management's actions taken or planned, should correct the issues identified in the report.

APPENDIX. MANAGEMENT'S COMMENTS



September 19, 2002

JOHN M. SEEBA

SUBJECT: Draft Audit Report – Use of the Noncompetitive Contracting Process for
Tabbing Systems Purchase (Report Number CA-AR-02-DRAFT)

We appreciate the opportunity to review and comment on the subject draft audit report. The attachment responds to the report's findings covering the purchasing process and those recommendations addressed to Supply Management and Engineering. Based on available information, we cannot concur with the Office of Inspector General's (OIG) allegation that the Postal Service paid approximately \$7.2 million more than we would have if we purchased comparable tabbing systems. If any of the dollar amounts cited in this report will appear in the OIG's Semiannual Report to Congress, please advise how they will be discussed or categorized.

We do not believe that this report contains any proprietary or business information and may be disclosed pursuant to the Freedom of Information Act (FOIA). Marie Martinez will monitor implementation of report recommendations directed to Supply Management and can be reached at (202) 268-4117. You may contact Aron Sanchez at (703) 280-7151 if you have any questions regarding the action taken to satisfy the recommendation for Engineering.

A handwritten signature in black ink that reads "Keith Strange".

Keith Strange
Vice President
Supply Management

A handwritten signature in black ink that reads "Thomas G. Day".

Thomas G. Day
Vice President
Engineering

Attachment

cc: Richard J. Strasser, Jr. (all w/attachment)
John A. Rapp
Susan M. Duchek

ATTACHMENT
Supply Management Response
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Noncompetitive Contracting Process for Tabbing Systems Purchases
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FINDINGS

Noncompetitive Process Not Effective

Purchase Justifications Not Valid/Purchases Not Consolidated to Ensure Quantity Discounts

Based on the review of readily available contract documentation, the initial Decision Analysis Report (DAR) and the noncompetitive purchase justification prepared by the Western Area for 24 tabbing systems (with an option for 10 additional units), and subsequent market research performed by Denver purchasing staff, this noncompetitive purchase was in accordance with governing policies and procedures. The orders falling under this approved noncompetitive purchase request were placed between March and September 1998 and account for the purchase of 27 of the units discussed in the report. For these units and the initial Salt Lake City test unit, we cannot agree with the OIG's findings. These purchases were made only after market research, including public notice in the Commerce Business Daily, was performed (completed within a few months of the first purchase), and discussions with other potential suppliers did not render any alternate sources. Further, the equipment provided was protected by several patents, and was modified from the commercial equipment offered by the supplier. Noncompetitive purchasing policies and procedures were followed. Due to system issues separate orders were placed by the Denver office to facilitate the receiving report and capitalization process. The prices initially negotiated were honored for all contracts issued by the Denver P&MSC.

We understand that recently the OIG, through working with a Postal engineer, did complete a tabbing system comparison where other potential sources were identified. However, the firm the OIG selected to discuss in the report did not choose to participate or make themselves known at the time the Postal Service was soliciting offers. Further, it is not clear how the patents and necessary equipment modifications are being addressed in the comparison or that truly comparable equipment was available. Therefore, it is not reasonable for the OIG to assert that the Postal Service spent more than they should have for the systems. We also want to advise the OIG that purchasing staff did contact Engineering in 1998, consistent with our standard practice, regarding the tabbing system purchases.

With regards to orders placed by other Areas, particularly at later dates, it is reasonable for the OIG to assert that previously performed market research should be validated and the market should be examined again. Since we did not review all related contract files, we cannot advise whether or not any additional market research was performed. Regardless, it is impossible to predict whether the source identified by the OIG would have surfaced.

Based on the preceding discussion, depicting the \$7.2 million figure as lost savings or unrecoverable costs is not accurate. Further, simply subtracting the total cost of another piece of equipment without consideration of ancillary costs (e.g., modifications, installation, training, transportation) from the total cost for 83 systems previously purchased is not reasonable. However, the \$130,000 figure covering missed quantity discounts for machines purchased in 2000 appears to be properly identified by the OIG.

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RECOMMENDATIONS

We recommend the vice president, Supply Management:

1. *Require purchase teams to ensure that justifications provided in support of noncompetitive purchase are valid by:*
 - a. *Ensuring thorough market research was performed before using the noncompetitive purchasing process.*
 - b. *Ensuring Postal Service automation equipment engineers have the opportunity to assess automation equipment before using the noncompetitive purchasing process and investing significant funding.*

Management agrees with this recommendation to the extent outlined below.

Both Purchasing Manual (PM) Issue 2, and Handbook P-1 policy support this recommendation; however, supply management cannot independently verify every assertion in noncompetitive justifications. While contracting officers have neither the time nor expertise to do so in every case, and must rely on the expertise and professionalism of our clients, if we do have knowledge that indicates something is not accurate in a justification, we should ask questions and attempt to resolve with our clients.

With regards to allowing automation engineers to assess noncompetitive automation equipment, this is the practice followed by our Supply Management personnel. Within both the old and new structure of the Supply Management organization, we have aligned staff with the Engineering automation equipment group to manage the acquisition of complex automation equipment and other technology systems used to provide for increased operational efficiencies in the processing and distribution of mail.

To disseminate this recommendation, we will cascade your report under our Purchasing Review for Excellence Program (PREP) to the Supply Management Portfolio Managers. In turn these managers will be required to review the report and further cascade it within their organizations to ensure that when appropriate, your recommendation is followed. The PREP cascade request will be issued within 30 calendar days following receipt of your final report.

2. *Revise the Postal Service purchasing manual to require purchase teams to consolidate purchases in order to take advantage of available quantity discounts, to the maximum extent possible.*

Management agrees with this recommendation to the extent outlined below.

Purchasing Manual Issue 2, dated January 31, 2002, already supports this and further PM revision is not necessary. Section 2.1.1, states, "The extent of the planning will depend on the nature of the purchase and its effect on the business and competitive objectives of the Postal Service. The success of major purchases, which are those with the potential to impact these objectives, should be planned for by a purchase team that fully reflects the strategic importance of the purchase, and should involve

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the team's use of a wide range of supply chain business practices (such as strategic sourcing, demand analysis, prequalification, supplier selection strategy, and resource planning)." Consolidating purchases is a key consideration in strategic sourcing and demand management. It is also important to note that Supply Management can only consider purchase consolidation when we are aware of the requirements, they are approximate in time so that they can be consolidated, and the funding is available. To ensure we are more aware of these types of requirements, within both the old and new structure of the Supply Management organization, we have aligned staff with the Engineering automation equipment group. This structure helps us to better manage automation equipment purchases.

To disseminate this recommendation, we will cascade your report under our Purchasing Review for Excellence Program (PREP) to the Supply Management Portfolio Managers. In turn these managers will be required to review the report and further cascade it within their organizations to ensure that when appropriate, your recommendation is followed. The PREP cascade request will be issued within 30 calendar days following receipt of your final report.

We recommend the vice president, Engineering:

3. *Remove the tabbing system from the Engineering Supported Catalog of Approved Products.*

Management agrees with this recommendation. The tabbing system was removed from Engineering's Catalog of Approved Products during the first week of September 2002.

JOHN A. RAAP
VICE PRESIDENT
OPERATIONS



September 25, 2002

JOHN M. SEEBA

SUBJECT: Draft Audit Report—Use of the Noncompetitive Contracting Process for Tabbing Systems Purchases (Report Number CA-AR-02-DRAFT)

This is in response to recommendations for underutilized or unused tabbing systems identified in the draft audit report.

Recommendation 4: Ensure maximum use and return on investment from tabbing systems by:

- a. Conducting a thorough needs analysis to identify facilities where tabbing systems are needed.
- b. Relocating the unused and underutilized machines to those facilities.

Management agrees with this recommendation. Managers, In-Plant Support (Area), are reviewing sites with unused and underutilized machines. Since the audit, Tucson's tabbing machine has been removed from service and San Francisco is preparing to relocate this machine to their plant. Other locations are reviewing utilization and potential opportunities to capture candidate mail before redeploying the tabbing machines to other plants.

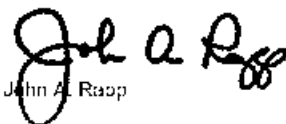
The planned date of completion is the end of April 2003.

Please provide a copy of the field surveys and data used to develop Table 2, *Unused and Underutilized Tabbing Systems*.

Recommendation 5: Require approving managers to ensure that assumptions included in Decision Analysis Reports are independently verified.

Management agrees with this recommendation. Approving officials will follow procedures in Handbook F-66B, *Investment Policies and Procedures—Major Equipment*, February 2002.

You may contact David Goldstein at (202) 268-5072 if you have questions regarding the action taken to satisfy the recommendations for Operations. No portions of the draft report were identified as containing proprietary or other business information that should be exempt from disclosure under the Freedom of Information Act.


John A. Raap